

Forward Detroit Best Practices for Mixed Income Rentals

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In July 2014, D4 was asked by Councilmember Mary Sheffield to research the national best practices relevant to the development of a comprehensive strategy for inclusionary housing policy in Detroit. D4 completed introductory research and requested that Forward Detroit take the lead in convening local housing experts and practitioners to review and evaluate the findings in light of Detroit's housing market.

The following document on mixed income rentals is the first result of that effort. It became clear that multiple strategies will need to be considered to address a variety of issues that should be included within comprehensive housing policy. Reviewing and evaluating the research on the preservation of existing affordable housing, addressing condo conversions, preserving home ownership for a variety of income levels, minimizing displacement, providing resident accommodations, and ensuring housing for extremely low income Detroiters, is still in process and will be submitted when completed.

The recommendations articulated below are based on national best practices to establish and ensure a pipeline of affordable rental units for working class Detroiters, as the housing market in Detroit stabilizes and matures. One of the recommendations is to establish a Detroit Housing Fund, which could be used to finance some strategies for housing extremely low-income Detroiters. But housing extremely low-income residents, which is a vital component of a comprehensive affordable housing strategy, will require other policies and approaches not included within this document.

These recommendations are presented in the spirit of supporting future complementary housing initiatives and policies that align with an overall community benefits agenda serving all Detroiters.

Goal of Mixed Income Rental Policy:

Create neighborhoods with a range of incomes using strategies that are not “one size fits all”, but instead are tailored to the need for more diversity in rental housing within a specific neighborhood.

Document definitions:

Permanently Affordable rental units: Permanently affordable units (as opposed to “cheap” units) have rents that do not exceed 30% of income for 60% AMI.

Mixed Income rentals: will be defined as a development in which 20%* of all rental units are reserved for those with lower incomes as follows: 5% are for HUD-defined “low” income (80% AMI), 10% for 60% AMI, 5% for HUD-defined “very low” income (50% AMI)**.

**Note: there was much discussion about whether to recommend using 20% or 25% as the minimum threshold for mixed housing. Ultimately, the group agreed, based on the input of the group's non-profit and for-profit developers--who had experience with project feasibility--to use a*

20% mix, with the caveat that within the 20% is a distribution that is more representative of working class Detroiters, and will result in a bigger (but not unrealistic) impact for the City's low wage earners.

***Note: the group compared the HUD AMI rates to the income levels for Detroit's working class based on the 2009 Census dataset, and determined that over 130,00 households representing over 1/3 of the City's population would be income-eligible for this particular mixed income distribution.*

Income Limits: The chart below will be used to define income categories.

	30% AMI – <u>Extra Low</u> Income Supports	50% AMI – <u>Very Low</u> Entry Service Worker	60% AMI – <u>Low</u> Entry Service Worker	80% AMI – <u>Low</u> Skilled Service Worker	100% AMI <u>Moderate</u> Middle Class
1 Person	\$13,590	\$22,650	\$27,180	\$36,240	\$45,300
2 People	\$15,510	\$25,850	\$31,020	\$41,360	\$51,700
3 People	\$17,460	\$29,100	\$34,920	\$46,560	\$58,200
4 People	\$19,380	\$32,300	\$38,760	\$51,680	\$64,600
5 People	\$20,940	\$34,900	\$41,880	\$55,840	\$69,800

Extra Low Incomes: Units with rents that are affordable for those with HUD “extra low” incomes (30% AMI) will not be specifically included as part of a “mixed income” development - in this document. The assumption is that rents set at 50% AMI can be utilized by those at 30% AMI in conjunction with a Housing Choice Voucher. In addition, the creation of a special housing fund, along with future recommendations for the preservation of existing affordable housing and other strategies, will target housing for the 30% AMI renters.

New Development: Includes any new construction or renovation of properties that result in the creation or restoration of rental units.

Neighborhood: A census tract.

Residency Preference: 20% of tenants will have a registered work or home address within the City of Detroit.

Overview of Recommendations:

- All new, publicly subsidized rental housing developments will be offered compensatory benefits if 20% (or more) if the units are mixed-income.
- All new, publicly subsidized rental housing developments will pay a fee based on the concentration level of affordable housing in the neighborhood surrounding the development. The fee will be waived if the developer creates at least 20% mixed income units.
- All fees collected will be used to create and finance a Detroit Housing Fund.

Compensatory Benefits:

Based on our research, the most successful ordinances address income diversity for all new subsidized rental developments, condominium conversions and unit rehabilitations; however, they also include compensatory benefits for the developer.

Recommended best practices for compensatory benefits in Detroit, when a subsidized developer is willing to create a 20% (or higher) mixed-income property:

- **Tax abatements:** The development will receive some form of tax abatement, which may include Obsolete Property Rehabilitation Act (OPRA) Commercial Revitalization Act (CRA), Neighborhood Enterprise Zone (NEZ) and/or some other future abatement program.
- **Higher density:** Developers may build more units on a parcel of land than otherwise allowed, if the additional units are affordable. For example, if 90 units are allowed, 100 could be constructed as long as the additional 10 were affordable units (above the original 20%).
- **Parking:** Developers would receive reduced parking requirements, which are often a significant cost for projects.
- **Expedited permitting:** The City could “bundle” permitting approvals for any development that includes mixed income housing as defined above, utilizing the same process currently used to expedite permitting for very large developments.
- **Income qualifying agency:** The City could contract for this service with an existing provider(s) to assist developers and prospective tenants. An income-qualifying agency will gather income verifications and certify prospective tenants who appear to be eligible for a reduced-rent unit (and who have otherwise been approved for residency by the project’s management). In-lieu fees collected for the Detroit Housing Fund will fund the contract.

In-Lieu Fees:

Fees should be measurable and impactful but not block development. In order to ensure revenues to establish a Detroit Housing Fund (see below), all new subsidized housing developments will pay a per square foot fee into the Detroit Housing Fund, based on the existing density of affordable rental housing in a census tract, or create at least 20% mixed income units.

- **Make fees commensurate with density of affordable units:** Fees will be higher in areas where there is already a higher concentration of market rate units and a lower concentration of affordable (not cheap) units. Fees will be lower in areas with lower concentrations of market units and more affordable units.
 - Tying the fee to the current state of the surrounding neighborhood addresses the differences in neighborhood income diversity now, and for the future - when market rate units will be expanding out from downtown and midtown.

- It also encourages developers to expand into the neighborhoods, and will adjust over time as Detroit rebounds.
- **Determine density:** Evaluate surrounding rental properties for, a) the number of existing rental units in the census tract and, b) the number of permanently affordable rentals, in order to calculate a percentage.
- **Incentivize 20% mixed income:** Incentivize the development of 20% mixed income rental units in areas with a high density of market rate units by using a sliding scale in-lieu fee structure (see chart below).

<u>Proposed Fee In Lieu</u>	<u>Up to</u>	<u>Fee/GSF</u>	<u>Years of Difference</u>	<u>Fee*</u>	<u>Ex: 100K sq ft</u>
% of Affordable Housing in Area	100%	\$1.00	1		\$100,000
	90%	\$1.20	1		\$120,000
	80%	\$1.40	1		\$140,000
	70%	\$1.60	1		\$160,000
	60%	\$1.80	1		\$180,000
	50%	\$2.00	1		\$200,000
	40%	\$2.00	2		\$400,000
	30%	\$2.00	4		\$800,000
	20%	\$2.00	6		\$1,200,000
	10%	\$2.00	8		\$1,600,000
					\$2,000,000
	0%	\$2.00	10		\$2,000,000

* The Difference Fee is calculated as the rent gain per year of having less than 20% affordable units.

- If the saturation of permanently affordable units in the census tract is less than 50%, then the developer will be incentivized to create 20% mixed income units, as the in-lieu fees are substantially higher, and must be paid for more than one year. However, the developer could choose to pay the fees instead of building 20% mixed income units, but it would result in significantly larger revenues for a Detroit Housing Fund (see below).
- If the saturation of permanently affordable units in a census tract is more than 50%, the developer could still include 20% mixed income units in the new development, or pay a lower, one-time, per square foot fee into a Detroit Housing Fund.

Detroit Housing Fund:

A Detroit Housing fund will be used to support the goal of creating mixed income neighborhoods in Detroit. Toward that end, the fund could be used to:

- Contract for services with existing provider(s) to provide income verifications and certification for use by developers when a prospective tenant appears to be eligible for a reduced-rent unit.

- Provide additional assistance for senior tenants who are displaced through redevelopment. Developer responsibilities for general displacement assistance will be addressed in a separate recommendation document.
- Create additional permanently affordable housing units and/or provide rental subsidies for tenants at 30% AMI.

Forward Detroit “Mixed Income Rentals” Workgroup Members and Guests:

Aaron Handelsman, *Detroit People’s Platform*
 Aboubacar "Asn" Ndiaye, *Service Employees International Union (SEIU)*
 Ari Ruttenberg, *Councilmember Sheffield’s Office*
 Claire Nowak-Boyd, *former Executive Director of Preservation Wayne*
 Cynthia Jarnold, *Student*
 Eleanore Eveleth, *Vanguard Community Development Corporation*
 Erika Linenfelter, *Freshwater Transit*
 Francis Grunow, *Doing Development Differently in metro Detroit (D4)*
 Jeffrey Jones, *Doing Development Differently in metro Detroit (D4)*
 Joan Moss, *Church of the Messiah Housing Corporation*
 Kandia Milton, *MOSES*
 Khalilah Gaston, *Vanguard Community Development Corporation*
 Kristine Miranne, *Doing Development Differently in metro Detroit (D4)*
 Lakisha Barclift-Jones, *Legislative Policy Division*

Lana Zaghmout, *Councilmember Castaneda-Lopez’s Office*
 LaToya Morgan, *Community Development Association of Detroit (CDAD)*
 Lauren Hood, *Loveland Technologies*
 Lerrlyn Nelson, *Bridging Communities*
 Linda Smith, *U-SNAP-BAC*
 Mary King, *Doing Development Differently in metro Detroit (D4)*
 Phyllis Edwards, *Bridging Communities*
 Richard Hosey, *Hosey Development, LLC*
 Sandra Yu Stahl, *Detroiters Working for Environmental Justice (DWEJ)*
 Tim Wintermute, *Senior Housing Coalition/Hannan Foundation*
 Tom Stevens, *Legislative Policy Division*
 Tonya Phillips, *Michigan Legal Services*
 Van Adams, *Michigan State Housing Development Authority (MSHDA)*
 Vic Abla, *Local Initiatives Support Coalition (LISC)*
 Vincent Tilford, *Habitat for Humanity*