Housing Needs & Opportunities

THE CITY OF **GRAND RAPIDS**

HOUSINGNEXT

2020

Background

In 2015, the City of Grand Rapids staff assembled a comprehensive report and toolkit with the help and support of regional experts and the broader Grand Rapids community. That document was extremely well thought through and broadly inclusive of a variety of tools, strategies and recommendations critical to the preservation of existing housing and the creation of new housing at all price points. For the purposes of this report, the Great Housing Strategies documents will be considered to be both a preface and an index to many of the terms and references in the proceeding work. Housing Next will expand upon the work and research conducted as part of the Great Housing Strategies, but it should always be clear that the Great Housing Strategies document and framework is an integral and foundational component of the next steps.

The core strategies set forth within the Great Housing Strategies framework are as follows:

1. ***Provide a Variety of Housing Choices***
2. ***Encourage Mixed-Income Neighborhoods***
3. ***Create and Preserve Affordable Housing***
4. ***Support Low-Income and Vulnerable Populations***
5. ***Support Employers and Workforce Development***
6. ***Encourage Alternative Transportation and Parking Options***
7. ***Change Public Perception of Affordable Housing***
8. ***Advocate for Change to State and Federal Policies***

The mission of Housing Next is to ensure broad access to housing affordability at all price points in West Michigan. Our work on behalf of the City of Grand Rapids is intended to help identify the specific housing needs within the City and to clarify the variety of dynamics (financial, environmental, political and social) that have created those needs over time. The proposed recommendations are intended to take those dynamics into account and shed light upon some of the core community characteristics that have driven a lack of housing choice and affordability for the last several decades.
The following recommendations to the City of Grand Rapids have been crafted with input from City staff, local non-profits, community organizations, housing advocates, for-profit developers, and in-depth research and exploration of best practices around the country. However, this report outlines a preliminary set of recommendations that will require further public engagement and serious inquiry and exploration from City staff.

Using the Great Housing Strategies toolkit, we have proposed an initial approach to begin to solve for the lack of housing in general and, more specifically, housing that is affordable to individuals and families with incomes well below the area median income. While all of the tools in the Great Housing Strategies framework are important to the broader ecosystem of housing affordability and an increase in available housing supply, this report will focus on those elements which can and should be addressed first. We will then outline next steps to address more long-term and systemic solutions.

Housing Need, 2020

In late 2019 and early 2020, the City of Grand Rapids partnered with the Grand Rapids Chamber of Commerce and the Frey Foundation to conduct an updated Housing Needs Assessment for the City of Grand Rapids as well as the remainder of Kent County. The Housing Needs Report was released in mid-July with the following critical findings:

The City of Grand Rapids will have a need for an estimated 5,340 additional rental units to keep pace with demand over the next five years. Meanwhile, 17,052 renter households are currently estimated to be spending more than 30% of their gross income on housing expenses.

The table below illustrates the Bowen National Research estimated Gross Potential Need for additional housing among each of five income groups. The Gross Potential Need is calculated by evaluating the existing shortage of units at each price point, adding the estimated number of new households coming into the market, and accounting for older, substandard housing that will likely need to be replaced or significantly rehabilitated due to disrepair over the next five years. This table also includes a step-down factor, which estimates the number of households who are likely to rent housing that is priced well below what they could technically afford. Higher-income households have many more choices in the market and can more easily find rental options which cost well below 30% of their income.

The step-down factor is a critical element that is influencing the Grand Rapids market and putting a further constraint on the availability of affordable rental housing for lower income earners. Bowen National Research estimates that nearly 1,700 higher-income renters will choose to seek housing that costs 20-50% less than they could otherwise afford over the next five years. In neighborhoods where the available supply of housing that is priced affordably to renters earning 30-80% of the area median income is constrained, these higher-income households will be able to pay slightly more than their less-affluent neighbors. Over a few years, this will result in the continued 'pricing out' of low and moderate-income renters for as long as there is inadequate supply to meet demand.

Similar to the need for more rental housing, the City of Grand Rapids is estimated to have demand for an additional 3,548 for-sale units by the end of 2025. An estimated 7,914 existing homeowners (just under 20% of all homeowners) in the City are likely spending more than 30% of their income on housing today.

		Grand Rapids, Michigan				
		Rental Housing Gap Estimates (2020-2025)				
	Affordability Level	0-30%	31%-50%	51%-80%	81%-120%	121%+
Gross Potential Need		704	813	1,215	1,074	2,226
Step Down Support	Step Down Gain	406	607	537	1,113	0
	Step Down Loss	0	406	607	537	1,113
	Net Step-Down Support	406	201	-70	576	-1,113
Development Pipeline	Less Units in Pipeline	79	119	178	181	134
Overall Units Needed		**1,031**	**895**	**966**	**1,469**	**979**

Bowen National Research

	Grand Rapids, Michigan For-Sale Housing Gap Estimates (2020-2025)				
Income Level (AMI)	0-30%	31%-50%	51%-80%	81%-120%	121%+
Gross Potential Support	236	45	432	1,121	1,718
Less Units in Pipeline	-4	0	0	0	0
Step Down Gain	22	324	841	1,289	0
Step Down Loss	0	-22	-324	-841	-1,289
Overall Units Needed	**254**	**346**	**949**	**1,569**	**430**

Again, moderate to higher-income earners will be a dominant force in the for-sale housing market. However, at the time of the Bowen study, there were only a total of four additional for-sale housing units planned across the City. This means that the market is currently doing very little to keep up with the increasing pace of demand for owner-occupied housing in the City. As a result, low and moderate income households seeking to purchase a home will quickly be priced out of the for-sale market altogether unless interventions are made to preserve affordability for a share of the existing housing stock and to ensure more for-sale housing becomes available in the near term.

According to the Bowen study, "when compared with the overall number of owner-occupied homes in the City, the 359 available homes represent an availability/vacancy rate of just 0.9%. Typically, in healthy, well-balanced markets, approximately 2% to 3% of the for-sale housing stock should be available for purchase to allow for inner-market mobility". It should be noted that the local housing market was surveyed in mid-March of 2020, just as the first economic implications of COVID-19 began to arise in the West Michigan community. This may have had a dampening effect on the number of listings available in the local housing market.

Available For-Sale Housing by Price (As of Mar. 17, 2020) PSA (Grand Rapids)			
List Price	Number Available	Percent of Supply	Average Days on Market
Up to $99,999	30	8.4%	49
$100,000 to $149,999	115	32.0%	41
$150,000 to $199,999	105	29.2%	23
$200,000 to $249,999	74	20.6%	21
$250,000 to $299,999	13	3.6%	31
$300,000+	22	6.1%	126
Total	359	100.0%	37

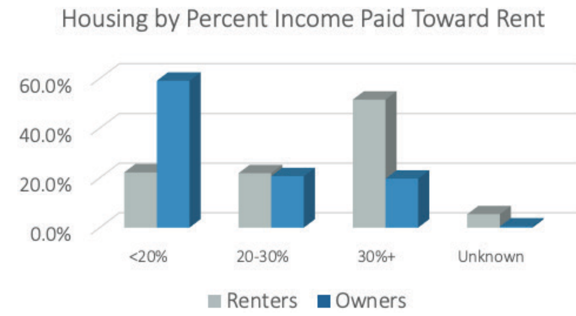
Cost Burden

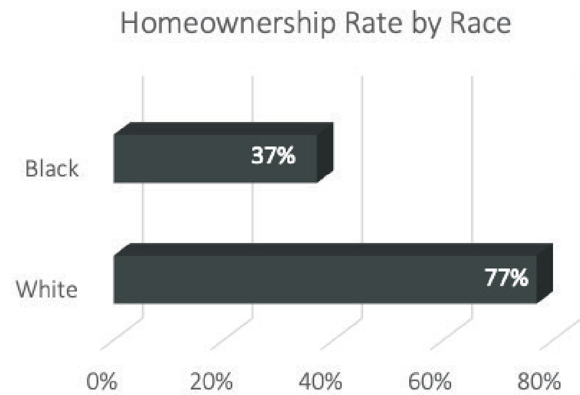
Most national housing indexes consider any household spending more than 30% of their gross income on housing related expenses (i.e. rent + utilities, or mortgage + taxes +utilities) to be cost burdened. The national data shows that when households spend more than 30% of income on housing, they become increasingly at risk of financial instability.

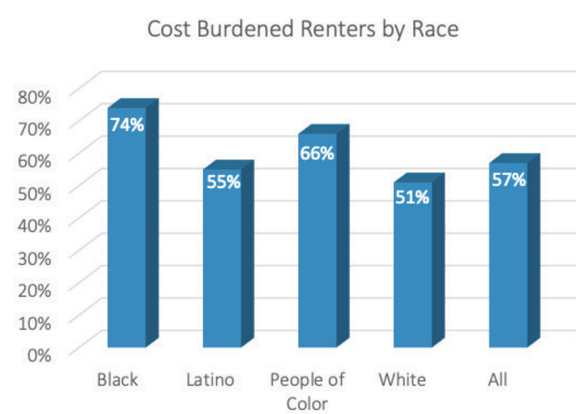
Just over half of all renters in the City of Grand Rapids are currently paying 30% or more of their gross income toward housing. As defined in the work being conducted by the Kent County Housing Stability Alliance, these renters are considered to be experiencing one of several stages of housing instability with many renters uncertain if they will be able to make the next month's rent payment.

A much smaller share of homeowners are cost-burdened by housing, due in part to federal lending standards pertaining to maximum debt to income requirements. However, due to a variety of systemic biases and inequities in the market over several generations, the rate of homeownership among Black households is nearly 40% below the rate of homeownership among White households. This discrepancy must be a critical metric for change in the work to solve for housing at all price points and for every household. Wages, education and racial bias in hiring practices are also critical areas of focus to solve for this discrepancy.

Again, the rate of cost-burdened renter households is significant across all racial groups, but Black households and those headed by a person of color are 30-45% more likely to be impacted by cost burdens than White households.





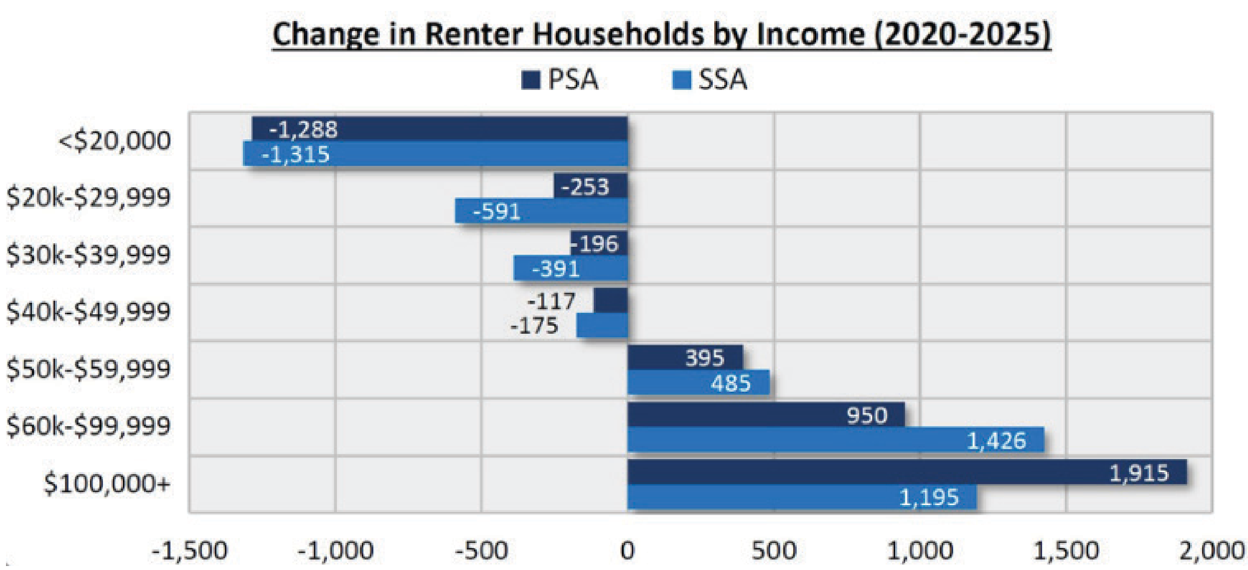


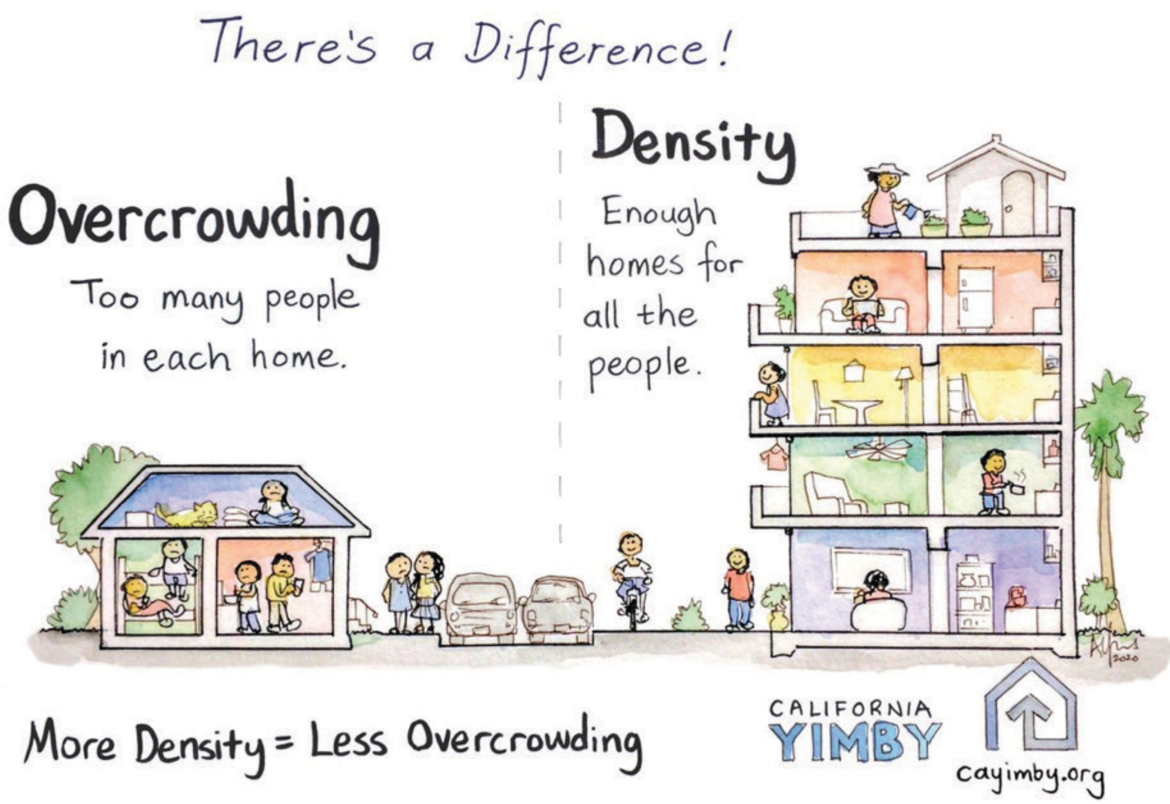
Local Market Demand

Since the early 2000s, the City of Grand Rapids has seen a marked increase in demand for homes and rental units across the City, but specifically in walkable, urban neighborhoods with access to local amenities. Neighborhood coffee shops, restaurants, retail and personal services have all increased in select neighborhoods, and those services have in-turn attracted even more residents with higher incomes. The chart below illustrates the anticipated changes in household incomes that are projected if Grand Rapids continues along the current trajectory.

The research informing this chart assumes there will be continued residential growth and investment at roughly a similar pace and in similar building types as has been experienced over the last three years in the City of Grand Rapids. Specifically, this chart illustrates the mismatch between available housing supply and demand for housing in amenity-rich neighborhoods. In very stark contrast, this shows the rate of household change that is anticipated as higher-income households compete for scarce housing supply and lower income households are forced to either leave the market or share housing with another family – often referred to as doubling up.

As a result of the COVID-19 pandemic, many people are very concerned about being in close proximity to others who are outside of their immediate family. In some cases, there is confusion about the difference between what is meant by the term crowding or over-crowding, and density. At the time of this writing, Michigan is still in the early stages of dealing with the immediate health impacts of COVID-19, and it is important to address the difference between overcrowding and density.





The above image from the California Yes In My Backyard network provides a clear illustration of how density can be very different from overcrowding. Not only is this a critical distinction to make for the purpose of understanding how to mitigate exposure to contagious disease, but it also demonstrates how a City might grow into a highly livable, yet fairly dense pattern of buildings and public streets while avoiding the consequences of overcrowding. Allocating adequate space and mobility for each individual household is critical. However, this space can be stacked and prioritized in ways that take advantage of existing urban infrastructure. Conveniently, increased density also provides greater taxable value per acre which allows for more investments in public services and amenities to increase livability. On the other hand, overcrowding does put individuals at higher risk of contagion and does not increase taxable value.

In the context of local housing demand in Grand Rapids, Bowen National Research found that 1,246 housing units, or 3.8% of all housing units in the City were considered to be overcrowded. Overcrowded is defined as those households with more than one occupant per room. An estimated 428 (1.3%) of those units that are overcrowded are considered to be 'severely overcrowded', having more than 1.5 occupants per room. In some instances, a family with several children living at home and a limited number of bedrooms may qualify as being overcrowded. However, more often than not, overcrowding is characterized by more than one family living in a single residential unit – doubling up. This often occurs where one or both families are unable to afford rent without the support of the second family. Especially in times of highly transmissible communicable disease, these households tend to be at much greater risk of exposure and illness, as well as becoming more susceptible to mental health breakdowns .

Where overcrowding is occurring, it is critically important to find alternative, stable housing options within an affordable price range for those families. The rate of overcrowding in Grand Rapids is still well below most major cities and comparable high growth markets around the country. Early intervention to prevent this problem from growing worse is critical.

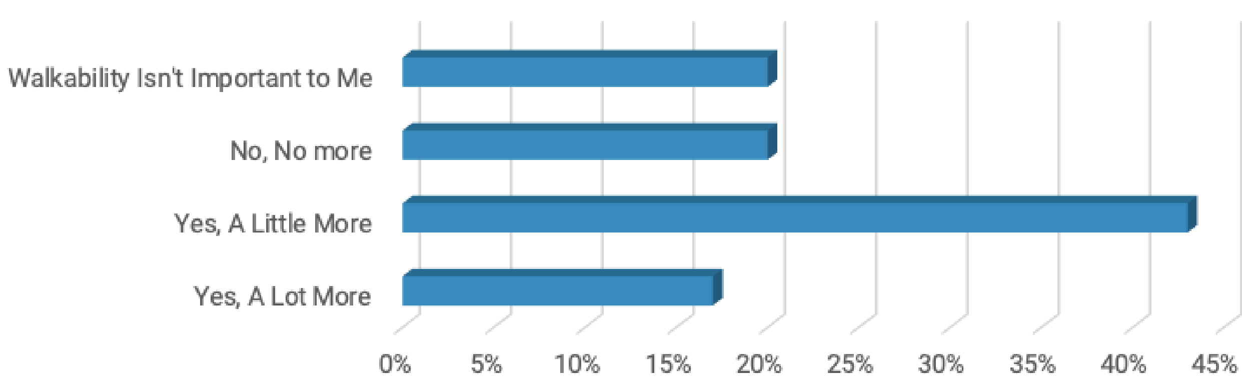
Growing Demand for Density

In contrast to current fears of widespread overcrowding, 40% of all households in Grand Rapids are made up of just one person. Another 28% of households are comprised of only two adults without children at home. This trend is expected to continue as the population of older adults aging in place grows. In 2017, the National Association of Realtors found that roughly 60% of all households were willing to pay a little or a lot more for walkable neighborhoods with close proximity to shops, parks and restaurants.

If you were moving to a new home, would you be willing to spend more to live in a community where you could easily walk to parks, shops, and restaurants? – NAR 2017

If the above national trends toward walkable, amenity-rich neighborhoods also hold true in the West Michigan housing market, we can then compare the amount of housing that is located in walkable areas against the amount of housing located in relatively unwalkable areas or areas without desired amenities. In early 2020, Downtown Grand Rapids Inc contracted with Christopher Leinberger and his team to review just how much land area in the region is considered to be walkable and amenity-rich and they will be comparing that data to likely consumer demand preferences. His team refers to this as a WalkUp Study. However, even before the results of that study are available publicly, we know that a small minority of neighborhoods in the West Michigan market are both walkable and amenity rich with access to parks, shops and restaurants. Yet, if roughly 60% of overall households are seeking walkable, amenity-rich neighborhoods, it is clear that Grand Rapids will have far more demand than supply in the near term. This will almost certainly have the effect of continuing to drive up prices for limited housing in walkable neighborhoods. As we consider solutions to provide an adequate amount of housing for all members of the community at sustainable price points for every income level, we must also be focused on appropriately sized housing and the most efficient and healthy use of land. Similarly, seeking out solutions that allow the community to leverage limited financial resources to gain the most housing for the broadest possible spectrum of incomes and householders will be important. Yet, this work cannot overlook the importance of undoing past inequities. Homeownership and wealth creation for Black households and households of color must also be prioritized.

The preceding overview provides only a very high level summary of some of the data presented in the Bowen National Research Housing Needs Assessment. Over the coming months, Housing Next will be working with KConnect, the Center for Social Research, the Grand Rapids Chamber and Grand Rapids City staff to parse through the many layers of detailed data to provide mapping and disaggregated overlays with other community data sets. For the full Bowen Housing Needs Assessment, visit www.HousingNext.org or the City of Grand Rapids website.



Short-Term Scope of Work

We consider the Great Housing Strategies and the multitude of policy shifts and investments made following that work as Phase 1. Phase 2 will be the process of recalibrating existing tools and resources while preparing for a major increase in funding for housing. As our work continues, Housing Next will make very specific recommendations pertaining to policies, programs and investments in housing with the insight and expertise of City staff – a prelude to those recommendations follows this section. However, in order to execute upon those more detailed implementation strategies, the following core elements are recommended for immediate exploration.

1 ***Preserve existing affordable housing wherever possible.***

2 ***Support tenant-based rental assistance and eviction prevention measures.***

3 ***Support more LIHTC development***

4 ***Leverage city-owned property to support new housing supply.***

5 ***Deep Community Engagement.***

6 ***Re-calibrate economic development incentives to support more affordability.***

7 ***Begin work to create a dedicated source of funding for housing.***

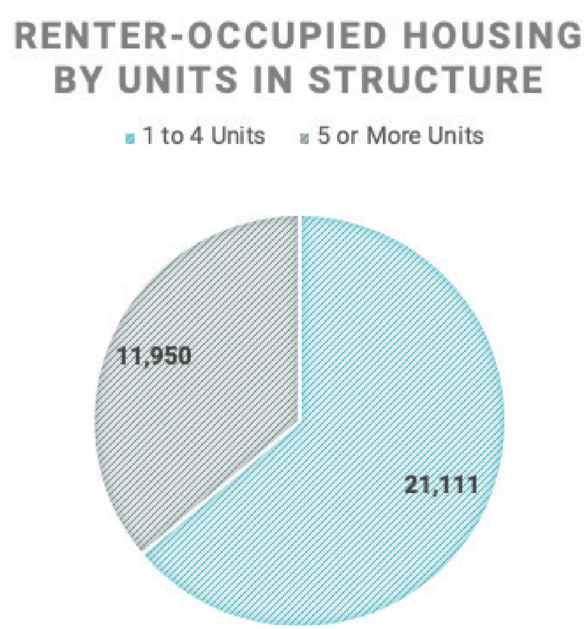
Preserve Existing **Affordable Housing**

For as long as demand for housing in the City is anticipated to outstrip the available supply, housing prices will continue to rise. As we work toward increased housing supply, new development and dedicated funding to support more affordability, the immediate stop-gap measures to preserve the affordable units that remain is a critical step.

In this context, preservation of existing affordable housing refers to projects that have been subsidized by state or federal funds in the past but are nearing the final compliance date at which time they may become eligible for the removal of income restrictions and are in danger of being converted to market-rate housing. However, we are also referring to housing that has not been income restricted in the past but that has nonetheless been insulated from dramatic price increases over the last several years. In some cases, slower price increases are the result of goodwill from the landlord or property owner, which may be a non-profit or a community-oriented for-profit. In other cases, slower price increases may be the result of less investment in specific neighborhoods which has constrained the growth in value when compared to other neighborhoods in the City. Additionally, there may be some scenarios in which the cost of housing has risen dramatically, but still remains affordable to households earning less than 60% of the area median income. In each of these situations, there may be existing tools available to the City to encourage the preservation of affordable units for a minimum period of time.

A first priority should be working to preserve housing which has been previously subsidized and is nearing the end of its compliance period. These properties may be eligible for a new round of tax credit investment, but may also require some local gap financing to ensure long-term affordability. In some cases, these project owners may be looking to sell the properties as part of a long term strategy. Having community partners who are capable of stepping in to help finance the acquisition and preservation of these units will be critical. For properties older than 15 years, with greater than 5 residential units, and where the property owner is considering an investment to rehabilitate the property, the City should consider offering a commercial tax exemption under the Commercial Rehabilitation Act (PA 210, 2005) or similar. The exemption may be offered to reduce the overall property tax burden on the site where the landlord agrees to preserve a minimum share of the units at affordable prices to households earning 60% of AMI or less and for a minimum of 20 years.

As the community begins work toward a dedicated source of revenue to support the Affordable Housing Fund, the Fund should be utilized to provide gap-financing for preservation projects where needed to guarantee a greater share of affordable units. In addition to using existing local incentive programs, the City should support new legislation to allow for similar tax incentives for smaller residential rental properties consisting of 1-4 units. The Bowen Housing Needs Assessment found that the City of Grand Rapids has 33,108 total residential rental units within the City. Of those, 21,111 (63.8%) are within buildings which contain just 1-4 dwelling units. This means nearly 2/3 of the available rental housing stock in the City is not currently eligible for a tax incentive similar to larger rental properties. This makes preserving those smaller buildings much more difficult without a Housing Fund.



Support Tenant-Based Rental Assistance & Eviction Prevention Measures

There are two core issues that are impacting the lack of affordability in the City of Grand Rapids (and in much of the United States). These core issues are inadequate wage growth for low and moderate-income workers, and a lack of housing supply at all price points. This is followed closely by the need for affordable child-care options close to families in need. The long-term solutions for a vast majority of the community are to ensure a living wage for every worker and maintain adequate production of new housing supply at all price points. However, these two solutions will take several years to fully implement. There are thousands of families on the brink of housing instability or homelessness today and a disproportionate share of those families are Black, Indigenous, and People of Color.

Stop-gap measures are needed in the short term to ensure that the problem of housing instability does not grow worse as we work to add more housing supply to the market. One of the best sources of tenant-based rental assistance is provided by the federal department of Housing and Urban Development (HUD) in the form of the Housing Choice Vouchers and Emergency Solutions Grants. However, only 20% of income eligible households actually receive a voucher in any given year . The usability of these vouchers is further constrained by landlords who refuse to accept them as a form of payment. The City of Grand Rapids has adopted policy to prohibit source of income discrimination in housing, yet it can be very difficult to enforce this. Short-term objectives in this area should include:

- Active participation in national lobbying efforts to increase annual federal spending for Housing Choice Vouchers, ESG and HOME grants.
- Increased capacity within Community Development for code enforcement pertaining to income source discrimination claims – this should be in addition to code enforcement and monitoring pertaining to income certifications for affordable units (referenced within item 6 below).
- Coordinate dialogue with regional foundations and potential contributors to discuss local tenant-based rental assistance and eviction prevention programs designed to temporarily fill the gaps created by federal spending shortfalls.

Do everything possible to support more LIHTC development.

The federal government has reduced or eliminated many of the of the programs designed to support new affordable housing construction. The Low Income Housing Tax Credit (LIHTC) is now one of the most effective tools to build more housing and it is centered around the idea that private capital can be leveraged to support affordable housing.

LIHTC funding is allocated from the Federal government to the States, which then have the responsibility of awarding the tax credits to individual projects. The Michigan State Housing Development Authority (MSHDA) is required to establish a Qualified Allocation Plan (QAP) which sets the Statewide priorities for the distribution of tax credits. The State holds two funding rounds each year and MSHDA staff score projects based on a number of factors.

In the most recent round of LIHTC funding submissions (June, 2020), Wayne County and the City of Detroit supported 10 project proposals totaling nearly 560 proposed units in their community. While not all of these projects will be funded in the current round, the City and County are making a strategic effort to support as many projects as possible to achieve the greatest number of additional units possible. There are a relatively small number of communities in the State of Michigan that are capable of being highly competitive on a regular basis for LIHTC awards. Kent County and Grand Rapids are uniquely positioned in the State to be one of the most competitive markets for significantly more LIHTC funding each year if projects are fully supported. The City of Grand Rapids staff has worked extremely well with local LIHTC developers to ensure plan reviews and Payment in Lieu of Tax agreements are approved in a timely manner and in alignment with the State requirements.

Additional opportunities for the City to support more LIHTC funded projects would include the annual release of a limited number of Project Based Vouchers from the Grand Rapids Housing Commission, bridge loans for strategic property acquisition, direct advocacy to State officials for priority projects, and a local gap-financing program to ensure funding requests submitted to MSHDA are as competitive as possible. The City of Grand Rapids should have a goal of at least 200 new LIHTC funded units in each round of allocation (twice per year). While not every project submitted will be funded, it is imperative to ensure there is a steady stream of highly competitive projects that are ready for review every year.

Leverage city-owned property to support new housing supply

As part of the work completed by Housing Next to date, we have surveyed more than 800 publicly owned parcels within the City of Grand Rapids. The majority of these parcels already have important ascribed uses like parks, cemeteries, schools, equipment storage, and public safety services. However, a sizable number of publicly-owned parcels are vacant or under-utilized and could be utilized for new development.

Wherever appropriate, publicly-owned parcels that are determined to be ready for redevelopment should be assigned to the Brownfield Redevelopment Authority or similar agency to pursue a development strategy in partnership with a non-profit or for-profit developer. Goals for the site that are rooted in city and neighborhood needs should be clearly defined. Solutions should be rooted in a clear understanding of site-specific market dynamics and available tools at the public and private level. Where affordable units can be supported with State or Federal programs, this should be a top priority. However, where these programs cannot be leveraged, there may be other opportunities to meet the housing needs of the City while also recouping some value for the land to reinvest in affordable housing on another site.

The amount of time spent on feasibility and due diligence for any given site is likely to be fairly significant. As a result, properties located in the downtown and along high-frequency transit routes should be prioritized for public private partnerships (P3) in the near term. However, other sites may offer opportunities for an expedited process among for-profit partners where a P3 is not viable in the short-term. The most high-value sites should be made available on a land-lease basis rather than a for-sale basis wherever possible. These sites should be capable of supporting new development in the near term with little to no acquisition cost to the developer in an effort to keep costs manageable and support mixed-income development. However, once a clear market demand has been established on the site and the first project is stabilized, these properties may be capable of generating consistent land lease revenues which can be used to support affordable housing efforts in the same neighborhood or city-wide.

As a next step, utilizing the Housing Next Property Inventory, the following activities should be undertaken:

- Conduct preliminary locational self-score for potential 9% LIHTC financing on publicly owned and developable parcels in high opportunity neighborhoods. Assess mixed-income financing in Neighborhoods of Focus.

- In partnership with the Grand Rapids Housing Commission or a non-profit housing partner, execute pre-development planning on the most strategic parcels to fully understand site constraints (i.e. soil conditions, environmental obstacles, slopes, wetlands, easements, etc.), and perform preliminary site design model with in-depth community engagement process. Be certain to frame site expectations and opportunities within the current market reality relative to anticipated construction costs, available financing tools and ability of the City to provide incentives where needed.

- Where sites are large enough, plan for phased development approach which leverages long-term and equitable wealth creation.

- Retain ownership of underlying land whenever possible.

NOTE: Some opportunity sites are ready for redevelopment today and can support viable projects using the existing toolbox of incentive programs. However, many other opportunity sites are not yet ready for new market rate housing and cannot currently compete for limited allocations of 9% LIHTC funding – namely the 28th Street corridor and South Division corridor, but this applies to other properties as well. These sites do not yet have a proven ability to attract residential rental rates that are capable of supporting construction costs and this is one of the primary reasons the private sector has not already moved toward redevelopment efforts along these corridors. High traffic volumes and unforgiving pedestrian infrastructure may also be a hindrance to redevelopment efforts in some areas. However, these sites should not be overlooked.

It is important to understand that these sites will not produce a market rate return for many years into the future and so cannot be financed using traditional private sector loans and equity. The rationale for moving ahead with these types of projects anyway is that the first handful of redevelopment sites – if executed well and in close coordination with one another – has the potential for setting a baseline market rent and catalyzing future interest and development of adjacent properties. This will likely happen incrementally, in small projects at first, and over a long period of time. Where the City is able to develop a compelling vision which accounts for market reality and an incremental and equitable approach to redevelopment, these opportunity sites may be capable of attracting philanthropic, corporate and institutional investment, provided that a trusted community partner is leading the redevelopment process with sound financial modeling and realistic projections of return. These redevelopment efforts can be paired with mobility improvements and economic development efforts. Attracting an office or retail tenant to a site may be worth pursuing to generate momentum, but the City can also aim to incubate and grow small businesses via food trucks, pop-up retail and LQC (lighter, quicker, cheaper) approaches to neighborhood placemaking. Where funding for both small business investment and public space improvement can be coordinated in a limited and concentrated geographic area, these efforts can begin to establish some sense of neighborhood identity and place. This, in turn, can eventually lead to a greater desire for investment in brick and mortar commercial investments as well as housing.

Preliminary housing investments should be designed to ensure that existing homeowners in the surrounding neighborhood have a sound financial footing and the ability to benefit from any future wealth creation which occurs in the neighborhood as a result of investments in the adjacent business district. Next, housing investments to help create new housing supply that is either affordable to households earning less than 60% AMI or supports existing homeowners in an effort to create a secondary dwelling unit (via ADU or single-family conversion) on their property.

Some communities are able to execute these functions within the internal structures of local government. Other communities have created semi-independent 501c3 development corporations which are responsible for helping to achieve the City's goals in each neighborhood while maintaining long-term financial independence. The City of Cincinnati created the Cincinnati Center City Development Corporation (3CDC) in 2003 in an effort to support the revitalization of downtown Cincinnati and the Over the Rhine District. The 3CDC has been very successful in leveraging corporate and philanthropic investments while building a portfolio of assets which are now generating management fees to support long-term, sustainable business operations.

Alternatively, the City of Denver Housing Authority is an excellent example of a quasi-governmental authority creating massive change through the development process along high-frequency transit corridors to create vibrant, mixed-income neighborhoods of choice. The Mariposa Development is a LEED-certified, 800-unit redevelopment along the South Lincoln light rail which has focused on the social determinants of health and utilizing the EcoDistrict protocol for the last five years. The Denver Housing Authority has integrated health-focused amenities, opportunities for entrepreneurship and small business creation as well as culturally relevant public artwork throughout the neighborhood. The project is designed to be roughly 60/40 affordable to market rate.

Community Engagement

Many local leaders, neighborhood groups and affordable housing advocates have expressed reticence toward new zoning provisions that would allow more housing in their neighborhoods. Some leaders have wisely commented that more housing does not always result in more affordable housing in the short term. Others have expressed concerns about a change in their neighborhood character or overcrowding and the symptoms of that effect on everything from parking to noise to stormwater management. These are all valid concerns that should and can be addressed while still providing for more housing supply in every neighborhood.

Early conversations should be focused in neighborhoods closest to downtown, high frequency transit corridors, the river, and traditional business districts. These neighborhoods will be in the greatest demand over the next five years and will be most likely to see dramatic price increases. Conversations should be grounded in problem solving and shared experience. However, honest dialogue that addresses coded and covert language about density to hide racist fears must be a priority. Single-family only neighborhoods have long been a mechanism of exclusion that tacitly reinforced racial segregation across the American landscape after the legislative successes of the Civil Rights movement. When redlining and blockbusting were no longer legal, discrimination on the basis of income became a more fashionable mechanism of racial exclusion. This was reinforced by biases in the lending practices of most major banks and continues to this day in many communities.

It must be abundantly clear that neighborhoods that do not add housing are not likely to stay the same nor are they likely to remain affordable. In the face of growing demand, a request for status quo density will inevitably result in economic and demographic changes to the neighborhood. A secondary imperative is ensuring that Black and Brown residents and business owners have access to capital to start small businesses or buy properties in the neighborhood, and have some decision making authority with the CID or Neighborhood Organization. This is a critical element of ensuring any neighborhood change results in a net benefit to the community at-large and specifically to those individuals and households who might have been most likely to feel the neighborhood was no longer for them due to changes in character and demographics.

The above notwithstanding, solving for parking and mobility as well as maintaining consistency in architectural patterns and form is likely an important priority for many neighborhoods. By working through a variety of options and planning for incremental adjustments to neighborhood zoning that would allow for slightly greater densities while ensuring a certain level of affordability, many neighborhoods will be able to plan for their preferred patterns of growth while also accommodating a significant number of new residents. Best practices from communities like Durham, North Carolina, and Minneapolis, Minnesota have built upon examples originally set by the City of Grand Rapids more than a decade ago. By reducing zoning regulations to allow for a greater share of existing lots to accommodate two or three dwelling units, while simultaneously planning for more multi-story development along transit corridors and traditional business districts, the City can spur a meaningful share of the units needed without subsidies.

A second element of these conversations should address the need for a dedicated source of revenue. While some measures can be taken to ensure that additional housing is affordable to certain households without the need for local subsidies, it is not likely that the City will be able to solve for the severe lack of housing and affordability and the extraordinary gaps between homeownership among white households and households of color without a dedicated source of revenue that is adequately sized to make investments in the community's preferred patterns of equitable development. Conversations with the Grand Rapids Chamber, local business leaders, philanthropic foundations, institutional partners, corporate leaders, and community advocates must be ongoing about the need for funding.

Re-calibrate economic development incentives to **support more affordability.**

Local economic development incentives are a critical ingredient to ensure that an adequate supply of new housing can be produced over the next five years. The rising cost of construction as compared to relatively stagnant wage growth over the last 10 years has resulted in a significant mismatch between the cost to build new housing and what renters and homeowners can actually afford. The use of tax incentives designed to make new projects financially feasible is imperative. However, the current qualification process for applicants seeking local economic development incentives in Grand Rapids is primarily based upon state statutory compliance standards with much less emphasis on local priorities.

It is recommended that the Economic Development team continue to communicate proactively with developers about priorities to support more affordable housing options with the expectation that the availability of local incentives will become dependent upon a specific guarantee of affordability in the future. The above notwithstanding, the economic development team and City Commission must remain highly attuned to the cost of construction and the level of affordability that is actually achievable with new construction.

The following is a set of sample recommendations to adjust existing practices related to local economic development incentives for housing.

- Permit 100% TIF reimbursement for eligible environmental cleanup activities and essential public infrastructure (replacement of water, sewer, sidewalk) related to any project.

- Permit 50% TIF reimbursement for site preparation and non-essential public infrastructure (parking decks, stormwater management, road repairs, etc.). Remaining 50% of non-essential TIF may be reimbursed if development includes a minimum of 20% affordable dwelling units preserved at 80% AMI or below, OR 5% of units preserved at 60% AMI or below.

- Minimum required 20% affordable units (80% AMI or below) to be eligible for full term of NEZ or any other tax abatement related to a multi-family or mixed-use development or rehabilitation project (OPRA, PA 210/255). Project is deed restricted with affordability requirement for not less than 20 years.

- Affordability requirements should be evaluated by staff on an annual basis and compared against the amount of new market-rate housing being built. It is important that these requirements do not have the effect of stymying the overall housing market within the City. It is also important that market-rate development becomes accustomed to operating without subsidies over time.

- Use of incentives should require minimum energy efficiency standards for all new construction and rehabilitation projects. If designed into the project from the very beginning of the process, minimum sustainability standards may have little to no impact on the cost of the development while ensuring that indoor air quality and energy consumption are in keeping with the City's 2030 goals.

NOTE: There will undoubtedly be pushback and negotiation with the development community pertaining to the above recommendations. In an effort to ease into these policy changes while ensuring that new market rate units can continue to be financed and constructed, we are suggesting a relatively modest affordability requirement of 80% AMI at the Kent County HUD standard definition. This remains a very expensive rental rate compared to what is needed for many renters in the market right now. The 80% AMI rental rate is also very close to the current market rate rent, meaning that a commitment should not require a significant financial burden to the project. However, as the development community begins to price these changes into negotiations for the cost of land and construction in order to accommodate these requirements, the City may gradually increase the affordability requirement to either a greater percentage of total units or a lower percentage of county-wide AMI where a project is dependent upon local economic development incentives. The intention is to work toward a future state in which market-rate housing does not require a subsidy and future tax increment can be reserved for public infrastructure investments as well as low-income and workforce housing only. This will take time. Critical to this recommendation is the City's internal capacity to conduct income certifications for rental units that must comply with a minimum affordability standard. In addition to item 2 above, additional staffing within the Community Development Department will be needed. The above strategy will be much more effective if paired with an aggressive strategy to ensure gap financing is available for new construction projects. This should include active engagement with the MEDC and MSHDA to ensure all State resources are deployed for priority projects as well as the pursuit of impact investors willing to take a below market rate of return to ensure adequate housing at the right price points can be achieved. Coordination with a CDFI for impact investment may be necessary.

Create a dedicated source of revenue for housing.

The City of Grand Rapids has been a highly dynamic, urban real estate market for most of the last decade, with a strong demand for more infill housing at all price points. Dozens of major American cities have been experiencing a similar spike in growth rates for much longer than Grand Rapids and have already begun to dedicate revenue streams to support more housing and specifically to support more affordable housing. All research to-date indicates that a dedicated source of consistent funding which is scaled appropriately to the size of the housing need will be critical to achieve meaningful progress. Local housing funds cannot – and should not – replace the critical funding that comes from the federal government. However, until the United States Congress chooses to prioritize housing and wage growth as critical issues to support economic expansion, local communities must step up to fill the void.

Examples of Housing Trust Funds established in other communities nationally often rely in part on revenue resulting from development impact fees or inclusionary zoning and payment in-lieu fees. In Michigan, impact fees and inclusionary zoning have been preempted by the State legislature and are not currently tools available to the City of Grand Rapids. However, other important sources of revenue which have proven successful in other communities should be considered as noted below.
The quickest route to an adequately sized and dedicated source of funding for housing is a local bond initiative supported by consistent revenue. The bond initiative should be adequate in size and staff capacity to achieve significant results in the first 36 months. The first investments must be designed to build trust and an obvious sense of value for the community.

Depending upon the goals of the fund and the types of housing being pursued, the fund may be able to leverage multiple state and federal sources to limit the overall local subsidy in any given investment, while still remaining a critical source of financing to ensure an adequate supply of affordable housing can be built and preserved. The required subsidy to support new residential construction can range from $100,000 per new residential unit for the lowest income households, to as little as $6,000 per household to support homeowner assistance, tenant-based rental assistance programs, or eviction and foreclosure prevention services.

A portion of the fund should be expected to be used as forgivable debt or grants to non-profit partners or local homeowners who agree to long-term affordability requirements. However, as much as 75% of the fund can be used as low-interest loan funds to support non-profit and for-profit development where a minimum share of new or rehabilitated units are preserved for households earning less than a prescribed percent of the area median income. The fund can also be used as a source of funding to guarantee projects in Neighborhoods of Focus, reducing the overall capital requirements for small development firms while also minimizing the deployment of dollars. This means that, once a dedicated source of revenue is established and the minimum balance is achieved, the Housing Fund should become financially self-sustaining by defining an investment strategy which allows the fund to maintain a consistent balance over time.

We strongly recommend significant efforts to assist with the acquisition and preservation of existing affordable housing and the creation of a local tenant-based rental assistance program in the first year of establishment. Preservation of existing affordable housing is likely the least cost-intensive investment and will do the most to limit the impacts of housing scarcity and price increases in the short-run. However, a robust preservation effort must be paired with investments in new housing in order to have a lasting impact and relieve the upward pressure on prices in neighborhoods that are in high demand.

There are various ways to use a housing fund as a capital source that leverages multiple State and Federal programs as well as private sources of financing to expand the depth and breadth of the Affordable Housing Fund capacity. However, in order to make serious progress it is imperative that the size of the fund is large enough to move quickly and with a sense of defined purpose.

Possible sources of revenue to support a bond initiative could include a dedicated housing millage, directing a large share of all new income tax revenues to affordable housing, advocating for additional state enabling legislation for local real estate recording fees devoted to housing affordability, dedication of a share of Tax Increment Finance revenues within Corridor Improvement Districts, proceeds from the sale of publicly-owned property and working to collaborate with philanthropic, institutional and corporate partners to increase funding. Some of these sources may produce less consistent revenue over time due to the potential that shifting market conditions may yield vastly different revenue amounts each year as time goes on. This does not negate the significant value of leveraging a variety of funding sources while the opportunity is there.

The Housing Needs Assessment has provided a detailed perspective on the number of additional affordable and market rate units needed over the next five years to achieve a more balanced housing market. This creates a clear perspective on the total amount of funding that may be required to make serious progress. The total capital investment necessary to provide an adequate amount of housing in the City of Grand Rapids over the next five years is likely to be $1.5 billion or greater and would support an estimated 8,900 additional households with an average income of $49,000 per year in the City (see tables 1 and 2 at the top of this report). If a comprehensive housing strategy and the Housing Fund are able to support the amount of growth needed in the City – much as the growth projected by Zimmerman Volk in 2015 was achieved – there is a potential to dedicate a portion of the income tax proceeds resulting from this population growth toward the Housing Fund and/or a bond initiative. If half of the 1.5% income tax proceeds from these new households were dedicated to the Housing Fund, an estimated $3.2 million per year would become available to support investments in housing and/or repayment of general obligation bonds. Over time, there may be other sources of revenue which could be created to take the place of the income tax contribution.

If the housing fund is too small, it will be severely limited in its capacity to tackle the problem at hand. The most effective fund would be well-resourced with a minimum $20 million available balance which could be used to support low interest loans, loan guarantees, grants, and programmatic assistance to a variety of needs as identified below.

It is strongly recommended that the City begin discussion of a consistent and dedicated source of public funding and prepare to take the necessary steps to educate the general public about the initiative. The endeavor to communicate the objectives of the fund and the benefits to the broader community should be robust and professionally managed to the extent feasible. It is imperative that the general public understands the need for more housing and the intended approach of the City to utilize the fund.

Re-engage the Affordable Housing Fund Board.

Begin work to ensure the Community Affordable Housing Fund is set up in compliance with the proposed Community Investment Program (H.B. 5821) and designed to work closely with a CDFI. Work with the Housing Fund Board and Advisory Committee to craft a Community Investment Plan to be approved by the Michigan Strategic Fund. Convene existing members of the Affordable Housing Fund to discuss the scope of need, possible action steps, and community representatives who must be consulted in the process of defining the path forward. The voice of community residents, neighborhood leaders, business leaders, non-profit partners, community developers and potential funders should all be represented in the conversation. As discussed in the previous section, there is merit to defining the order in which the Housing Fund will tackle specific failures in the housing market. The following is not a definitive guide, but rather an informed suggestion from which the Housing Fund Board may want to draw as they engage with community partners.

While the fund maintains an available balance of $1 million or less, provide focus pertaining to the following potential activities:

- Provide funding support for tenant-based rental assistance, comprehensive eviction assistance, and legal-aid to stabilize households at-risk.
- Consider Responsive Grant Funding to CoC partners and Housing Stability Alliance to support systemic solutions to unmet needs in the City.
- Offer Pre-Development Loan funds to non-profits seeking to pilot innovative housing options.

- Work to establish a Community Land Trust or formal partnership with existing non-profit CLT to preserve and secure long-term affordability on as many existing affordable units as possible.
- Provide grant or low-interest loan assistance to homeowners willing to create ADUs with income restrictions at 50% AMI or below OR to support energy efficiency upgrades to homeowners who qualify as 50% AMI or below.

- Collaborate with local non-profits and the RPOA of Grand Rapids to provide support for non-traditional landlords to conduct income certifications, provide property maintenance and understand fair housing laws.

- Work with local partners (institutional, philanthropic and corporate), to establish trust and leverage additional funding

- Seed funding to support shared equity cooperative housing start-ups

As the fund's available balance increases to $2M - $5M per year:

- Provide bridge financing for acquisition of existing small-scale apartment buildings that are affordable but unsubsidized for renovation, energy-efficiency upgrades and permanent preservation of affordability.

- Increase funding for local tenant-based rental assistance program

- Establish pre-development funding for new mixed-income projects in Neighborhoods of Focus where proposals are designed in accordance with neighborhood priorities.

- Provide gap-financing and collateral support for small and medium-scale developments where a minimum share of units are affordable at 60% AMI or below. Focus on minority and female-owned development firms.

    - Host Incremental Developers Alliance bootcamps and workshops to train and support new developers.

    - Establish collateral support funding source for start-up developers with special focus on minority and female-owned firms. Partner with SBA, Northern Initiatives and other like-minded funding sources wherever possible

- Acquire opportunity sites near transit lines

As fund's available balance increases to $5M - $15M:

- Provide gap-financing, collateral support or direct subsidy to large, new development projects (30+ units) where a minimum share of units are affordable at 60% AMI or below.

- Provide bridge financing for the acquisition of existing large multi-family apartments for renovation and permanent preservation

- Coordinate mixed-income developments with for-profit and non-profit development partners

- Create an Operating & Maintenance Fund to support ongoing developer expenses when serving households earning less than 30% AMI.

Which problems are we trying to (dis)solve?

Inadequate Housing Supply for a growing population.

The 2015 Great Housing Strategies report was rooted in a vast amount of local data, which included the 2015 Zimmerman Volk Market Analysis. At that time, ZVA identified a potential annual market demand of up to 1,100 new market rate units and up to 400 new residential units priced affordably for households earning between 30%-80% of the area median income. The City of Grand Rapids Development Center now confirms that permits have been issued for 5,787 new housing units since the beginning of 2015 (~1,157 per year) and 1,576 (~315 per year) of those units are set aside for income restricted households (roughly 27% of new housing stock). This means the City was largely successful in meeting the 5-year demand that was projected in 2015 and ensuring a sizable share of new housing is affordable. This should be marked as a significant accomplishment.

Meanwhile, the Grand Rapids Housing Commission and regional non-profits like ICCF, Dwelling Place, LincUp, Community Rebuilders and others all have extensive waiting lists for subsidized and tax credit housing units. While there is likely an overlap in the number of individuals on each waiting list, there is a clear indication of a need for more affordable housing than is being supplied in the market under current circumstances.

The 2020 Housing Needs Assessment conducted by Bowen National Research, has identified a need for 5,340 additional rental units and 3,548 additional for-sale units by 2025 if the City of Grand Rapids is to achieve some sense of equilibrium between supply and demand.

Critical to the Bowen National Research economic model is the 'step-down' effect which occurs among all renters, but most significantly among renters and homeowners of moderate to high-income. The step-down effect is a term used

Grand Rapids *Rental* Demand Estimates (2020 – 2025)					
Income Category	0-30% AMI	30-50% AMI	50-80% AMI	80-120% AMI	120% AMI+
Overall Units Needed	**1031**	**895**	**966**	**1,469**	**979**

Grand Rapids *For-Sale* Demand Estimates (2020 – 2025)					
Income Category	0-30% AMI	30-50% AMI	50-80% AMI	80-120% AMI	120% AMI+
Overall Units Needed	**254**	**346**	**949**	**1,569**	**430**

to describe those renters who are able to afford a higher rent but choose to spend less of their income on housing. This means that a moderate-income household capable of affording a two-bedroom apartment priced at $1,200 per month, may instead choose to rent something that only costs $850 per month. However, any time a higher income household chooses the step-down option where overall housing supply is limited, they are inevitably competing with a household earning less. Most times, this competition results in increased prices over time. This is how renters are priced out of their neighborhoods.

Bowen's analysis suggests that more than 2,200 new renter households earning more than $96,000 per year are likely to enter the Grand Rapids housing market over the next 5 years. Of those new high-income households, at least half are expected to choose to spend less than they could technically afford for housing. Instead of spending 20-30% of their income on housing, many of these households will choose to spend less, assuming that they can find available housing with the desired level of amenities. The same will be true for the 2,300 additional projected renter households earning between $40,000 and $96,000. If housing options are available and cost less than 20-30% of a worker's income, they will be wise to select those options. However, if both of these higher income groups grow as projected, these wealthier households will impact the entire spectrum of unrestricted housing by creating more competition and driving up prices. Households earning below $40,000 will be most significantly impacted. The impact of the step-down is particularly important in Michigan because Act 266 of 1988 specifically prohibits a local unit of government from enacting any ordinance or policy which would have the effect of controlling the rent within privately owned properties. In other high-growth cities, rent control has been used in an attempt to maintain rental rates at an

Rental Housing Gap Estimates by AMI

	0-30%	30-50%	50-80%	80-120%	120%+
Gross Potential Growth	704	813	1215	1074	2226
Step-Down Gain	406	607	537	1113	0
Step-Down Loss	0	-406	-607	-537	-1113
Units in Pipeline	-79	-119	-178	-181	-134
Overall Units Needed	1031	895	967	1469	979

For-Sale Housing Gap Estimates by AMI

	0-30%	30-50%	50-80%	80-120%	120%+
Gross Potential Growth	236	45	432	1121	1718
Step-Down Gain	22	324	841	1289	0
Step-Down Loss	0	-22	-324	-841	-1289
Units in Pipeline	-4	0	0	0	0
Overall Units Needed	254	347	949	1569	429

artificially low level. However, rent control has proven to create more problems than it solves over the long term in many of those communities because it creates a disincentive for developers to build new housing . The problem in the market is one of scarcity, which allows higher income households to out-compete low-income households for a limited supply of housing. The more sustainable solution is to build an adequate amount of housing to support the entire market at all price points and to ensure that housing that is supported by public financing, maintains a specific share of units at affordable rates to preserve a variety of options in any given neighborhood.

It is critical to reiterate that, while the Bowen Housing Needs Assessment provides a clear goal for the number of additional housing units needed at every price point to achieve a more balanced market, it also calls out the number of individuals and families who are currently housed but spending more than they can afford. In addition to the need for new housing highlighted in the tables above, there are another 17,000+ households who are spending too much on housing and that rate of shelter-overburdened households will not be reduced by providing more housing supply. Instead, the additional supply would prevent additional families from being forced into a situation in which they are shelter overburdened.

Equally important but beyond the scope of this report is the issue of wages. A critical element in solving for an adequate amount of housing in a market-oriented system is the ability of all able residents to secure work which pays a living wage . Renters with the lowest incomes face the greatest challenge in finding affordable housing. A renter earning the Michigan minimum wage would need to work 77 hours per week to afford a two-bedroom rental home at the HUD fair market rent. The same renter would need to work 63 hours per week to afford a one-bedroom rental home at fair market rent in Kent County.

If the Grand Rapids metro region is to truly solve for the lack of housing, a sustained, collaborative, and regional effort to improve wage growth and increase housing supply at all price points must be a top priority for the entire region, not just within the City of Grand Rapids. Only when wages reach a level which would allow every employee working 40 hours per week to afford the local fair market rent will the market be capable of producing enough supply to adequately respond to demand. Until then, significant capital investments and subsidies will be required to support the lowest income households.

In the meantime, we must begin working to ensure an adequate amount of housing supply is available at every price point. Using the data provided by Bowen National Research, we can estimate that at least 50% of the roughly 8,900 additional housing units needed could be provided by traditional market-rate development and primarily using the tools available today. Housing can be built at price which is affordable to a renter or homeowner earning 80% of the area median income and without subsidy. However, the step-down effect must be factored in. Either the level of amenity associated with new market rate units must be far superior that other housing in the immediate area, or renters and buyers will choose comparable but less expensive products. The cost of these market rate units can be brought down where the price of land and financing can be reduced. A coordinated effort to support the availability of publicly-owned land and gap financing would be helpful in achieving the construction goals for market-rate housing. However, these public financing resources must be paired with minimum affordability requirements. This may increase the size of the overall financing gap that must be filled by public sources but will also provide a greater long-term public benefit.

According to the Harvard Joint Center for Housing Studies, the average cost of land increased by more than 55% in Kent County during the period between 2012 and 2017 . This growth rate was more pronounced than any other county in the Midwest or the Northeast for the same time period. By making publicly-owned land available to priority projects via a Land Bank Authority or similar structure, a critical mechanism for preserving cost efficiencies becomes available.

Problem Summary

There will be an estimated 2,450 additional renter households and 2,000 additional homebuyers earning more than $60,000 per year seeking housing within the City over the next five years. Without the construction of new housing to meet that demand, these wealthier households will continue to put upward pressure on prices in high demand neighborhoods. This will push out renters with lower incomes.

The City is at risk of losing approximately 2,000 affordably priced housing units over the next five years. More than 2/3 of those endangered units are currently priced at $600/mo or less.

Black, Indigenous and People of Color have experienced much higher rates of housing instability and have faced steep barriers to homeownership. As investment in City neighborhoods continues, these households are least likely to benefit from the economic growth without market interventions.

Implementation Strategies

The following Implementation Strategies are intended to be executed over the next one to five years. This list is designed as an interdependent set of actions which will build off one another. As progress is made on each strategy, other strategies will become easier to implement.

1 ***Set 5 & 10-year Housing Goals***

2 ***Create Income Certification System***

3 ***Adjust Local Zoning***

4 ***Grow the Affordable Housing Fund***

5 ***Establish Central Redevelopment Authority***

6 ***Project Based Vouchers***

7 ***Access to Capital***

8 ***Encourage Market-Rate Housing***

9 ***Statewide Advocacy***

1. Utilizing the 2020 Housing Needs

Assessment, combined with a realistic assessment of available tools and resources, establish a City-wide housing goal. Incorporate achievement of housing goal into the 2020 Master Plan update with responsibility given to housing leadership, planning department and local neighborhood organizations to determine how best to achieve those goals in each neighborhood. No neighborhood should be exempt from change and no neighborhood should be entirely transformed by change. Rather, an incremental approach to adding additional housing supply at a variety of price points – and every effort to limit displacement – should be a requirement within each neighborhood. Yet, those neighborhoods should be given the responsibility to determine how much supply will be permitted in the form of more ADUs, two, three and four family rental units, or more large-scale apartment buildings and mixed-use buildings. Neighborhoods should also be given the opportunity to inform where each housing type is best suited. However, neighborhoods must take responsibility for contributing to local solutions that are rooted in the reality of the marketplace and available tools. It will be critical to have a staff member engaged in dialogue with these neighborhoods about the balancing act between preservation of neighborhood character and achieving goals for housing affordability.

Utilizing the data from the 2020 Housing Needs Assessment and existing data pertaining to racial and social equity across census tracts, city staff will have the tools to provide deep context pertaining to the responsibility of each neighborhood as relates to adding more low-income, workforce or market rate housing. High-cost, high-opportunity neighborhoods should be given responsibility for incorporating more affordability at the low-income and workforce income tiers. Neighborhoods of focus have greater responsibility to preserve existing affordable housing and NOAH while preventing displacement and working to improve quality of life and access to opportunity. Improved economic mobility, wage growth, opportunities for homeownership and wealth creation, and community connectedness may be critical goals for neighborhoods of focus.

2. Fund Income Certification & Compliance Capacity within Community Development

Many of the following recommendations are dependent upon the capacity of City staff to administer a comprehensive income certification process in combination with local zoning amendments, economic development tools and funding resources. Adequate staff personnel and resources will be needed to support planning and economic development services as well as to track affordable units, the income certification process and the required period of affordability. This process may be closely tied to the residential rental inspection program, but it will require a qualified staff member to evaluate landlord's rental application and leasing documentation over an extended period of time.

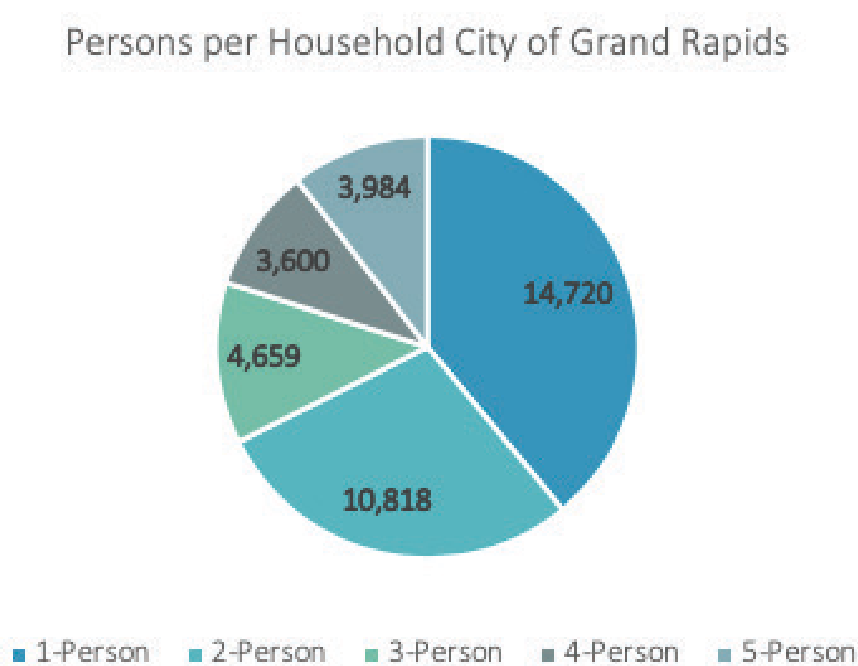
3. Adjust local zoning to be better aligned with financial viability of desired housing types

The current cost of residential construction can range from $125 – $275 per square foot, depending upon the type of building (wood frame v steel construction, or walk-up v elevator, single family or multi-unit, etc.). There are dozens of individual factors that can influence the final cost of construction which also include the cost of land, financing, permitting, site work, professional design, legal services and development fees. A large multi-story, mixed-use building will nearly always include a greater total amount of costs than smaller format, residential-only buildings. Only where a developer is able to achieve an adequate amount of density, those costs can sometimes be spread among enough new units to allow the project to make financial sense. More often than not, however, a significant amount of economic incentive is needed to ensure the project is capable of attracting an adequate amount of investment to move forward. In recent years, this has included the generous use of brownfield tax increment financing, tax abatements, state grants/loans and zoning flexibility. The use of local incentives has historically not been paired with limits on inflationary pricing or income certification for a share of the residential units over time. Despite these incentives, the cost to build new multi-family housing product results in expensive homes compared to the affordable price range needed for the average renter in Grand Rapids.

It is also important to recognize that there are only a handful of local development partners in the City who have the access to capital necessary to build large multi-family projects with complicated site planning, zoning and incentive structures. In many cases, these developers are taking a long-term perspective on the market and forgoing short-term economic gains due to the disparity between the high cost of construction and the current limits of rent growth in the market. However, the potential for long-term wealth creation is still significant. This type of wealth creation is not available to the vast majority of city residents nor to a majority of small and medium sized contractors. In other words, there is a very limited opportunity for the equitable creation of wealth resulting from growth and development in the city, and this is partly due to the types of projects that are currently permitted as well as the process required to obtain approvals. Some of the zoning amendments proposed as part of Housing Now! will provide for greater accessibility and access to opportunity. Though, equitable development prospects remain elusive unless access to capital becomes much more equitable.

Meanwhile, renovation of existing structures can be significantly less expensive than new construction. Renovating a single-family, owner-occupied dwelling unit can be one of the least expensive opportunities with readily available financing from local banks and relatively small economic incentives required to meet low to moderate income rental requirements on many single-family conversion projects.

According to the Housing Needs Assessment, more than 67% of all renter households in the City are made up of just one or two people - 39% of households are single adults with no children, and 28.1% are couples with no children at home. Yet, the majority of residential structures in the City remain larger, single-family homes. By allowing for some of these homes to accommodate one additional residential unit, a meaningful amount of additional housing could be created at a relatively low cost. With available 30-year financing at historically low interest rates, a homeowner is uniquely positioned to provide a small contribution to the need for more housing while simultaneously building personal wealth within their community.



Furthermore, if access to capital for the majority of Black, Indigenous and People of Color to purchase homes in the community is prioritized, providing simple pathways to convert single-family homes into two-family properties presents an opportunity for a much more equitable distribution of households to benefit from wealth creation in the City. It must be acknowledged that demand for housing in walkable urban neighborhoods has increased dramatically over the last 15-20 years and that demand is projected to continue to grow over the next five years. If more housing supply – at all price points – does not become available, the price of existing housing within walkable urban neighborhoods will continue to quickly rise. High demand in neighborhoods with constrained supply will continue to foster economic conditions in which low to moderate income households can no longer afford to rent in certain city neighborhoods. The following is a list of parameters to consider allowing for incremental density bonuses in all neighborhoods where specific affordability requirements can be met. Many of these suggestions may be dependent upon the upcoming Master Plan update.

A. Adjust the density bonus standards within section 5.5.06 to allow for any property in a TN-LDR or MDR district to accommodate a second dwelling unit by-right, provided that one of the two units is preserved as affordable to households earning 60% AMI or less. If the second dwelling is attached to or contained within the principal building, consider removing any requirement that the second unit be separately metered – alternatively, the city may want to consider on-bill financing for up to 15 years to cover the cost of installing the second meter.

It is critical that this recommendation is paired with a targeted program to provide access to capital for Black, Indigenous and People of Color. All of the city's population must be able to share in the wealth creation that results from the revised zoning provisions. Without ensuring adequate access to capital, the same pattern of inequity in City neighborhoods will continue to persist and may be exacerbated by the suggested revised zoning standards. This may require a soft lending source to support down payment assistance and collateral support to ensure all interested parties are able to secure adequate financing. Close communication with local lenders, potential funding partners, and trusted neighborhood leaders will be key elements to be certain that any potential density bonus program results in equitable outcomes.

B. Create a simple pathway to allow side lots to be developed with one or two-unit dwellings. There are a significant number of parcels throughout the City that have 24 feet of property frontage or more that could be split from the original parcel. These side lots should be considered buildable parcels provided that the property satisfies reasonable setback and lot coverage standards.

C. Reduce regulatory barriers to three or more units on properly sized lots or corner parcels with the condition that at least one unit remains affordable at 60% AMI or below. Specifically evaluate the minimum lot area and width requirements to permit more small-format multi-unit projects on existing lots. The City of Grand Rapids Planning department has been a national leader in the effort to reduce barriers to multi-unit properties within traditionally single-family neighborhoods. The current standards were a critical step toward considering more housing choice in walkable neighborhoods. The next transition is now needed. In many TN-LDR neighborhoods, under the current zoning standards, the vast majority of existing lots are not large enough to accommodate a three-unit project or larger due to frontage or lot area requirements. Yet, there are numerous examples of three or more units on a property that have worked well for decades. By restricting more parcels from accommodating additional units, the zoning code is constraining supply. Under the current standards, most property owners would be required to purchase the lot next door in order to add one additional dwelling unit and satisfy the frontage or area requirements. That additional land purchase is both time consuming and cost prohibitive to adding one more unit. Yet, many of the homes within the City are sized to easily accommodate two units within the principal structure and a third unit in the rear yard as an attached or detached unit.

- It is critical that this recommendation is paired with a program to provide access to capital for Black, Indigenous and People of Color. All of the city's population must be able to share in the wealth creation that results from the revised zoning provisions. Without ensuring adequate access to capital, the same pattern of inequity in City neighborhoods will continue to persist and may be exacerbated by the suggested revised zoning standards.

- Establish programmatic support for homeowners in need of assistance with design, creating a budget, hiring a contractor, securing a loan, collateral support, etc. Include outreach program to existing homeowners in Neighborhoods of Focus and partner with existing homeowner support programs.

- Using the Affordable Housing Fund, provide pre-development and construction grant funding of up to $15,000 per household where the homeowner qualifies as 60% AMI or the homeowner agrees to deed restrict the property and rent the secondary unit at 50% AMI or below ($525/mo maximum rent for single adult, $600 for two adults). Final income restriction requirements to be determined by staff facilitated proforma evaluation.

- Work with local banks and appraisers to ensure they are prepared to underwrite home renovation projects that will create an internal and/or accessory rental unit with passive income source for the borrower. Initial funding may require a CDFI and non-appraisal based lending to prove a model before traditional lenders will loan on this product type.

- Partner with RPOA and local non-profits to ensure homeowners and landlords have a clear understanding of best practices related to landlord-tenant relationships and fair housing laws. Ensure program is in place to support third-party income certification and monitoring on all units with annual report due to City.

- Create small developer training and professional network to support Black, Indigenous, People of Color, and women-owned companies interested in owning two-family/multi-unit buildings and willing to satisfy minimum requirements for affordability. Scholarships for educational training and revolving loan fund to assist with start-up capital. Pair with GRCC / M-TEC student programming.

- Connect homeowners and small developers with minority-owned contractors and work to support a consistent book of business. Partner with SBDC and Chamber to support minority and women-owned contractors in becoming developers, property managers and landlords.

D. Plan to review and potentially expand the density bonus beyond the TN districts at regular intervals as appropriate to neighborhood and market conditions. No neighborhood should be immune from gradual change, but no neighborhood should be subjected to dramatic transitions either. An incremental approach to density and infill that is calibrated to current market conditions and allows for equitable neighborhood development is important.

NOTE: The estimated number of existing housing units in the City of Grand Rapids is over 80,000 with roughly 54% of those being owner occupied. If just one-half of one percent of all owner-occupied households take advantage of this program in the first three years, it would create 200 additional housing units priced at 60% AMI or below with very limited investment required from the City. If this program is able to leverage as many as 5% of all owner-occupied units in the City, it would create 2,000 additional affordable units. A 5% utilization rate would mean an average of one additional residential unit per block across the City. This offers the potential to simultaneously provide additional affordable units while supporting wealth creation of existing and future property owners in the neighborhoods at a relatively small-scale.

E.Consider an expansion of the amount of land zoned MDR. The existing zoning code has been expertly crafted to assist larger, mixed-use developments. There are a number of provisions that allow flexibility for building 20+ unit projects which has been a critical factor in the amount of new housing that has been built since 2012. However, these standards are not as well calibrated to supporting smaller multi-unit projects on narrower lots – what is commonly referred to as Missing Middle development patterns.

F. Eliminate ground floor retail requirements in most districts. Many neighborhoods across the City have an adequate supply of retail and commercial property to serve the number of residents and workers in the area. Requiring additional commercial space below residential units is not only counter to current market conditions, but it can also undermine the financial viability of a residential project. Key retail street segments should be established for required ground floor commercial space. All other zone districts should allow for residential units on the ground floor.

G. Consider standards to support Pocket Neighborhoods or Cottage Clusters on larger lots in MCN and MON districts.

Note: City Planning staff has been very clear about previous resistance to additional neighborhood density that has come from local property owners and neighborhood organizations throughout the Housing Now! process. We are not overlooking the conversations that have already been had and the opposition that has been expressed. Moving forward with the above recommendations will require a significant amount of time and effort to communicate effectively with the general public and may require formal engagement with a public relations firm to help create communication documents and information about any proposed changes, how those changes will increase the amount of affordable housing over time, and any efforts to ensure neighborhoods are not changing too rapidly. It is critical to recognize that attempting to lock a neighborhood into a pattern of stasis will only exacerbate the lack of affordability over time. Efforts to preserve single-family-only neighborhood patterns will continue to constrain the amount of housing supply that is available within a neighborhood. The more demand there is from potential renters and homeowners to live in that neighborhood, the more quickly prices will rise, creating an ever-greater divide between market rents and affordable rents. Furthermore, as we have already seen play out to dramatic effect on the west side, the escalation of demand and price does not preserve a majority homeownership status in a neighborhood. Instead, property owners and landlords are increasingly encouraged to rent out single-family homes by the bedroom – charging as much as $500 to $600 per bedroom. These types of rental units become single-family in name only. In practice, these houses often illustrate a pattern of much more transient rentals as opposed to allowing for two or more fully self-sufficient residential units in each house.

Existing zoning standards which exclude a majority of uses other than single family homes are rooted in exclusionary practices that were originally designed as tools of racial segregation and reinforced by lending practices. To this day, preservation of single-family only neighborhoods and access to equitable housing choices are at odds with one another.

This is in no way the only solution to the lack of affordability in the City of Grand Rapids. As you have read and will continue to read in the remainder of this memo, there are several other strategies which we recommend pursuing simultaneously in an effort to reduce any possibility that broad, wholesale changes would occur in any given neighborhood. Yet, working to slowly transition toward a greater diversity of housing types and price points in every neighborhood should be a critical goal.

4. Grow the Housing Fund.

While a dedicated source of public revenue is critical to the long-term sustainability of the Housing Fund, so too is the ability to establish trust and confidence with outside funding sources to attract additional resources. As the Fund is able to execute initial progress, a clear communications strategy about preliminary successes and remaining needs should be consistently updated and presented to potential funding partners. A traditional investment prospectus should also be created and updated regularly. Potential funding partners may include regional employers, institutional partners, foundations, family investment firms, pension funds and others.

In certain instances, directing funding to a Community Development Finance Institution (CDFI) may provide greater benefit to investors. The Housing Fund Board support staff should follow best practices and remain in close contact with the national housing finance community to ensure every possible tool is explored and leveraged where worthwhile.

The City of Grand Rapids will need a minimum $20 - $25 million fund to support housing needs over the next 5 years. Up to 75% of that fund can be targeted as low-interest revolving loans to fill equity, credit and debt financing gaps. At least 25% of the fund should be planned as grant or direct subsidy for the lowest income households. Under some circumstances it may prove more expedient for the fund to support direct giving from donors to local non-profits.

5. Establish central redevelopment authority capable of partnering with CIDs, DDA, Brownfield Authority, MobileGR, Land Bank, The Rapid and Housing Commission to execute land acquisitions and property assembly along key transportation corridors and in partnership with private sector and non-profit partners.

Consider utilizing the brownfield redevelopment authority or land bank fast track authority to execute this work. Close working relationships with DDA, Housing Commission, Affordable Housing Fund and other agencies is critical to proper planning and execution of desired neighborhood goals. This entity should be directly accountable to the City, but capable of operating with some autonomy within the boundaries of an annual plan and budget. The benefit of such an authority is that The redevelopment authority should be focused on supporting the private and non-profit sector where needed to assemble land along key transportation corridors and in an effort to align with neighborhood affordability, equitable mobility and economic development goals. A very important element of this redevelopment authority will be catalyzing development on publicly-owned land, especially along the riverfront, while ensuring that a share of all new development is inclusive of a variety of price points.

A. Create Community Land Trust under Affordable Housing Fund, Redevelopment Authority or Housing Commission (OR Partner with Dwelling Place and ICCF to leverage their newly created Community Land Trusts). This may be paired with the work of a local or State Land Bank Authority. As referenced within the Great Housing Strategies toolkit, a Community Land Trust (CLT) has proven to be a critical tool in many communities to allow for the long term – sometimes perpetual – preservation of affordability. The establishment and adequate funding of a CLT can make a profound difference in a community that is experiencing high demand for rental product and homeownership product and where average local wages are not keeping pace with the increase in housing costs. A CLT is able to purchase and/or hold land under a deed restriction which will guarantee a specified level of affordability from 15 years to 99 years or more into the future. When funds are limited and construction costs are high – as is the case in Grand Rapids right now – it can be a much more prudent decision to focus on preserving the affordable housing that already exists as opposed to focusing entirely on the construction of new housing that will require significant subsidy. Without significant efforts to preserve existing affordable units, when market rate rents climb to a rate that will encourage the owners of older, more affordable housing stock to upgrade or sell their units, it becomes increasingly likely that those previously affordable units will be lost for a generation or longer.

- Support the acquisition and preservation of existing affordable housing and place acquisitions within a Community Land Trust. Establish a bridge financing program for non-profit acquisitions or for-profit partners who are willing to deed restrict land/buildings for affordability (minimum 25% affordability requirement). Require the project to be refinanced and the bridge loan repaid within 24-36 months. Partner with Economic Development to leverage available incentives.

- Closely monitor all existing multi-unit properties in the City that are currently income restricted AND properties currently considered to be naturally occurring affordable housing (non-subsidized but affordable to households earning at or below 60% AMI). Develop an outreach and engagement strategy with each property owner to ensure the City, Housing Commission or Affordable Housing Fund is in a position to obtain a first right of refusal to purchase the property 180 days prior to any MSHDA/HUD imposed income restrictions being lifted OR, if non-income restricted, at least 90 days prior to the property owner listing the property for sale.

B. Leverage city-owned properties in resource-rich neighborhoods (i.e. downtown, river corridor, transit corridors, near schools and employment) or in areas with significant opportunities for transformative growth (Alpine, 28th Street, Plainfield).

- Conduct preliminary locational self-score for 9% LIHTC projects on publicly owned and developable parcels.

- Execute pre-development planning on the most strategic parcels to fully understand site constraints (i.e. soil conditions, environmental obstacles, slopes, wetlands, easements, etc.), and perform preliminary site design model with in-depth community engagement process. Be certain to frame site expectations and opportunities within the current market reality relative to anticipated construction costs, available financing tools and ability of the City to provide incentives where needed.

- Focus on mixed-income developments via a public private partnership.

- Where sites are large enough, plan for phased development approach which leverages long-term wealth creation.

- Retain ownership of underlying land whenever possible.

NOTE: Some opportunity sites are ready for redevelopment today and can support viable projects using the existing toolbox of incentive programs. However, many other opportunity sites are not yet ready for new market rate housing and cannot currently compete for limited allocations of 9% LIHTC funding – namely the 28th Street corridor and South Division corridor, but this applies to other properties as well. These sites do not yet have a proven ability to attract residential rental rates that are capable of supporting construction costs and this is one of the primary reasons the private sector has not already moved toward redevelopment efforts along these corridors. High traffic volumes and unforgiving pedestrian infrastructure may also be a hindrance to redevelopment efforts in some areas. However, these sites should not be overlooked.
It is important to understand that these sites will not produce a market rate return for many years into the future and so cannot be financed using traditional private sector loans and equity. The rationale for moving ahead with these types of projects anyway is that the first handful of redevelopment sites – if executed well and in close coordination with one another – has the potential for setting a baseline market rent and catalyzing future interest and development of adjacent properties. This will likely happen incrementally, in small projects at first, and over a long period of time.
Where the City is able to develop a compelling vision which accounts for market reality and an incremental and equitable approach to redevelopment, these opportunity sites may be capable of attracting philanthropic, corporate and institutional investment, provided that a trusted community partner is leading the redevelopment process with sound financial modeling and realistic projections of return.
These redevelopment efforts can be paired with mobility improvements and economic development efforts. Attracting a medium to large office or retail tenant to a site may be worth pursuing to generate momentum, but the City can also aim to incubate and grow small businesses via food trucks, pop-up retail and LQC (lighter, quicker, cheaper) approaches to neighborhood placemaking. Where funding for both small business investment and public space improvement can be coordinated in a limited and concentrated geographic area, these efforts can begin to establish some sense of neighborhood identity and place. This, in turn, can eventually lead to a greater desire for investment in brick and mortar commercial investments as well as housing.
Preliminary housing investments should be designed to ensure that existing homeowners in the surrounding neighborhood have a sound financial footing and the ability to benefit from any future wealth creation which occurs in the neighborhood as a result of investments in the adjacent business district. Next, housing investments to help create new housing supply that is either affordable to households earning less than 60% AMI or supports existing homeowners in an effort to create a secondary dwelling unit (via ADU or single-family conversion) on their property.
Some communities are able to execute these functions within the internal structures of local government. Other communities have created semi-independent 501c3 development corporations which are responsible for helping to achieve the City's goals in each neighborhood while maintaining long-term financial independence. The City of Cincinnati created the Cincinnati Center City Development Corporation (3CDC) in 2003 in an effort to support the revitalization of downtown Cincinnati and the Over the Rhine District. The 3CDC has been very successful in leveraging corporate and philanthropic investments while building a portfolio of assets which are now generating management fees to support long-term, sustainable business operations.
Alternatively, the City of Denver Housing Authority is an excellent example of a quasi-governmental authority creating massive change through the development

process along high-frequency transit corridors to create vibrant, mixed-income neighborhoods of choice. The Mariposa Development is a LEED-certified, 800-unit redevelopment along the South Lincoln light rail which has been focused on the social determinants of health and utilizing the EcoDistrict protocol for the last five years. The Denver Housing Authority has integrated health-focused amenities, opportunities for entrepreneurship and small business creation as well as culturally relevant public artwork throughout the neighborhood. The project is designed to be roughly 60/40 affordable to market rate.

C. Seek out opportunity sites to partner with private developers to catalyze more housing at all price points where access to transit, jobs, education and parks and amenities are prevalent.

Privately owned opportunity sites may include properties like 100 Grandville, the Godfrey corridor, the Baker furniture building on North Monroe, the Kregel building on Wealthy and others. These sites present significant opportunities to add a relatively large amount of housing within the context of an existing building which is adjacent to or within close proximity to existing neighborhood amenities. The age and condition of each of these buildings will likely require that some form of financial incentive is necessary to make the project work in addition to possible investments via the Affordable Housing Fund to achieve a true mixed-income development. These buildings may offer significant opportunity for the City to negotiate a minimum share of affordable units in exchange for financial assistance. In a best-case scenario, if the City is involved in project planning early enough, there may be some opportunity to support pre-development work which encourages a portion of these projects to utilize the LIHTC program for financing. The more the city is able to support the adaptive reuse of existing buildings or vacant/underutilized commercial parcels of land, the more those actions can reduce the upward pressure on housing prices in the surrounding neighborhood over the short term. This increases the amount of time the City and local housing partners can devote to acquiring existing affordable housing for preservation and has the potential to slow the rate of change in the adjacent neighborhoods. Although housing demand in many neighborhoods has continued to outpace supply for the last six or seven years, it is certain that demand is a finite number. Where new housing supply can be created along high-frequency transit corridors without displacing existing housing, those projects should be heavily prioritized and incentives made available to ensure minimum levels of affordability over the long term. Focusing on the adaptive reuse of existing buildings and/or underutilized commercial sites may require more proactive strategies to ensure that State partners are engaged and supportive of these projects. Clear communication about the prioritization of high-frequency transit corridors and mixed-income projects from senior leadership at the City to senior leadership within MSHDA, the MEDC and the Governor’s office is important. As state organizations slowly adapt to the changing circumstances of economic regions across the State, they must be aware of the work happening on the ground and how State programmatic shifts can help to support shared goals for economic growth, affordable housing and equitable job creation.

D. Offer small, city-owned sites for targeted infill to non-profit development partners minority-owned development firms or mission-aligned private developers willing to provide development and long-term affordability.

- Work to support minority and female-owned development firms
- Require minimum affordability as condition of sale/transfer.
- Align with zoning amendments to allow for 2, 3 and 4-family units on appropriately sized parcels wherever possible.

6. Support Grand Rapids Housing Commission to ensure Project-Based **Vouchers are available on a competitive basis and to** strengthen partnerships **with for-profit and non-profit** developers to maximize opportunities for preservation **of existing affordable** housing and construction **of new affordable units,** especially those priced **at 30% AMI and below.**

Project-based vouchers

The 9% LIHTC program is extraordinarily competitive and provides a very limited source of funding statewide relative to demand. However, it is currently one of the best – and only - tools for financing new construction housing units priced below 60% AMI in Kent County. The availability of project-based vouchers for new construction and preservation in Grand Rapids could make a significant difference to the success rate of local non-profits seeking LIHTC allocations from MSHDA. It is possible that creating a competitive process for the distribution of project-based vouchers could yield an additional 100+ new affordable units each year with only a relatively small investment in city or housing commission staff.

Recent changes to the HUD review standards now require the local Public Housing Agency to commit to a competitive review process when distributing project-based vouchers. It is important that the competitive process creates opportunities for local project sponsors to become more competitive in their LIHTC submittals, but also that the Housing Commission is very careful not to over commit to any single project.

- Provide staff support to assist the Housing Commission with the creation and administration of a competitive review process for project-based vouchers.

- Seek to target households with disabilities or chronically homeless as a first priority, followed by families with children. Create a process which strongly encourages vouchers to be utilized in high opportunity neighborhoods.

- Proactively seek opportunities to better utilize publicly-owned land to maximize potential for mixed-income neighborhoods of opportunity. One of the predominant goals expressed among the public and non-profit sectors when discussing housing affordability is the creation and preservation of mixed-income neighborhoods with high opportunity for economic advancement. The Grand Rapids Housing Commission has the opportunity to pursue development projects which coordinate a mixture of private sector investment with market-rate development alongside public investments in affordable housing. Where adequate land can be assembled in strong locations, the Housing Commission also has the ability to support public/private/non-profit development partnerships which incorporate the strengths of neighborhood non-profits into the constitutional make-up of the project.

7. Partner with local organization to provide training and access to capital for minority developers.

As demand for a scarce amount of property continues to rise in the City of Grand Rapids, there is a limited set of tools available to ensure that BIPOC residents and business owners have equal access to opportunity to share in that wealth creation. A critical step toward ensuring an equitable distribution of both housing and opportunities for wealth creation is to be very intentional about providing access to capital for Black, Indigenous and People of Color. However, in addition to capital, a series of wrap-around support services are needed to ensure that people who are new to property management and development have access to banks, insurance, property management resources, suppliers, accountants and financial advisors who can support start-up organizations. Using the model created by the Incremental Development Alliance, and following best practice programs like the Philadelphia Jump Start program, the City should work to establish a partner organization capable of supporting new developers of color. The Affordable Housing Fund Board should consider making a share of annual funding available to invest in this organization while also working to solicit additional impact investment capital from community partners around the region. Engaging with local for-profit and non-profit development organizations and professionals for peer support and guidance will also be critical to the long term success of new start-ups.

8. Encourage market-rate housing.

It is critical to acknowledge the significant role that more market rate housing will have on the overall market and the availability of supply. New market rate housing will not result in a direct correlation to more affordable units in the short-term. However, the more developers are able to respond to demands for market rate housing, the less upward pressure there is on the price of existing naturally occurring affordable housing. Market rate housing must be carefully balanced with the preservation of existing affordable housing, but the importance of new housing cannot be over-stated. A particular focus on additional market-rate housing in downtown Grand Rapids and along high frequency transit corridors is recommended. These areas are least likely to have a significant displacement effect on surrounding neighborhoods.

A wholistic and ongoing review process relative to tax incentives for market-rate housing is **necessary to ensure public dollars are leveraging a maximum benefit for the greatest number of people.**

It is important to acknowledge our working definition of market rate housing – Housing which does not require any financial subsidy, is not encumbered by any rent or income restrictions or monitoring requirements and which typically rents for amounts affordable to households earning more than 80% of area median income in Kent County. There has been relatively little new true market-rate housing built within the City of Grand Rapids over the past several years. Rather, many new housing projects have required local and/or state tax incentives to be financially viable. While tax incentives are still necessary to support market-rate housing, those incentives could be conditioned upon the preservation of specific rent levels for a defined period of time (i.e. 80% AMI rents for 20 years) on a share of the overall unit mix. As neighborhood amenities (retail, parks, schools, transit, museums, etc) improve to meet demand, local economic incentives should be reduced and eventually should become unnecessary to support true market-rate housing.

Once market rate housing can be produced without incentives, for-profit developers will be in a much better position to support the City in achieving overall housing goals. Until then, the city should review requests for tax incentives to support market-rate housing against the pricing mechanisms and feedback coming from the market. When the market is strong enough to support the cost of construction, the City can utilize economic incentives to support broader investments in public infrastructure which add value not only to the market-rate tenants but also to residents of existing or new affordable units in the neighborhood. The relatively high cost of land and construction on urban sites results in more expensive housing. However, as neighborhood amenities improve, higher income residents become more willing to pay the true market cost of housing.

9. Statewide Advocacy

Expansion of the PILOT program. Currently, local municipalities are restricted to using the Payment in Lieu of Tax program only for housing developments which are financed using a State or Federal source of funds. However, the PILOT program can be amended within the MSHDA Act (PA 346, 1966) to allow for the use of a PILOT on any project in which a specific share of the units are reserved for households earning less than 60% of the area median income.

Residential Facilities Exemption. Local municipalities have dozens of tax incentives available to help support industrial expansions, office renovations and large, multi-family projects. However, more than 60% of the Grand Rapids rental housing stock can be found within buildings of 4 units or less. Furthermore, many of these single family and small multi-unit rentals are providing the most affordable housing in the City. Yet, none of these building owners are eligible to apply for a tax incentive. A proposed Residential Facilities Exemption would allow for a local municipality to grant a temporary tax abatement of 50% for a period of up to 10 years. The abatement could be conditioned upon the preservation of a minimum share of affordable units to households earning less than 60% AMI.

Employer Investment in Housing Tax Credit. Increasingly, we are hearing from our economic development partners that housing is a barrier to talent attraction and retention. Some employers have seriously considered making investments in housing for their workforce – or perhaps have already made housing related investments. The Employer Investment in Housing Tax Credit is a mechanism to support those employers who are inclined to provide funding for down payment assistance directly to their employees or those employers willing to invest in a local housing fund.

Local Land Bank Authority – A minor amendment to the Land Bank Fast Track Authority Act would allow a Land Bank Fast Track Authority to be formed by a City. This would afford the City of Grand Rapids more autonomy and discretion in pursuing redevelopment goals with publicly owned property.

Act 381 to allow TIF reimbursement of expenses associated with the gap between cost of construction and sale price. Draft a minor amendment to the Brownfield Redevelopment Act which clarifies Section 2(iii, B and C) allowing for costs associated with selling property under the control of the land bank authority or a qualified local governmental unit. Ensure that updated language clearly permits the use of tax increment to reimburse any difference between the cost of preparing a property for sale and the final sales price even where the final sales price is a below market value home which is temporarily or permanently encumbered by income restrictions to the owner, future owner(s) and/or any tenants residing within the property. Seek a bill sponsor.

Adjustments to MSDHA's Qualified Allocation Plan (QAP) to administer 9% LIHTC. Current scoring criteria under the 2019/2020 QAP make certain opportunity projects non-competitive in the City of Grand Rapids. Opportunity sites along the South Division corridor are a prime example. This corridor is not yet ready for market-rate investments, yet most sites south of Franklin do not yet score well enough to achieve a 9% award, despite proximity to the Silver Line. The City has an opportunity to plan for the redevelopment of this corridor with select MSHDA staff as key contributors to the planning efforts. The City should not be shy about expressing the barriers to redevelopment of this corridor (and others) to MSHDA leadership and the changes needed to make projects feasible.

Adjustments to MEDC's Community Revitalization Program (CRP) administration. Residential development trends over the last seven years in Grand Rapids show the dramatic influence that the CRP grant/loan investments have had on the ability of developers to execute on new, market-rate residential development. In 2015 and 2016, CRP funding was widely available within the City of Grand Rapids and hundreds of new market-rate residential units were fully financed and constructed in those years. However, as the MEDC began to pull back on funding new construction in the City of Grand Rapids, there was a precipitous drop-off in the number of new residential projects completed. Many planned residential developments were converted to hotel projects during this time period. The MEDC pulled back on their funding in Grand Rapids due to a perception that the market for new urban residential projects had adequately been proven within the City and financial assistance was no longer needed to make projects viable. In some cases, this was an accurate interpretation of the market, however, there are still many neighborhoods and individual sites within the City – both downtown and across the neighborhoods – that cannot produce new residential units without some form of financial support in addition to the brownfield TIF program. The MEDC has expressed openness to making CRP funds available to priority projects where a clear financial gap can be presented. It is important that the City establish clear funding priorities for the initial review of projects and communicate those priorities with MEDC staff and senior leadership. BRT corridors and the River are likely to be the most compelling areas for MEDC investments. It also important that the City express the importance of mixed-income projects and neighborhoods wherever possible. Working with senior leadership at both MEDC and MSHDA to prioritize transit-oriented development with a mix of market-rate and affordable housing is highly recommended. Notwithstanding the above, it is important to acknowledge that recent funding cuts to the MEDC have dramatically reduced their ability to invest in new projects across the State. This only reinforces the need to be clear and determined about a select handful of projects within the City of Grand Rapids that must receive state funding. Despite frequent staff turnover and shifting political priorities at the MEDC, it is important to establish and maintain a long-term relationship.

Definitions

Affordable Housing

Housing which costs 30% or less of a household's gross annual income. Whether or not a home or apartment is affordable depends upon the income of the household.

Area Median Income

The middle point among all recorded household incomes within a particular region. Nearly all federal and state funding pertaining to housing is pegged against the County-wide median income. In Kent County, for the year 2019-2020, the area median income is $53,700.

Low-Income Housing

Housing which is affordable to households earning 60% or less of the area median income.

Market-rate Housing

Housing which does not require any financial subsidy, is not encumbered by any rent or income restrictions or monitoring requirements and which typically rents for amounts affordable to households earning more than 80% of area median income in Kent County.

(NOAH) Naturally Occurring Affordable Housing

Housing which does not require any financial subsidy, is not encumbered by any rent or income restrictions or monitoring requirements and which typically rents for amounts affordable to households earning 80% of area median income or less.

Workforce Housing

Housing which is affordable to households earning between 60% and 120% of the area median income.

Very-low Income Housing

Housing which is affordable to households earning less than 30% of the area median income.

housingnext.org

HOUSINGNEXT

Housing Next has been formed as a 5-year pilot initiative to work closely with local units of government, developers and non-profits to remove barriers to the creation of more housing supply at all price points.

housingnext.org