The City of East Lansing, Michigan

Housing Strategic Plan
Final Report

October 18, 2021

Prepared by:

COMMUNITY IMAGE BUILDERS
PLANNING | MARKETING | ECONOMIC DEVELOPMENT

Housing Strategic Plan

A. Planning Process

This Housing Strategic Plan is a collaborative planning project between the City of East Lansing and LandUseUSA | Urban Strategies and is a supplemental plan to support the data compiled within the Residential Target Market Analysis. The result of this project will be a housing roadmap to assist with housing policy, housing development opportunities and marketing ideas to support attraction efforts for both new residents and new housing developers. These actions can both strengthen and diversify housing within the City.

As part of the planning process, the planning team met with city staff, and other key stakeholders with a direct interest in housing for the City of East Lansing. Additionally, as part of the planning process, CIB Planning reviewed a number of policy documents for the city including the Master Plan, the Zoning Ordinance, housing related policies and ordinances and a number of past and current housing development projects. A market tour was also conducted with city staff. This information will help guide the development of the overall strategy, as well as provide critical input on the future housing vision for the City.

Lastly, CIB Planning conducted a number of stakeholder phone calls with numerous builders and property managers to gather input for this project.

B. Geographic Overview

The city of East Lansing, the home to Michigan State University, is located in south central Michigan directly east of Lansing, Michigan, the State's capital and sited in both Ingham and Clinton Counties that are part of a Tri-County Regional Planning Area (including Eaton County). The three counties together make up the Lansing-East Lansing Metropolitan Statistical Area (MSA), which covers 1,714.6 square miles and has a population of 464,036 people (2010 U.S. Census Bureau).

Four townships also share borders with the city, including Bath, DeWitt, Lansing and Meridian. It is located within two hours of, and nearly centrally between, the City of Grand Rapids and the City of Flint.

The city is ideally located along major transportation routes and is a great community for employment. It has an exciting, progressive environment, providing a multitude of housing options for individuals and families looking for less urban yet walkable living alternatives.

One focus area that has been identified as a city priority is the diversification of housing options for new and existing residents. Housing represents the "American Dream" for many across the United States and is one of the top symbols of economic prosperity for individuals and families. The ability to acquire housing, both for purchase or for lease is essential to move the economy forward in any community.

The City is made up of twenty-five (25) residential neighborhoods of which many have active associations. Some of the neighborhoods have a mix of owner-occupied properties and student renter-occupied properties in close proximity to the activities of the downtown and university, while others are made up of primarily owner-occupied properties or non-student, renter-occupied properties a few blocks further away from these activities. As the neighborhoods move further away from the downtown and the university, they become more divided as either completely owner-occupied or completely student renter-occupied neighborhoods.

This report focuses on current challenges and barriers to diversifying housing options and offers strategies to bridge the gap between builders and the cost of building. Adding new housing, especially for middle-income buyers, will attract new residents and workers to the region which in turn, benefits the economy.

There are several action items in this report that can be implemented immediately and there are several that require additional support for implementation. Solving this critical issue will not occur overnight, in the next week, month, or year.

C. Strategic Plan

The Housing Strategic Plan will serve as a guide going forward as we take what we have learned from the Target Market Analysis and stakeholder interviews to identify tasks and projects that will help eliminate some of the barriers to diversified housing options and new housing construction. These strategies will work towards improving housing availability across the spectrum of middle-income groups, both for purchase and for rent.

While construction projects are on the increase across the region according to the Lansing Area Economic Partnership, developers and information provided by the City, the majority of housing types being built fall outside of the price range that is accessible to middle-income buyers.

We have learned that the average cost to build a new house is at a price point between \$165 and \$200 per square foot. Given this, it is conceivable that construction of new 1,000 square foot home would be in the \$200,000 range, which meets the target range of the middle-income buyer, but is still a bit on the high end of the buying spectrum. Add in the cost of land (in some cases \$60,000 - \$100,000 per lot), and that 1,000 square foot home can now reach \$260,000 or more, taking it out of the attainable range for middle-income families.

While many additional projects are in the planning phase, under construction, or recently completed, they only account for a fraction of the demand in the existing marketplace, specifically for the missing middle and for-lease options. The key question is: how can the City of East Lansing attract more builders and developers to build new diversified housing specific to markets identified in the Target Market Analysis? The following strategic plan can be implemented to eliminate some of the barriers to housing development and improve the ability to construct new housing units that are in demand as well as rehabilitation of existing housing stock.

Attracting New Housing Construction

Developers are not likely to be interested in small, outlying communities because the incomes and housing values are lower. Instead, they will tend to focus on larger markets with higher values and the potential for greater profit margins, such as the City of East Lansing with its proximity to the State Capital and Michigan State University. That said, communities will still have to find creative ways to generate new housing development, on both the construction and land development ends of the market.

This can come in the form of building capacity with small scale developers as well as local investors/builders ("home grown") and eliminating some of the hurdles that make housing development challenging. This can also be accomplished by creating Public/Private Partnerships (P3's) with local municipalities or non-profit entities. Either the community, the P3, or a regional consortium, should look for ways to encourage new housing construction in ways that include, but are not limited to, the following:

1. Acquiring land. Since both lenders and larger developers are shying away from new developments not meeting their investment goals, the community, utilizing existing tools such as the DDA, can potentially acquire land that may be in foreclosure, vacant, blighted or owned by a Land Banking Authority. This land could then be sold as-is or if possible, with the necessary infrastructure needed to attract a potential developer. If land can be obtained at a reduced price through tax foreclosure, the community could utilize the reduced cost as a negotiating tool to work with a developer to secure a higher quality project for the city.

2. Utilizing Planned Unit Development. Through utilization of PUD, Clustered Development Plan, or the Neo-Traditional Neighborhood Redevelopment Plan, all tools within Chapter 50 of the City Code, East Lansing can pre-plan areas for new neighborhood development or existing neighborhood reinvestment. These tools can offer both the city and developers a greater level of flexibility in the development review process as well as increased leverage, creativity of design, and offsetting of localized impacts (traffic, landscaping, sound…) of new development.

3. Extending infrastructure to the site. This is one of the costliest parts of development so if the community can install utilities to the property already purchased, typically at a lower financing rate, this will greatly improve the ability to attract builders. With roads, sewer and water already installed, the community will then have the ability to sell individual lots to builders and eliminate the risk that comes with developing an entire subdivision. This also gives the community flexibility with regards to selecting the builder and ability to ensure high-quality construction. This should only be utilized when then benefits to the community outweigh the missed potential of not doing

this. It should also be done in careful consideration of the budget and potential future impact of the budget.

D. Financing

One of the common themes identified by stakeholders was the lack of financing opportunities for new housing construction, especially for spec housing. While banks and mortgage lenders are financing new construction for home buyers to build individual home sites, there is still hesitancy to finance large construction projects. Some of the reasoning behind this includes tighter lending regulations since the recession. Other issues included low credit ratings, lack of capital and lack of collateral.

Additionally, it is recognized that funding support is also needed to improve and revitalize existing housing stock within established residential neighborhoods throughout the city. The city currently utilizes a number of programs to provide funding that can be used to rehabilitate or improve existing housing or provide down payment assistance for new home purchasers, including Employer Funded Down Payment Assistance.

The following strategies could help to assist with closing the financing gap:

1. MSHDA Multifamily Direct Lending – MSHDA offers direct lending to eligible borrowers in the form of loans from both tax-exempt and taxable bonds, as well as MSHDA gap funding loans and equity bridge loans in certain situations, for the development of affordable rental housing. MSHDA direct lending programs are available for both new construction1 and acquisition and rehabilitation of affordable or conventionally financed rental housing, mixed use buildings or the adaptive re-use of other structures.

2. MSHDA Neighborhood Enhancement Program - The NEP program's primary goals are to identify and fund innovative activities to address a neighborhood's specific needs; assist and then showcase Michigan neighborhood(s) where people are engaged and facilitating change; and to provide funding to facilitate and implement activities.

   The NEP program can financially assist high-impact, innovative, neighborhood housing-oriented activities that benefit low- and moderate-income areas and residents. All components are designed to fund tangible housing-oriented activities that are: implementation ready; highly visible; impactful to the neighborhood and residents qualify of life;

holistically/community focused; and where there is buy-in and demonstrated support within the neighborhood and community.

The NEP program is made available via a yearly competitive funding round to applicants consisting of local non-profit agencies (501c3) and local units of government statewide.

3. MEDC Community Revitalization Program - The Michigan Community Revitalization Program (MCRP) is an incentive program available from the Michigan Strategic Fund (MSF), in cooperation with the Michigan Economic Development Corporation (MEDC), designed to promote community revitalization that will accelerate private investment in the following categories,

   - Areas of historical disinvestment,
   - Contribute to Michigan's reinvention as a vital, job generating state.
   - Foster redevelopment of functionally obsolete or historic properties.
   - Reduce blight, and
   - Protect the natural resources of this state.

   The program is designed to provide grants, loans, or other economic assistance for eligible investment projects in Michigan.

4. Opportunity Zones - Opportunity Zones are a new concept recently enacted in the 2017 Tax Cuts and Jobs Act. The program is designed to incentivize patient capital investments in low-income communities nationwide that have been cut off from capital and experienced a lack of business growth. There are three types of tax incentives that relate to the treatment of capital gains, each of the incentives are connected to the longevity of an investor's stake in a qualified Opportunity Fund that provides the most upside to those who hold their investment for 10 years or more.

   Preliminary information indicates an Opportunity Fund can be utilized as a primary investment in a variety of activities. Funds can be used to create new businesses, new commercial or residential real estate or infrastructure. Opportunity Funds can be used to invest in existing businesses if it doubles the investment basis over 30 months.

   The incentive can also be combined with other incentives such as New Market Tax Credits (NMTC), Low-Income Housing Tax Credit (LIHTC) and historic rehabilitation tax credit, adding a valuable tool for economic and community development. State and local governments should also consider creating and targeting other resources, especially job training, that will play an important role in leveraging investments. Local activity will show that opportunities exist.

5. New Market Tax Credits - Historically, low-income communities experience a lack of investment, as evidenced by vacant commercial properties, outdated manufacturing facilities, and inadequate access to education and healthcare service providers. The New Market Tax Credit Program (NMTC Program) aims to break this cycle of disinvestment by attracting the private investment necessary to reinvigorate struggling local economies.

   The NMTC Program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a period of seven years.

6. Low Income Housing Tax Credit - The Low-Income Housing Tax Credit (LIHTC) is the most important resource for creating affordable housing in the United States today. The LIHTC database, created by HUD and available to the public since 1997, contains information on 45,905 projects and 2.97 million housing units placed in service between 1987 and 2015.

7. Obsolete Property Rehabilitation Credit - The Obsolete Property Rehabilitation Act (OPRA), Public Act 146 of 2000, provides for a tax incentive to encourage the redevelopment of obsolete buildings. A new exemption will not be granted after December 31, 2026, but an exemption then in effect will continue until the certificate expires.

   The tax incentive is designed to assist in the redevelopment of older buildings in which a facility is contaminated, blighted or functionally obsolete. The goal is to rehabilitate older buildings into vibrant commercial and mixed-use projects.

8. Brownfield Redevelopment Authority (Act 381) - Once created, a BRA reviews proposal for the redevelopment of eligible property and determines what financial incentives are necessary to assist the redevelopment. The authority prepares a plan that identifies the brownfield

projects. Each project section of the plan includes the description of the eligible property, the eligible activities, the TIF approach to be taken and other issues related to the subject parcels.

The authority then recommends to the governing body of the municipality (city or village council, township board or county commission) that the decision-making body holds a public hearing regarding the plan and subsequently acts to approve with modifications or deny the plan. The authority would recommend revisions to the plan as new projects are submitted or revisions are requested on existing plan projects.

The City currently utilizes Act 381in a number of projects throughout the city. This program has been a successful implementation tool, but should be utilized only when projects demonstrate a true need, when demolition and cleanup are a priority of redevelopment or when a project provides extensive housing and economic benefits to the community that would not otherwise be realized without the use of the tool.

9. Municipal/Non-profit Public Private Partnerships – This opportunity would allow a municipality or non-profit agency the ability to partner with a for-profit builder to develop new housing options across the region. By partnering, it is possible for the developers/builders to get land at a lower cost, thereby reducing total construction costs.

   In theory, the municipality/non-profit could hold the land, reducing holding costs and taxes while the project is under construction. The P3 could also be instrumental with infrastructure development on the property and eventually recuperate initial costs upon final sale of property.

10. Neighborhood Improvement Authority – Through the provisions of Public Act 57 or 2018, a Neighborhood Improvement Authority (NIA) may be established. An NIA may use its funds, including tax increment financing, to fund residential and economic growth in residential neighborhoods. An authority may also issue bonds to finance these improvements.

    Once established, the NIA prepares a development plan and a tax increment financing plan to submit for approval to the local municipality. A development plan describes the costs, location, and resources for the implementation of the public improvements that are projected to take place in the NIA district.

A tax increment financing plan includes the development plan and details the tax increment procedure, the amount of bonded indebtedness to be incurred and the duration of the program. After adoption of the two plans, the development plan is implemented and the tax increments, which occur because of improvements in the eligible property, accrue to the NIA to be used as required by the development plan.

The activities of the NIA may be financed by a) donations to the authority; b) revenue bonds; c) revenues from buildings or property owned or leased by the NIA; d) tax increments; e) special assessments; and f) grants.

It is recommended that City of East Lansing consider utilizing NIA's in areas of disinvestment or areas in need of infrastructure or structural improvements, predominantly in older neighborhoods within the City.

11. Housing Development Assistance Program – Consider creation of a housing development assistance program (HDAP) in partnership with the local Brownfield Redevelopment Authority (MCL Act 381) and the Land Bank for the State of Michigan.

    The purpose and intent of the HDAP is to provide financing assistance to developers who are interested in building new housing (attached or detached formats) within the city for buyers that are within the HUD defined range of 80% to 110% of local Area Median Income. This would translate to a sales price range of $150,000 -$225,000.

    It is known that in order for a builder to build a new housing structure in this sales price range, that a gap in finance may exist between the final sales cost and the final construction cost. The HDAP program will utilize Tax Increment Finance established by a TIF district to assist with closing the financial gap noted above.

12. Home Buyer Down Payment Assistance – This program is implemented by the Capital Area Housing Partnership and offers down payment assistance, rehabilitation funding and lead paint remediation for income-qualified buyers. There are homes available in four target neighborhoods in East Lansing and up to $30,000 in down payment assistance is available per home.

13. Homeowner Rehabilitation and Improvement Program - Offers up to $24,999 to income-qualified homeowners in the city to rehabilitate, improve, and weatherize their homes. Eligible improvements include code violation and weatherization improvements.

14. Employee Home Ownership Opportunity Program - Offers $10,000 forgivable loans per employee to qualifying City of East Lansing employees to help with property acquisition in approved areas in the City.

    The EHOP initiative encourages retention of the East Lansing workforce and reinvestment in East Lansing's older, historic neighborhoods. Between the years 2008 (the inception of the joint program) and 2016, over thirty Michigan State and City of East Lansing employees have received assistance.

E. Regulatory Environment

Another issue identified during the stakeholder discussions was the impact the local, state, and federal regulatory environment is having on the bottom-line cost of new construction. The regulatory environment consists of local building permits, inspection fees, development review fees, sanitary and storm-sewer connection fees, water connection fees, state inspection fees, energy efficiency requirements and other costs associated with construction, not actually involving construction of the home.

In some cases, these costs have added upwards of 30% to the cost of the new home. A challenge moving forward with any strategy will be looking at these costs and finding ways to improve the regulatory environment. By reducing these costs, there are better opportunities for builders to enter the middle-income marketplace to meet the demand for new housing within the region.

The regulatory environment for new construction varies across the region. The regulatory environment consists of several items such as the development review process, costs for permitting, costs for utility connections, taxes, environmental factors, and other regulations that can add costs to the development process.

In the economic development world, time is money and time kills deals. While the Redevelopment Ready Communities Program (RRC) may not be ideal for all communities across the region, it can be used as a tool and model to improve the development review process within the community.

The intent of the program is to review all processes around redevelopment and align them to improve the overall development experience. The program can coordinate Master Plans and Zoning Ordinances to work cooperatively, along with identifying efficiencies for staff to improve the development review process; thereby reducing the time and cost associated with development review.

Specific to the City of East Lansing, it is recommended that the City review and update its existing development review process, specifically returning the approval of site plans, special land uses and other administrative approval actions to the Planning Commission as permitted in the Michigan Zoning Enabling Act as well as the Michigan Planning Enabling Act. Re-zoning's and PUD approvals would remain with City Council for final approval as authorized by statute.

This can significantly reduce the time and costs associated with development review, specifically to smaller scale developers that may not have the luxury or benefit of extra capital or investors, which lowers the ability to complete projects as time is added to the project through the development review process.

While there are no "one size fits all" options to improve the development review process, the following recommendations could focus efforts to improve the process.

F. Land Use, Zoning and Other Policy

The City's 2018 Master Plan has set a clear path forward for new development and consequent zoning updates to encourage safe and fair neighborhood development in the future for the community.

A primary recommendation within the plan was to establish a hybrid form-based code for certain areas of the city, although? it is not imperative that the city develop a new form-based code to implement flexible regulations for the future development or redevelopment of diversified housing throughout the City. What is critical is recognizing where existing codes, policies or regulations are either over burdensome or not achieving the desired housing outcomes for the City or its residents.

As it stands, current lot densities proposed within the Master Plan make sense and provide for several housing options that can support diversify new housing developments as well as infill and rehabilitation options.

Several projects, such as Avondale Square, Wolf Court, and the Bailey School Rehabilitation are good examples of stabilizing neighborhoods, providing new housing opportunities, and diversification of residents based on income and demographics.

Consolidated Housing Plan

The City of East Lansing prepared a Housing Consolidated Plan consistent with HUD requirements to be eligible for CDBG program funding. The plan was recently updated and spans fiscal years 2021-2025.

Age-Limited Housing

The City has adopted Ordinance 1384, specifically adding provisions related to new housing developments in the downtown that provide benefits to developers for meeting certain criteria. One of these is specific to setting aside 25% of the housing development for residents 55 and older. The Newman Lofts is an example where this agreement is in place. Residents of the Newman Lofts are very happy with their living situation and amenities; however, the lofts have not realized full occupancy to date.

The Target Market Analysis has not provided data specific to the need for additional age-limited housing within the City of East Lansing but does recognize that there is a need for more housing options for both for lease and for purchase in a variety of different formats, and that some of the target lifestyle clusters may include populations over 55 that are looking specifically for these alternative formats. As a result, though, we do not see a need for the expansion of policies requiring increased development set-asides for age-limited housing.

Rentals and Rental Overlay Districts

The Target Market Analysis has identified that there is a strong demand and need for new for-lease units within the City of East Lansing. The policy question is, how can the City add more for-lease options without those options becoming student housing specifically?

Student housing is currently spread out across the City of East Lansing as well as on the campus of Michigan State University. In late 2020, the University amended its on-campus living policy to include sophomore students moving forward. While there are some exceptions, this requirement may have the potential of easing off campus student living arrangements in the short and long term.

As a result of Part II Code of Ordinance, Chapter 22, Article II (Civil Rights), the City of East Lansing is not permitted to specifically designate housing within the city as "student housing". The ordinance specifically states that "The opportunity to purchase, lease, sell, hold, use, and convey dwelling houses or dwelling units or engage in any other type of real estate transaction as protected in this section or under state and federal law is hereby recognized and declared to be a civil right"

This section further recognizes renting or buying cannot be discriminated against for reason of "Student Status", there by essentially allowing a person with student status the opportunity buy, sell or lease any available residential property within the City. Partially for this reason, as a matter of protecting the established residential neighborhoods of the city, the Residential Restriction Overlay District was created in 2004.

The Residential Rental Restriction Overlay District, a citizen petition driven ordinance, was established as the City continued to see rental license applications for properties in neighborhoods with established single-family, owner-occupied homes.

The purpose of the rental overlay districts are to allow owners of property within the R-1 and R-2 zoning districts to further control the types of rental properties permitted in single-family dwellings within their ? neighborhood to help preserve the attractiveness, desirability, and privacy of residential neighborhoods by precluding all or certain types of rental properties and thereby avoiding the potential impacts rental properties can have on a neighborhood with regard to property deterioration, increased density, congestion, noise, traffic levels and reduction of property values.

The ordinance provides three levels of restrictions as described below:

1. R-O-1 Districts prohibits the issuance of any new rental licenses, including Class I rental licenses.
2. R-O-2 Districts allow owners to apply for a Class I rental license if the property was owned at the time the overlay was approved. When properties are sold after the time in which the overlay was approved the property is no longer eligible to apply for a Class I rental license.
3. The R-O-3 Districts allow owners to apply for a Class I rental license, however, the property owner does not need to have owned the property prior to the approval of the overlay district.

Class I rental licenses are for owner-occupied properties where the owner wants to have a roomer reside with the owner and owner's family. All owners must own and reside at a property for at least 18 months prior to submission of a rental license application.

The overlay restriction will not impact properties that already have a rental license. However, if a property owner allows a rental license on a property to remain expired for over 12 months, then the property would lose any prior legal nonconforming status.

We recommend the continued utilization of the overlay districts while offering other programs such as a Neighborhood Improvement Authority going forward to encourage reinvestment in neighborhoods as well as encourage conversion of for-lease detached units back to owner occupied units.

Ordinance 900

In March of 1997, the East Lansing City Council adopted City Ordinance 900 to amend the RA, R-1, and R-2 residential districts and 900A to amend the R-3 residential district within the Zoning Ordinance. The amendments added language restricting the number of unrelated persons for an owner occupied and non-owner-occupied dwelling as quoted below;

“The keeping of not more than one (1) roomer by an owner residing in a single-family dwelling, except that a person owning a single-family dwelling on the effective date of Ordinance No. 900 shall be permitted to keep two (2) roomers while continuing to own and reside in the dwelling. The maximum occupancy shall not exceed three (3) unrelated persons, including the owner, for an owner-occupied dwelling or two (2) unrelated persons for a non-owner-occupied dwelling. For purposes of this subsection, persons comprising a "domestic unit" as defined by '5.5(19) shall be deemed related persons.”

While this was challenged in court, it was upheld as enforceable by the State of Michigan Court of Appeals in April, 2001.

The need and rational basis for creation and adoption of Ordinance 900 was to slow the rapid moving trend of converting traditional single-family residences within traditional single-family neighborhoods from owner-occupied to student-occupied rental housing as a result of enrollment growth at Michigan State University without the subsequent addition of on-campus student housing to accommodate enrollment growth during the 1980’s and 90’s.

This ordinance also was intended to protect the neighborhoods from increased congestion due to overparking of vehicles, protect existing property values from blight or disinvestment in the housing stock related to absent landlords, reduce excessive public nuisance complaints and citations related to noise, parties, litter and other issues and lastly to direct student for-lease housing away from neighborhoods and into new multiple-family or mixed-use housing developments.

Lastly, the aim of the ordinance is to create conditions that encourage the reconversion of rental housing within the neighborhoods back to their intended single-family, owner-occupied status which would provide new investments in the neighborhoods as well as stabilize neighborhoods and property values.

There have been recent meetings and discussions about amending the city code, specifically Chapter 50-683, Non-Conforming Uses of Structures. Discussions have been focused around possible amendments that provide some flexibility and leeway for property owners to expand or improve their properties when they are determined to be non-conforming as a result of Ordinance 900. It is our opinion that the intent of the ordinance is ultimately to reduce or eliminate non-conformities and that the existing policy to incentivize structural updates (other than code or safety required) should remain intact as a means of implementation of the desired outcome of eliminating non-conformities and conversion of existing single-family structures to multi-resident structures.

PUD, Traditional Neighborhood and Cluster Ordinances

The City of East Lansing currently offers three flexible development tools within the Zoning Code that are all intended to support creative, walkable, diverse, and affordable residential neighborhoods/districts. When applied properly and proactively, these tools can lead to extraordinary developments within the community. Additionally, these tools can offer leverage to the city for highly desired development outcomes such as design, diversity of housing options, mixed-use building types, neighborhood improvements and assets all the while granting some flexibility to the developer with density bonuses, height bonuses or other items that enhance the developers return on investment.

Currently, these tools are only offered within certain zoning districts and in some instances are limited to properties of a certain size, such as 20 acres or more. It is our belief that the city should evaluate these tools and consider at a minimum, allowing PUD's across all zoning districts. This will allow the city to adopt a PUD plan for specific areas, which can be adopted as policy by the city. These PUD plans can serve as a development guide for developers to utilize and provide redevelopment plans that conform to the specific PUD Plan for an area. We believe that this could be a primary tool for achieving the city's goal of diversifying housing options across the city.

Future Land Use Classifications

As part of the continuing conversation about creating new and diverse housing opportunities across the City of East Lansing, it would be appropriate to look at all city owned properties and review their future land use classification to determine if their current planning aligns with the market needs and demands for new housing. One such example is a 27-acre parcel bound by West Road, Coleman Road and US-127. The property is currently planned as C-3 Commercial but may make sense to consider a PUD mixed-use development or a higher density residential classification given its access to US-127 and shopping amenities in the area. This site could potentially be very desirable for a housing developer as well as potential target residents looking for easy commute access.

Future Legislative Tools

There are currently several housing-related legislative initiatives working their way through the legislative process for potential signature into law by the Governor. A number of these draft bills could potentially provide additional support tools to the City of East Lansing that would promote neighborhood revitalization, household rehabilitation, and development of new missing middle housing.

The following is a summary of each bill

Senate Bill 432 – Payment in Lieu of Taxes Option for Local Governments

Currently, many local governments allow PILOTs for developments as part of the developers process to be awarded low-income housing tax credits through MSHDA. However, local governments don't have discretion to award a PILOT unless the developer is applying for and awarded the highly competitive MSHDA tax credits. This legislation would allow local governments the discretion to allow PILOT agreements for developments that are not applicants for state or federal tax credits, thus allowing a needed tool for governments and developers/builders to partner together to address local workforce housing needs. The local unit of government would work with developers to determine the details of the PILOT, including the agreement length, amount, target Area Median Income (AMI), project type, etc.

Senate Bill 364/House Bill 4646 – Neighborhood Enterprise Zone Expansion

Neighborhood Enterprise Zones (NEZ) provide for the development and rehabilitation of residential housing. They have been used to support investment in infill revitalization for owner-occupied housing and mixed-use buildings in certain Michigan cities since 1992. This can include condominiums and two-family homes provided that they are homestead facilities.

Originally only "eligible distressed communities" could use this tool as defined within the Obsolete Property Rehabilitation Act (PA 146, 2000) and eligible properties were required to be within a downtown revitalization district. With so many communities across Michigan facing an urgent shortage of housing, this bill would extend the opportunity to use NEZs to all Michigan cities, villages and townships.

The governing body of a local governmental unit designates a neighborhood enterprise zone that cannot be less than 10 platted parcels of land (unless they are in a downtown revitalization district and total more than 10 facilities). The land must be compact and contiguous.

The expansion will let the local government support new (in whole or in part) residential homes and condominiums or new (in whole or in part) mixed use buildings that include residential units with ground-floor retail, and rehabilitated facilities that meet certain investment criteria.

The NEZ tax rate is equal to ½ the tax rate during the year prior to the investment. The land value is assessed and taxed at the full millage rate. The NEZ tax on the property improvements increases each of the final three years.

New and rehabilitated facilities can receive a term of exemption from 6-15 years. Rehabilitated facilities in a qualified historic building may receive a term of exemption from 11-17 years.

Language was added that the local government unit may designate an NEZ only if the local government unit determines that the designation encourages compact development and is adjacent to existing development and can utilize existing infrastructure. This is to further clarify the intent of using this tool for infill development of condo and mixed-use housing and discourage sprawl.

An application for a NEZ can be denied by the local government unit or the State Tax Commission if all requirements are not met.

Senate Bills 360-361/House Bills 4649-4650 – Employer Support of Workforce Housing Tax Credit

This legislation incentivizes employers to engage in a meaningful way to support their employees accessing housing near their workplace. The strength of this approach is it essentially provides 'matching' state resources in support of housing in areas that have a proven need.

Rather than relying on the State to determine where housing is needed, what type of housing can be added, which partners to engage and how to deliver the product, the employer will invest in a determined need by contributing down payment assistance, direct support for housing development, or through a housing trust fund to support their employees who earn up to 120% of the area median income.

Employers can claim an income tax credit equal to 50% of the total eligible contributions made during the tax year. Eligible contributions include:

- Supporting a local impact housing trust fund
- Offering employees the option to participate in a qualified employer-assisted housing project that assists employees in securing affordable housing near the workplace
    - A "project" is down-payment assistance, reduced-interest mortgages, mortgage guarantee programs, rental subsidies, individual development account savings plans or any other similar type of project approved by MSHDA
- These contributions are only eligible for employees whose adjusted household income is not more than 120% of the area median income as determined by MSHDA.

Residential Facilities Exemption – Senate Bill 422/House Bill 4827

The approach for residential facilities would behave similar to the industrial facilities exemption. Local governments would have the ability to establish residential facility districts used to provide tax abatements for qualified residential facilities. The abatement would enable renovation and expansion of aging residential units and assist in or encourage the building of new residential units in these districts.

The process would generally consist of three basic steps:

Step 1: Establish a district: Districts are established by resolution of the local unit of government according to parameters identified in the enabling legislation regarding size/number of parcels.

Step 2: Eligible residential facilities: Qualified new housing developments may include multifamily or single-family homes that are targeted toward populations earning below 120% of area median income, with assurances that the units are occupied as a principal residence (year-round) to eligible households.

Step 3: Tax Benefits: Tax benefits are granted by the legislative body of the city, township or village in which the investment will be located. Exemption from ad valorem real property taxes on the residential facility for 1-12 years. Exemption covers only the specific project that is the subject of the application. Any additions or modifications made after the completion of the project are fully taxable.

Recommended Action Items

1. Review existing PUD, Traditional Neighborhood and Cluster ordinances to determine if they could better be implemented across the city.
2. Look to adopt the land use recommendations of the 2018 Master Plan, including amending the zoning code to create a new Form-Based Zoning Hybrid.
3. Revise the development review process to grant final site plan approval as well as other administrative approvals back to the Planning Commission.
4. Identify specific neighborhoods, particularly older neighborhoods that could benefit from the establishment of a Neighborhood Improvement Authority or PUD Planning
5. Continue to enforce the existing rental overlay program but recognize that there is high demand for new for-lease missing middle options, so do not shy away from new potential for-lease development opportunities.
6. Maintain Ordinance 900 and 900 A as well as existing non-conforming structure ordinances.
7. Review existing PUD, Traditional Neighborhood and Cluster ordinances to determine if they could better be implemented across the city.
8. Consider reducing the age-limited requirement in Ordinance 1384 from 25% to 20% or 15% to decrease the amount of time until full occupancy in new downtown housing projects.
9. Review existing funding programs for DPA and Rehab assistance for best practices and improvements.

G. Additional Strategies

1. An inventory of available land should be prepared including ownership, tax, and zoning information. The availability and location of public utilities should also be included.

2. It is critical that the community obtain ownership of tax foreclosure properties that have development/redevelopment potential for mixed-use projects or housing.

3. Identify key neighborhoods to prioritize and focus infill redevelopment and rehabilitation resources and efforts for new and existing housing. This could be done by identifying opportunity neighborhoods.

4. Make sure that the zoning and building review process is quick and efficient to avoid unnecessary delays.

5. Local companies and banks should be recruited as partners in housing development, since they depend upon the ability to attract quality employees and customers.

6. Review the zoning ordinance provision for accessory apartments above garages and consider the option for allowing accessory dwellings and other alternative housing formats specifically on small lots close in proximity to the downtown to provide for a broader, more diverse spectrum of housing choices.

7. A direct marketing program should be established to promote the community and attract developers.

8. Hold a workshop in partnership with Incremental Development Alliance, Community Economic Developers Association of Michigan or other entity for local businesspeople/investors and small-scale developers to encourage them to become developers within the community. Follow-up with training sessions on topics such as pro-forma analysis, public incentives, understanding the real estate market, etc.

The data also indicates a good opportunity to add new condominium and apartment complexes throughout the city, especially in areas with higher population densities, such as areas around the downtown, within downtown, near Meridian Township, and in the northern tier of the city. With a push for more housing in dense, walkable spaces, multi-family housing types, both for rent or purchase, may make the most sense for new construction as well as rehabilitation of existing units and spaces.

Marketing

The data presented above is only as good as the City's ability to utilize it for the purposes of attracting new investment. Telling the story is one of the single most important strategies for improving the image across the region and sharing the massive opportunity for new housing construction for missing middle formats. The following projects should be completed to improve visibility of the city and highlight the market opportunity.

1. Create a marketing strategy utilizing the results of the Target Market Analysis, specifically focused on the ability to add new housing formats that will be focused on attracting new builders and developers to the city which specialize in the housing formats recommended within the Target Market Analysis.

2. Create a marketing strategy that speaks directly to the lifestyle clusters identified within the Target Market Analysis as the most likely demographic clusters to migrate and move into the city, either into new or existing housing formats across the city. The marketing strategy should highlight strengths of the community, specifically lifestyle strengths (walkability, recreation opportunities, shopping amenities, cost of living and access to multiple employment sectors and opportunities).