

## CHAPTER 6: HOUSING DELIVERY SYSTEM

### Introduction

Critical to any assessment of current and future housing is an understanding of the mechanisms in place for planning, financing, building, maintaining, improving, and marketing housing. Collectively, these mechanisms compose the housing delivery system. We used various methods to assemble information that would enable us to present an accurate picture of Oakland County's delivery system. First, we culled relevant information from the analyses conducted for other chapters in this report (e.g. demographic data, housing stock data, sales data, affordability data, master plans, etc.). Second, we reviewed documents, such as budgets, program reports, and miscellaneous descriptive documents related to programs, to obtain information on specific housing programs/resources. Third, we conducted approximately 30 interviews with a wide range of stakeholders representing builders and developers of market-rate and subsidized housing, special needs service providers, realtors, financial institutions, public housing commissions, and municipal and county government. We conducted interviews both in-person and by phone using a series of open-ended questions designed to solicit information critical to understanding the composition, capacity, and needs of the housing delivery system for various market segments. The interviews explored a range of issues, such as public planning systems, builder/developer activity, development approval processes, financing, geographic location of special needs housing within the county, and community acceptance of housing of various types and costs. The insights provided by these people involved with housing at the ground level, combined with information from previous chapters and additional budget and housing program documents helped us understand the mechanisms that are present to deliver housing to current and future residents of Oakland County.

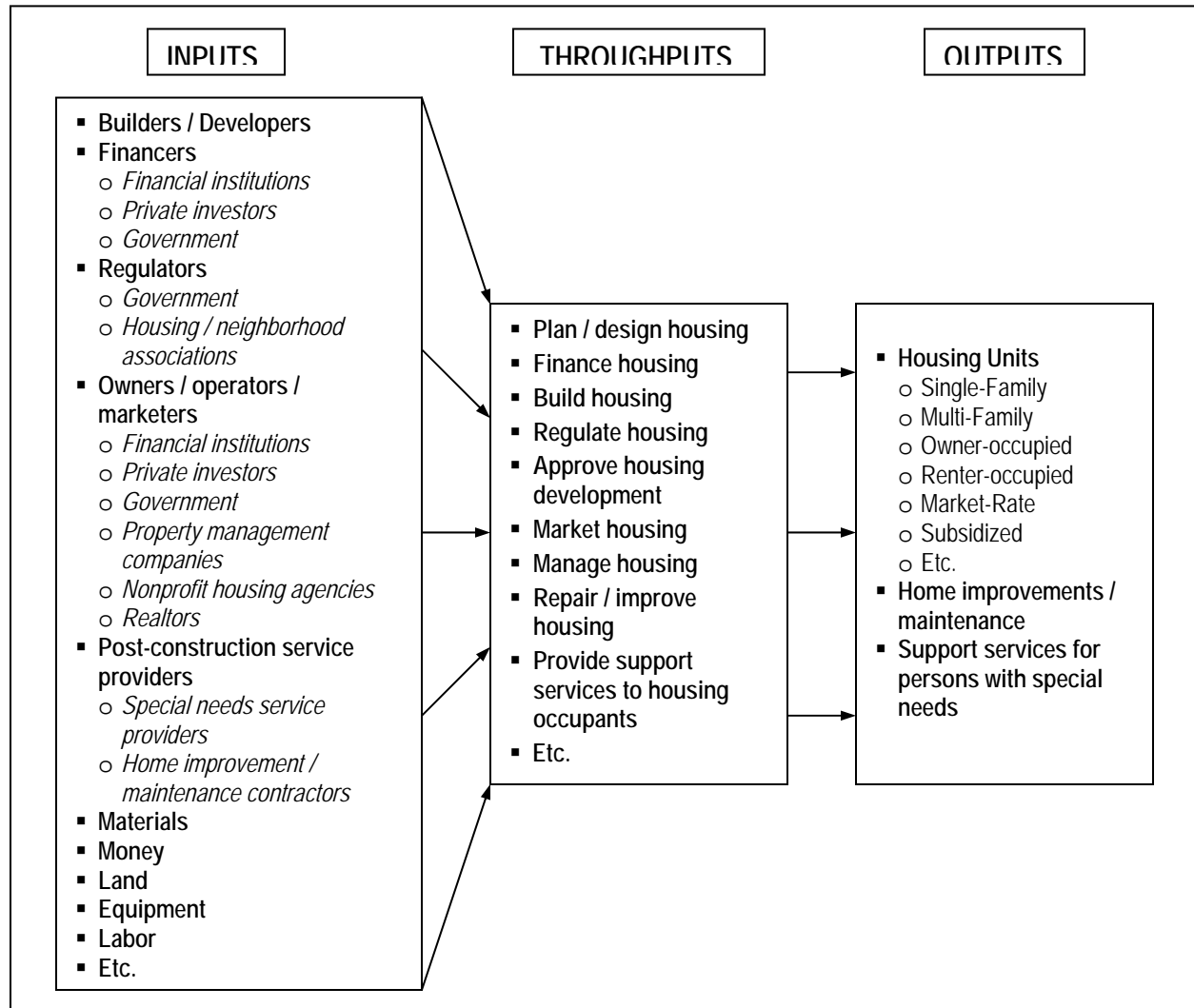
### Chapter Overview

We begin this chapter by defining a housing delivery system and highlighting its key components. We then summarize our main findings. We continue the chapter by providing the detail behind the summary findings. This detail is separated into three sections. Each relates to a specific segment of the housing market. The unique components of each segment's delivery system are noted. Specific knowledge gleaned from our interviews and document analysis is used to highlight the more salient aspects of the delivery system in each segment. We end the chapter with conclusions drawn from the analysis.

### Overview of Housing Delivery Systems

All systems are composed of three main elements—inputs, throughputs, and outputs. The inputs are the resources that feed into the system. Throughputs involve internal system components engaging in processes to transform the inputs into outputs. The outputs are the products, services, or other items produced by the system. A housing delivery system can be thought of as the combination of institutional components (inputs) that transform various resources (throughputs) into housing (outputs) for current and prospective residents of a community.

**Figure 6.1. Simplified Model of Housing Delivery System**



Housing delivery systems (Figure 6.1) have many participants (i.e. institutional components). They include parties involved in the planning, financing, construction, maintenance, sale, and improvement of physical structures, as well as those involved in providing services to occupants. Housing delivery systems include people and organizations from the private sector (e.g. financial institutions, builders, developers, realtors, utilities, etc.), government (e.g. planners, inspectors, elected officials, housing finance agencies, public housing commissions, etc.), and the nonprofit sector (e.g. affordable housing developers, special needs service providers, etc.). We can classify the many participants in a housing delivery system into one of five institutional components—builders/developers; financers; regulators; owners/operators/ marketers (i.e. those who sell/manage housing once it is built); and post-construction service providers. The specific organizations that are relevant for each component vary by the type of housing being provided.

Of course, delivery system participants cannot produce outputs unless additional inputs are fed into the system. For housing delivery systems, such inputs include money, materials, people, equipment, laws/regulations, knowledge/technology, and land. The institutional components of the system work to gather these resources and transform them into housing and related services.

The basic processes (i.e. throughputs) that the participants engage—planning new housing developments; building housing; financing housing construction, purchases, and improvements; owning/operating housing; marketing housing; improving housing; and providing services to occupants—are common across all market segments. However, the specific characteristics and outputs of those processes will vary by segment.

The most obvious output of a housing delivery system is a housing structure. Less obvious outputs of a housing delivery system are support services provided to occupants of housing designed for persons with special needs. There are many ways to classify the type of housing produced by a delivery system. These include renter vs. owner-occupied; single family vs. multifamily; detached vs. attached (e.g. condominiums); low-rise vs. high-rise; and traditional vs. non-traditional units (i.e. manufactured homes, boats, and RVs) to name a few. We could also classify type of housing by ownership. For example, housing could be privately owned, publicly owned, cooperatively owned, or owned and operated by nonprofit organizations. For the present discussion, we use “type” of housing to refer to the market segment the housing is designed to serve. This is the most useful distinction for determining the relevant system participants. For Oakland County, we examine delivery systems for four market segments—upper-income, middle-income, lower-income, and special needs populations. Certain system characteristics cover all four sectors, but each has its unique aspects that deserve special attention.

### **Summary of Findings**

The capacity of Oakland County’s housing delivery system varies considerably by market segment. For the upper-income segment it is developed, served, and functioning well. Its strength can be seen easily through casual observation, analysis of housing data, and discussions with housing stakeholders. In fact, important elements of the delivery system, such as land use laws and development processes are biased in favor of upper-income housing in some cases. The most commonly expressed concern for this delivery system is government regulation in the form of property taxes. These concerns must be assessed against the benefits of the services provided through those taxes.

The delivery system for the middle-income segment is functioning relatively well; however, there is growing evidence that this sector of the market is being crowded out by higher-income housing. Single-family homes affordable to middle-income households account for a smaller share of all homes than in the past. Homes are growing in size and cost. While parts of the middle-income delivery system appear to be doing well (i.e. rentals and condominiums), much of the middle-income building that is occurring tends to be on the upper end of the middle-income cost range. Increasing cost in the middle-income segment of the market is not isolated to

new units. In fact, the cost of existing units has grown considerably. This is part of the reason new units are able to sell for higher prices.

It is difficult to assess the extent to which the “crowding out” or “creaming” of middle-income housing is due to delivery system constraints versus basic housing market dynamics. Many of the system elements are in place, but the market is driving the focus of those elements towards the upper-end housing. There is a demand for higher cost housing and the delivery system is trying to meet it. Recent market stagnation might cause a shift back towards middle-income, but this may take some prompting through actions from the government such as changes in zoning and changes in allowable lot-sizes, among other things. In addition, some of the inputs to the middle-income delivery system may also be driving costs higher than they would be otherwise. Materials and labor costs are two components, but the most common input identified as a limiting factor for the middle-income delivery system was land cost. Such claims are further supported by the growth in condominiums, which require less land per unit and the fact that while housing size and cost increased over the decade, average lot size did not change much. Further and direct analysis of land costs by the county seems warranted. As noted above, and in the housing constraints chapter, planning and land use regulations may be further contributing to the shift from middle-income to upper-income housing in the county. Infrastructure costs may be having a similar effect.

The delivery systems for the lower-income and special needs market segments have the least capacity. These delivery systems are the least developed and limited to a few geographic areas. The housing stock and affordability chapters demonstrated the scarcity of lower-income housing in the county and the extent to which it is geographically concentrated. The efforts of the organizations directly focused on providing affordable housing are commendable. These organizations have improved their capacity over the years and provided much-needed housing and services. However, there are few of these organizations, they tend to focus on special needs housing (e.g. elderly and disabled), and the system components necessary to support their work are underdeveloped. There is inadequate support for lower-income and special needs segment among the general public and elected officials. Land use regulations and development processes inhibit the production of low-cost housing. In many communities there is no government infrastructure to assist with the provision of affordable units. There is inadequate funding to provide the necessary volume of affordable housing. There is insufficient knowledge of the extent of affordability problems and the options for addressing them. Arguably, there are also an insufficient number of organizations specifically focused on ensuring an adequate supply of low-cost housing. These conditions all exist within a market that is pushing delivery systems towards upper-end housing. The result is relatively little lower-income and/or special needs housing.

Gaining a complete understanding of the housing delivery system in the county and its 61 municipalities is a very large undertaking. Inevitably, some issues identified in our investigation will require further study to determine the optimal response. Thus, where we identify particular issues of concern we recommend a balanced approach of quick action and additional investigation to determine the specific set of actions that are most appropriate. It would be unfortunate to delay any response until more information is gathered. Likewise, going forward with dramatic change without further clarification of issues could lead to further problems. The conclusion section of this chapter and the recommendations chapter outline various actions that

can be taken to address the capacity issues facing the middle-income, low-income, and special needs segments of Oakland County's housing delivery system.

## Upper-Income Market Segment

**Outputs.** The upper-income segment of Oakland County's housing delivery system is developed, served, and functioning well. Even the casual observer can readily see the strength of the delivery system for this market segment. One needs only to do a "windshield survey" of Oakland County to get a clear idea of the availability of upper-income housing, especially in locations where new housing is being built. This segment's system health is also evidenced by the hard numerical data, such as building permits, trends in the sales price of both new and existing homes throughout the county, growth in the average size of housing, and the high income levels of many county residents. Thus, outputs clearly indicate the upper-income segment of the delivery system is functioning well.

Rental units are not as abundant in the upper-income market segment as they are in the middle- and lower-income segments. According to the 2000 Census, less than 4% of Oakland County's 118,342 renters pay \$1,500 or more per month in rent—a cost that would require an annual income of at least \$60,000 to be considered affordable.<sup>1</sup> The small amount of upper-income rentals is logical, given that most upper-income residents prefer to own, rather than rent and have the purchasing power to do so. Interview responses confirmed that any shortage of high-income rentals is attributable to consumer choice rather than delivery system challenges.

Statements by institutional participants also attest to the upper-income segment's strength. Public officials point to the robustness of the delivery system for upper-income housing when they boast about the presence of high cost housing in master plans and public statements. Several builder/developers interviewed spoke directly to the fact that they worked in the "very high end" segment of the housing market, with one stating that most of the housing his company developed was "one million dollars or more." Several interviewees commented that builders seem to be proud of their high cost housing and that local governments often seek high-cost housing to secure the high tax revenues associated with such properties.

**Inputs and Throughputs.** For-profit private developers and traditional financial institutions are most active in this market segment, as such high-end housing tends to be very lucrative to build and finance. Governmental bodies (e.g. city councils, planning commissions, planning departments, building departments, road commissions, water/sewer districts, zoning commissions, etc.) also play a role here as they do in other sectors through approval of development projects, creation of planning and zoning regulations that facilitate the creation of high-end housing, and the provision of road, water, and sewer infrastructure to accommodate high-end construction. For-profit, high-end developers, builders, and realtors in the county are numerous. Interviewees could easily identify high-end developers/builders and a couple of minutes of internet searching produces long lists as well. There is a certain degree of eagerness on the part of government officials to approve high-end housing, even when infrastructure is not yet at necessary capacity levels.

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<sup>1</sup>Source: U.S. Census Bureau, 2000. SF3, Table H62.

As with the other market segments, our discussion of system inputs focuses on people, money, laws/regulations, knowledge/technology, and land. With the exception of property tax rates (further detail below), interviewees indicated no big challenges related to these inputs. As our preceding discussion showed, there are ample participants. Interviewees indicated that financing in this segment was also not a problem. Our review of land use zoning and regulations (see housing constraints chapter) found that though rules and regulations sometimes present barriers for all construction, if anything they tend to be most facilitative of higher-cost construction.

One theme that was expressed by many of our interviewees was that many homes in the middle- and upper-income range were being negatively impacted by property tax rates. These impacts come from one of three practices—using value as a basis for calculating taxes, imposing different property tax rates in different communities, and limiting increases in taxable value until a home is sold. We discuss each practice and the alleged impacts next.

All owners in a given community are charged the same rate for property taxes, regardless of their home's value.<sup>2</sup> Thus, if property tax burden is determined by the percentage of your home's value that you pay in property taxes, then property tax burden is the same for all owners. However, since total property tax costs are calculated by applying the tax rate to the value of the property, owners of high-cost properties pay more in property taxes than owners of lower-cost housing. Thus, property tax burden measured by total taxes paid is higher for owners of high cost homes. Theoretically, this makes property taxes a bigger factor in property sales for high-cost properties than lower-cost properties. This alleged impact would be mitigated somewhat by the higher incomes earned by buyers of high-cost housing. Those with incomes that enable them to afford high-cost homes may be less concerned about property taxes, because they consume a smaller portion of income than they do for a buyer who earns less. Regardless of whether or not using property value as a basis for calculating taxes has a dampening effect on property sales, the remedy for such an impact would face numerous challenges, not the least of which is constitutional. For the present purpose, this is the least critical of the three tax practices that may be having negative effects on sales of high-cost homes. We now turn to a discussion of the other two practices.

The practice of imposing different property tax rates in different communities is one practice that can conceivably be addressed by policymakers if it is found to have a net negative impact. Theoretically, property taxes would hamper sales of homes less in communities with low tax rates than in communities with higher property tax rates, because the total cost of the home would be lower even if the value was the same in both communities. Property tax rates differ considerably across Oakland County communities (Table 6.1), from a low of 26.0058 in Rose Township to a high of 50.4042 in Southfield. However, simple correlation analysis suggests that tax rates do not have an obvious dampening effect. In fact, home sales as a share of homes tend to be higher in communities with higher tax rates. Any assessment of the impact of tax rates must also consider the benefits arising from those taxes (i.e. quality services). Many interviewees noted that housing prices are often driven by the perceived quality of the school

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<sup>2</sup> Rates differ for homestead vs. non-homestead properties, but our discussion assumes all properties are homestead properties.

system. For example, one interviewee stated: “The homes in Southfield that overlap with Birmingham’s school district cost \$50,000 more than those across the street do. Clearly this is the school district driving this price difference.” To the extent that high tax rates in the county result in high quality services, any negative impact of high rates may be offset as high-quality services, such as schools, attract high-income buyers. Clearly, a more sophisticated analysis of the impact of tax rate differentials is necessary to draw conclusions regarding their impact on home sales, particularly for high priced homes. We recommend such an analysis.

**Table 6.1. 2004 Average Property Tax Millage by Community<sup>3</sup>**

Community	Average 2004 Tax Rate	Community	Average 2004 Tax Rate
CITY OF AUBURN HILLS	31.0650	TOWNSHIP OF BLOOMFIELD	36.1859
CITY OF BERKLEY	35.9265	TOWNSHIP OF BRANDON	29.4224
CITY OF BIRMINGHAM	40.6625	TOWNSHIP OF COMMERCE	27.7937
CITY OF BLOOMFIELD HILLS	35.4072	TOWNSHIP OF GROVELAND	27.2024
CITY OF VILLAGE OF CLARKSTON	40.6866	TOWNSHIP OF HIGHLAND	29.8341
CITY OF CLAWSON	41.0176	TOWNSHIP OF HOLLY	24.9534
CITY OF FARMINGTON	44.4454	TOWNSHIP OF INDEPENDENCE	29.0032
CITY OF FARMINGTON HILLS	35.7522	TOWNSHIP OF LYON	27.3198
CITY OF FERNDALE	48.7074	TOWNSHIP OF MILFORD	30.8426
CITY OF HAZEL PARK	45.6202	TOWNSHIP OF NOVI	24.5390
CITY OF HUNTINGTON WOODS	42.6020	TOWNSHIP OF OAKLAND	27.4837
CITY OF KEEGO HARBOR	39.7842	TOWNSHIP OF ORION	26.7992
CITY OF LAKE ANGELUS	27.7575	TOWNSHIP OF OXFORD	31.8618
CITY OF LATHRUP VILLAGE	58.1393	TOWNSHIP OF ROSE	26.0058
CITY OF MADISON HEIGHTS	42.2441	TOWNSHIP OF ROYAL OAK	33.4567
CITY OF NORTHVILLE	38.1173	TOWNSHIP OF SOUTHFIELD	33.3189
CITY OF NOVI	35.0670	TOWNSHIP OF SPRINGFIELD	28.0143
CITY OF OAK PARK	46.7042	TOWNSHIP OF WATERFORD	29.7128
CITY OF ORCHARD LAKE	33.9382	TOWNSHIP OF WEST BLOOMFIELD	33.0187
CITY OF PLEASANT RIDGE	42.3248	TOWNSHIP OF WHITE LAKE	28.2443
CITY OF PONTIAC	35.2085	VILLAGE OF BEVERLY HILLS	41.6000
CITY OF ROCHESTER	34.5300	VILLAGE OF BINGHAM FARMS	40.7151
CITY OF ROCHESTER HILLS	32.0781	VILLAGE OF FRANKLIN	38.0799
CITY OF ROYAL OAK	36.3264	VILLAGE OF HOLLY	40.5256
CITY OF SOUTHFIELD	50.4042	VILLAGE OF LAKE ORION	41.0544
CITY OF SOUTH LYON	38.8679	VILLAGE OF LEONARD	35.7821
CITY OF SYLVAN LAKE	35.8546	VILLAGE OF MILFORD	37.2590
CITY OF TROY	36.6290	VILLAGE OF ORTONVILLE	38.0424
CITY OF WALLED LAKE	39.6815	VILLAGE OF OXFORD	39.9697
CITY OF WIXOM	36.1315	VILLAGE OF WOLVERINE LAKE	37.1420
TOWNSHIP OF ADDISON	29.1515		

The third tax practice that allegedly dampens sales of higher priced homes— limiting increases in taxable value until a home is sold—is a direct result of Proposal A of 1994. This tax reform, passed as part of a larger reform of the way Michigan funds its schools, limits the growth in the taxable value of a home to the lesser of five percent or the rate of inflation until the home is sold or substantially improved. There is a feeling among many interviewees that since this

<sup>3</sup> Rates are derived from the 2004 Apportionment of Local Tax Rates report produced by the Equalization Division of Oakland County’s Department of Management and Budget. The average rate is the average of the homestead rates for all school districts located in the community.

change newer homes are being asked to bear a greater portion of the tax burden since their taxable values can be closer to market values than homes that have not been sold recently. Moreover, some homeowners are reported to have considerable difficulty selling high-priced homes, because buyers get sticker-shock when they see the anticipated increase in property taxes that will occur after the sale. Some interviewees believed that this was pushing high-end housing into more rural counties where rates were lower. Some interviewees suggested that although high-end buyers might not attract much sympathy for such a plight they do serve an important role in the tax base of the county.

As is true with analyses of the impact of differential property tax rates any analysis of the impact of Proposal A would also need to consider the alleged benefits of the change. These include reducing tax burdens for current owners, improving the predictability of tax burden for owners, limiting the negative impacts of market fluctuations on owners, and promoting neighborhood stability by providing an incentive for owners to stay in their existing home instead of moving. Assessing the impact of Proposal A requires resources beyond those available for this study. Further analysis of the impact of property taxes and Proposal A seems warranted before attempting to address the alleged impacts.

## Middle-Income Market Segment

**Outputs.** The middle-income segment of Oakland County's housing delivery system is functioning relatively well; however, there is growing evidence that this sector of the market may be being crowded out by higher-income housing. Our analysis of sales data provided by through the Equalization Division of Oakland County's Department of Management and Budget showed that from 1995 to 2004, the share of homes sold that were affordable to households earning the area median income dropped from 50% to 43%. The size of homes sold also grew with homes of 2,500 square feet or more accounting for six percent more sales in 2004 than 1995. In fact, homes that were at least 3,000 square feet showed the largest growth as a percentage of all sales, accounting for four percent more sales (nine percent total) in 2004 than in 1995. The growth in market share for these larger homes was offset by losses in market share in all but two categories of smaller homes.

Market rate rental units are much more prevalent in this segment of the housing delivery system than any other market segment. Over 72 percent of renters who paid cash rent in 2000 paid rents between \$500 and \$1,250 per month. Another part of the middle-income segment that seems to be doing fairly well is condominiums, which accounted for eight percent more home sales in 2004 than 1995. Growth in condo sales was steady over time. One interviewee stated, "The advent of condos has helped spur Oakland County growth over the last decade." Since 2000, Bingham Farms, Bloomfield Hills, Bloomfield Twp, Novi, South Lyon, and Walled Lake have all added condos that make up more than 30% of the housing growth within their respective jurisdictions. Some interviewees suggested that condos are one of the county's primary ways to match housing stock to labor force (mainly middle-income workers, provide housing to younger workers, and accommodate a growing elderly population). They offer an opportunity to address land cost, materials cost, and infrastructure costs that contribute to increases in housing prices.

Much of the middle-income building that is happening tends to be on the upper end of the middle-income cost range, as heard in interviews and seen in price changes of new housing. Even the new condos that have been built over the decade, which tend to be more affordable than detached units, are at the high end of the cost range typical for condos. Increasing cost in the middle-income segment of the market is not isolated to just new units. In fact, the cost of existing units has grown tremendously. Indeed, this is part of the reason new units are able to sell for higher prices. Even rentals within this segment have increased in cost.

***Inputs and Throughputs.*** As with the upper-income segment, the middle-income segment of the housing delivery system is dominated by for-profit builders and financiers, as well as the usual amount of government regulation of processes and approvals. To the extent that non-profit developers engage in building middle-income units, it is generally in developments that mix affordable housing and market rate units within the same development. As with the upper-income market segment, government financing is generally absent from this market segment, save for indirect subsidies such as infrastructure development. As suggested by our discussion of middle-income housing outputs, the number of organizations serving as inputs to this segment of the delivery system may be shrinking. Builders and developers who were formerly active in the county and those who still have a presence are moving to other parts of the region to do much of their middle-income building. Much of their building in Oakland County is moving towards higher-end housing.

It is difficult to assess the extent to which the “crowding out” or “creaming” of middle-income housing is due to delivery system constraints versus basic housing market dynamics. Many of the system elements are in place, but the market is driving the focus of those elements towards the upper end housing. With recent market changes there might be a shift back towards middle-income, but this may take some prompting through actions from the government, such as changes in zoning and changes in allowable lot-sizes, among other things.

Much of the market push toward higher costs is simply due to market opportunity. There is a demand for higher cost housing and the delivery system is trying to meet it. However, some of the inputs to the middle-income delivery system may also be driving costs higher than they would be otherwise. Materials and labor costs are two components, but the most common input identified as a limiting factor for the middle-income delivery system was land cost. A consistent refrain from interviewees was that housing costs so much because land costs so much. Consequently, developers focus on high-cost housing to compensate for the cost of acquiring land. Resource constraints prevented a direct analysis of land as a cost factor. However, the opinion of many involved in this market suggests it is a critical one. Such claims are further supported by the growth in condominiums, which require less land per unit and the fact that while housing size and cost increased over the decade, average lot size did not change much. Further and direct analysis of land costs seems warranted.

As noted above, and in the housing constraints chapter, planning and land use regulations may be further contributing to the shift from middle-income to upper-income housing in the county. Infrastructure costs may be having a similar effect.

## Lower-Income and Special Needs Market Segments

**Outputs.** It is in the lower-income and special needs market segments where we see the greatest need for building the capacity of the housing delivery system. These delivery systems are the least developed and limited to a few geographic areas. The housing stock and affordability chapters demonstrated the scarcity of lower-income housing in the county and the extent to which it is geographically concentrated. For example, from 1995 through 2004 the share of homes sold that were affordable to low-income households dropped from 35% to 27%. These homes were concentrated in a small number of communities; five communities accounted for 42% of these sales. Fully 55% of these homes were located in just eight of the county's 61 communities. Matters are better, but still problematic on the rental side. While households earning about \$24,000 to \$28,000 could afford to rent about 70 to 85 percent of rental units in most counties in the region, they could only afford 50 percent of rental units in Oakland County. Government-subsidized housing units are even more scarce and concentrated, with a total of about 16,000 units countywide, three percent of the total housing stock in the county. Only 11 of 61 communities—Pontiac, Auburn Hills, Troy, Southfield, Waterford, Madison Heights, Ferndale, Royal Oak, Farmington Hills, Royal Oak Twp, and Rochester Hills—had more than 500 subsidized units. Generally, the communities with a noticeable share of subsidized housing are located in the southeast corner of the county. Very few lower-income or special needs units are available in the high growth areas of the county.

The outputs of the low-income market segment are varied. They include housing units that become affordable to low-income families through basic market dynamics without direct governmental assistance. Most of these units become affordable through filtering—older units become less attractive and less expensive as newer, larger, more luxurious units are built. In Oakland County, the number of low-income units created through basic market dynamics has been modest. However, since there is little to look at in terms of the delivery system for such units, here we focus on the delivery system for low-income units that involve some sort of governmental assistance (i.e. subsidized housing).

A second form of low-income housing is units that are built, financed, and owned by governmental (or quasi-governmental) agencies, which is commonly referred to as public housing. Although this is often what people think of when they hear the term low-income housing, public housing represents a relatively small segment of the low-income market. Only seven of Oakland County's 61 communities have public housing commissions, and only four of them own and manage public housing units.<sup>4</sup> Combined, they provide about 740 public housing units. More than half of them are located in Pontiac. Except for the 16 units in South Lyon, the balance are located in Ferndale and Royal Oak Twp.

A third form of low-income housing is units that are built, improved, or maintained with government financing but owned and operated by nonprofits or other non-governmental organizations. As a condition of this financing, the housing must be rented or sold at prices affordable to low-income households. It is this form of subsidized housing that accounts for most new low-income housing built throughout the country. The Low-Income Housing Tax

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<sup>4</sup> The other three commissions only operate Section 8 Housing Choice Voucher programs.

Credit (LIHTC), HUD's Section 202 (elderly) and 108 (disabled) programs, Michigan State Housing Development Authority (MSHDA) multifamily, and HUD's Federal Housing Administration (FHA) are common sources of financing for these units. MSHDA and HUD data show that there are about 13,550 subsidized units in the county that are not considered public housing and are not subsidized through "tenant-based" vouchers. Almost 60% of those were constructed before 1980. Almost 80% were constructed before 1990. These units are highly concentrated in older communities. Almost 30% are in Pontiac. Perhaps most importantly, HUD data indicate that for 50% of these units the restriction that caps the rent that can be charged for the units is scheduled to expire by 2020. For 14% of the units, the restrictions will expire by the end of 2006. At that point, the owners/managers of these units may convert them to market-rate, thus removing them from the affordable supply. However, it is also critical to note that relatively few units that have expired across the country have actually converted to market rate. In most cases, owners/managers renew their subsidy contracts or refinance with new subsidy dollars. This is especially true when the owners/managers are nonprofit organizations, as is the case for most subsidized properties in Oakland County.

A fourth output of the low-income market segment is units that are privately owned and operated, but made affordable through government-funded rent or mortgage subsidies to the landlords or occupants of the unit. These "tenant-based" subsidies do not result in the construction of new units, but are used to make existing units affordable to low-income families. The Section 8 (a.k.a. Housing Choice Voucher program) is the primary source of tenant-based subsidies. Five communities in the county—Ferndale, Pontiac, Madison Heights, Royal Oak, and Southfield—operate Section 8 tenant-based voucher programs through their public housing commissions. Together, they provide about 1,900 families with rental assistance. However, almost 1,300 of these units are concentrated in two communities—Pontiac and Ferndale. Moreover, a total of almost 800 families are on waiting lists for vouchers in three of these communities (waiting list data were not available for Ferndale or Southfield). About another 1,800 vouchers are provided through MSHDA in communities that do not have their own public housing commissions. Here to, the demand outstrips the supply.

Special needs housing is housing for persons with special needs related to housing. The frail elderly, the physically and/or mentally disabled, persons with HIV/AIDS, the homeless, and large families are the groups most commonly included in the special needs category. Housing for special needs populations can come in any of the forms of low-income housing discussed above. However, much of it comes in the form of subsidized housing units owned and operated by nonprofits. Projects that provide such housing tend to be reserved for specifically-designated special needs populations (e.g. disabled, frail elderly, etc.).<sup>5</sup> The organizations managing those projects also tend to provide special supportive services for residents, either directly or through special service providers. Because of their special needs, most residents of special needs housing earn low-incomes. Thus, special needs housing can be viewed as a special form of low-income housing. Of all special needs populations in Oakland County, the elderly are the best-served in terms of number of units set-aside for their use. Over half of the units in subsidized developments are reserved for the elderly. Relatively few units are reserved for the other special needs populations.

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<sup>5</sup> In some cases, projects serve multiple special needs groups (e.g. non-elderly persons with disabilities may qualify for units in projects for the elderly).

**Inputs and Throughputs.** Nonprofit and governmental organizations are critical institutional inputs for the low-income and special needs housing delivery systems. Although for-profit developers provide some low-income housing it is usually part of a larger market-rate development or in partnership with a nonprofit development corporation. Nonprofit developers dominate these segments. Likewise, traditional bank financing is important, but less dominant in this sector. Public and philanthropic financing is far more prevalent here than in other markets. In fact, financing for low- or moderate-income and/or special needs housing developments tends to involve a complex and confusing array of public, private, and philanthropic financing. Government regulation and development procedures tend to be even more significant of an input in these segments than others, because public financing used for much of the housing provided typically brings with it regulatory requirements beyond those applicable to housing produced without public financing.

There are relatively few nonprofit organizations in the county focused on improving housing supply in the low-income and special needs market segments. In fact, most interviewees struggled to identify developers of low-income housing when asked. Nonprofit organizations, such as the Community Housing Network, Lighthouse, OLHSA/Venture, Springhill Housing Corp., Housing Plus, and Oakland Housing, that provide housing and related services have established commendable track records, particularly in serving special needs populations. Their capacity has grown over time and their impact is particularly noteworthy in light of the system challenges they face. For example, with Community Housing Development Organization (CHDO) funding provided by Oakland County through HUD's HOME program, Lighthouse Community Development constructed two new housing units in the Village of Holly; Venture, Inc, a subsidiary of Oakland Livingston Human Service Agency, has constructed 22 new housing units in Hazel Park and Royal Oak Township; Springhill Housing Corporation has developed 11 housing units; and Housing Plus acquired, rehabilitated and sold three housing units in Madison Heights, Novi, and Holly Village. All of these homes were provided for persons earning no more than low-income. Several were provided specifically for persons with disabilities.

Unfortunately, addressing the full low-income housing needs of the county is beyond the current capacity of the existing nonprofit institutions. These nonprofits generally operate in relatively limited geographic areas, focusing mostly in older, well-developed communities where low-income populations are more prominent and market demand for housing has diminished relative to other parts of the county. Nonprofit activity in newly developing communities is lacking. Even in the older communities, the existing nonprofits are unable to meet the need.

Nonprofit capacity is best developed in the special needs portion of the lower-income market segment. This is likely due to the fact that special needs housing has specially targeted financing sources, special needs populations have vocal advocacy groups, and housing for at least some special needs populations (e.g. housing for elderly) tends to be more readily accepted (at least in limited amounts) than low-income housing more broadly defined. For example, the majority of subsidized housing in the county is set aside for elderly residents.

The majority of the services to the homeless in Oakland County are provided through nonprofit service providers. Organizations such as South Oakland Shelter, Common Ground

Sanctuary, Lighthouse of Oakland County, Grace Centers of Hope, HAVEN, and New Bethel Outreach Ministry, provide emergency or transitional housing for homeless populations. Some of the shelters specialize in a specific sub-population. Common Ground Sanctuary serves run-away/throw away youth (ages 10-21). HAVEN assists battered and abused spouses and their children. New Bethel Outreach Ministry and Lighthouse of Oakland County serve women and children. Others serve any in need of assistance. Most of the shelters offer supportive services in conjunction with the housing. Although there are a few warming centers, the majority of the shelters are open year round.

Developing and managing low-income and special needs housing is a complicated endeavor that requires expertise in many areas. Applying for government and philanthropic funding, assembling extremely complex financing packages that use government funds to leverage private sector financing, meeting the regulatory and reporting requirements of the complex array of financing sources, managing construction and rehabilitation contracts, working through varying development approval processes of local governments, acquiring low-cost land and/or buildings; recruiting and screening potential residents/program participants, addressing community concerns/opposition, and providing special support services to residents when needed are examples of areas for which expertise must be developed. Because of their special financing and regulatory characteristics, low-income housing developments often take considerably more time to complete than market-rate projects. For-profit developers have few incentives to become involved with such projects. While the existing nonprofits each show expertise in many of these areas, the number of nonprofits currently active in the low-income housing segment seems inadequate for the size of the county and potential need.

Yet, a large number of nonprofits is not “the answer” to improving delivery of low-income housing. In fact, experience shows that proliferation of nonprofits can unnecessarily deplete the resources available to those nonprofits with strong capacity. Instead, a multi-faceted approach of providing better, more reliable resources to existing nonprofits; enabling existing nonprofits to expand their operations; and promoting the creation of new nonprofits to operate in areas not presently served seems warranted. This must be combined with actions targeted to other critical elements of the delivery system discussed below.

The capacity of government institutions that serve as key inputs to the low-income housing delivery system is also underdeveloped. The county government has developed a strong base of expertise in matters related to low-income housing, but its authority and resources are limited. At the state level, MSHDA has considerable expertise in low-income housing development, but it typically becomes involved at the local level only when asked by local governments, nonprofits, or individual residents. The Michigan Department of Community Health has expertise in special needs service provision, but it works mainly through local nonprofit service providers. Thus, the critical focus of governmental expertise is the local government.

Since few local communities have subsidized housing and the presence of low-income households is greatly limited in many communities, most local governments in the county have very little or no expertise related to subsidized housing. In fact, in several communities, our requests for interviews with persons responsible for dealing with affordable housing went

unfilled because no such person could be identified by the people with whom we spoke. Political and economic factors often keep many communities from developing such expertise. Elected leaders tend to focus on bringing middle- and upper-income housing and retail to their communities. They want to build their tax base. Subsidized housing is typically viewed as a drain on tax base, though studies demonstrate that this need not be the case (Galster, 2003). Thus, unless a significant part of the community's residential base is low-income and in need of housing assistance, there is little incentive to improve expertise and capacity in developing subsidized housing. Unfortunately, the problem is worse in some communities where not only is there no governmental infrastructure for supporting low-income housing, but governmental leaders also create procedural, regulatory, or political obstacles to prevent construction of such housing.

Compounding the capacity issues for the low-income housing delivery system is the limited amount of financing available to develop, improve, and maintain low-income housing or otherwise make existing housing more affordable. Almost all community development officials interviewed cited a need for more funds to help improve affordability in their communities. Budgetary data confirm that resources for low-income housing are limited and actually decreasing in these communities.

Much of the funding for low-income and special needs housing comes from the federal government. Primary sources include public housing programs, Community Development Block Grant (CDBG), HOME Investment Partnerships (HOME), Emergency Shelter Grant (ESG), Continuum of Care (COC) homelessness assistance, Section 202 (elderly), Section 811 (disabled), Housing for Persons with AIDS (HOPWA), and competitive Low-Income Housing Tax Credit (LIHTC) programs. Overall, federal funding has declined over the past several years, and budget constraints and political will have kept state and local governments from filling the gap left by these federal funding changes.

The core funding for public housing comes from the public housing Operating and Capital Funds and the Section 8 Housing Choice Voucher programs. The Operating and Capital Fund programs are notorious for being insufficient to cover actual costs of operating and maintaining public housing. The Operating Fund has seen decreases in funding over the past several years, and the FY07 request proposes no new funding. Oakland County's public housing agencies saw a three percent decrease in capital funding from 2003 to 2004 and a smaller decrease in 2005. HUD's FY07 Capital Fund request is for 11% less than the FY06 enacted amount and 19% less than it was just three years ago. While Section 8 tenant-based vouchers provide the largest number of subsidized housing units in the county, there have been no increases in funding to provide new vouchers since FY02, and HUD's FY07 budget proposal continues this trend. No public housing agency in Oakland County has received significant grant funding for providing affordable public housing units outside of the operating, capital, and Section 8 programs over the past decade or so. The most significant non-traditional funding has come from a \$2.2 million 1998 HOPE VI grant to demolish the obsolete Lakeside Homes in Pontiac.

From FY93 to FY06, five communities in Oakland County received an average of just over \$1,000,000 per year in direct formula funding from the CDBG program. The county

government received an average of about \$4.5 million to spend within communities that did not receive direct funding. The county uses this money to fund home improvement loans, housing counseling, foreclosure prevention, and related community development activities. Over the past three years, Oakland County communities have seen CDBG funding decrease by 2% to 10% annually. When adjusted for inflation, the total FY06 CDBG funding countywide is about 35% less than the total for FY93. HUD's FY07 budget proposes a 20% cut in CDBG formula grants. Each year, new communities across the country become eligible for CDBG funding; thus, the share of total CDBG funding that comes to the county decreases. If the proposed CDBG budget is passed by congress, the projected result is a 27% decrease in funding for Oakland County. This would be the lowest amount of funding for the county since 1975, the first year of funding under the CDBG program. Plus, housing needs must compete with non-housing needs for these increasingly limited CDBG dollars.

Although HOME dollars received countywide increased by 17% in real terms from FY93 to FY06, the total amount of funding—\$2.1 million—is modest relative to the overall need. The same is true with ESG dollars, which increased by 39%, but totaled less than \$170,000 in FY06. Competitive COC grants for homeless activities have fared better, providing an average of \$2.3 million from FY01 to FY05; however, from FY04 to FY05 funding decreased by 19%. OLHSA is the only government or nonprofit agency to receive HOPWA funding for services in Oakland County since 1992. The money is used for security deposit, rent, mortgage, and utility assistance; in-home support for the medically fragile; and advocacy to help persons HIV/AIDS stay in their homes. Clients may reside in Oakland, Macomb, Livingston, Lapeer, or St. Clair counties. Approximately 40 to 50 clients throughout these five counties are provided direct assistance each year.

The pattern of LIHTC funding has been more sporadic. Since the first tax credits were awarded in 1987, the county has received almost \$18 million in credits—an average of almost \$940,000 annually. However, this average belies the great fluctuation in annual funding (e.g. in three years, no credits were awarded for projects within the county). The median amount of annual credits is about \$470,000. These credits have directly contributed to almost 4,500 affordable units and a median of 150 units annually. As with most other programs, however, funding and units provided in recent years is less than many previous years. For the first ten years, the county received an average of \$1.3 million annually. Since then, the average has dropped to \$570,000. On the positive side, credits and units have increased in each of the past three years with most of the units targeted for elderly residents. Competition for LIHTC funding is becoming increasingly fierce and no credits were allocated to Oakland County projects in the first round of the 2006 competition.

Funding from the 202 and 811 programs to support housing for the elderly and disabled is highly competitive, and since 1997 nonprofit organizations have secured over \$13 million in capital support and rental subsidies. While this success in this highly competitive program is impressive, the most recent award was in FY2001, and in total the funds supported the provision of less than 125 units.

At least three reasons drive the limitations in funding. The first is that economic conditions and policy decisions at the federal and state levels have led to dramatic cuts in

funding for affordable housing over the past several years. This trend shows no signs of reversal in the near future. The second reason is that most of the funding that is available is targeted to areas with the greatest need. Though Oakland County has considerable needs in the area of affordable housing, its needs are far less than those that exist in many other communities. Thus, Oakland County receives much less funding. Third, since relatively few organizations have attempted to develop low-income housing in the county, there has been relatively little effort to increase the share of existing funding that comes to the county. Moreover, there has been even less effort to develop new, creative sources of governmental or non-governmental funding, through tools, such as housing trust funds or employer-assisted housing.

As in the middle-income sector, land costs and government regulations are other critical inputs limiting capacity in the low-income and special needs sectors. Opposition from the general public and elected officials is another critical factor. We discuss these factors in greater depth in the housing constraints chapter.

## **Conclusions**

Considerable action is necessary to improve the capacity of the housing delivery system for low-income and special needs housing. The efforts of the organizations directly focused on providing affordable and special needs housing are commendable, but the challenges they face are daunting. If action is taken, the ability of the county and its component communities to address needs for affordable and special needs housing will greatly improve.

The most critical target for action is funding. Money for affordable and special needs housing has consistently been insufficient for addressing need, and the situation is getting worse as federal funding has dramatically decreased in recent years. New, creative, local funding sources need to be identified and made available.

Expanding the geographic reach of the existing delivery system for low-income and special needs housing is another important target for action. The knowledge and expertise of the nonprofit organizations that are currently part of this delivery system are strong. With additional funding, the impact of these organizations will grow. However, there may be a need to expand the number of organizations serving low-income and special needs populations so that activities can reach parts of the county not currently served. Alternatively, since proliferation of organizations can unnecessarily deplete resources, the goal of reaching areas not currently served may be achieved by expanding the geographic reach of the existing organizations. In some cases, organizations have limited their operations to certain geographic areas because insufficient funding, high costs, public attitudes, or other factors have limited opportunities in other communities. As those issues are addressed, geographic expansion may result naturally.

A third target for action to improve the long-term capacity of the delivery system for low-income and special needs housing is enhancing elected officials' and the general public's knowledge of the need for, and benefits of, such housing and services. This includes knowledge of alternatives for addressing need and the resources that are required to successfully implement those alternatives. We do not wish to imply that no knowledge or support exists. Clearly, it does in some communities, but significant improvements are possible. In many communities there is

no government infrastructure to assist with the provision of low-income or special needs units. Without a more supportive environment countywide any gains in funding or related areas are likely to be short-lived or insufficient for sustainable change. With a more supportive environment, dramatic improvements can be achieved, and the county can serve as a national model for proactively addressing critical housing needs before they become overwhelming.

Land use regulations and development processes that inhibit the production of low-cost housing are a fourth target for action to improve the capacity of the delivery system. These can be addressed as part of the broader effort to increase awareness and support among elected officials and the general public. If they are not addressed, then low-income and special needs housing activities likely will continue to be concentrated in a small number of communities. We recommend a full audit of land use regulation and development processes across the county to identify barriers. While this is being completed, immediate actions to address those barriers known to developers could be undertaken (see Chapter Ten for more detailed explanation).

The fifth target for action is further examination of land costs and ways in which those costs can be reduced. Land costs seem to be an important input to the delivery system for all sectors, but its impact on low-income housing might be greatest. As the resources available for this report prevented a thorough assessment of the effect of land cost, we recommend further study of this issue. The County already has much of the data necessary to study the issue. Some additional resources would be necessary for constructing a mathematical model, running the data through the model, and analyzing the results.

The need for actions to improve the capacity of the middle-income and upper-income housing delivery systems is less obvious. Overall, these systems are functioning well. Actions to address land use regulations and development processes and land costs (see preceding paragraphs) should have a positive impact on the middle-income delivery system. Additional action to carefully examine the costs and benefits of the current property tax system is also recommended.