

MSHDA Mod: Innovating Through Modular Homes to Address the Housing Crisis

Michigan State Housing Development Authority
Homeownership: Encouraging New Construction

HFA Staff Contact

Joshua Pugh

pughj5@michigan.gov

Advance Agency Mission and Achieve Strategic Objectives

MSHDA's Neighborhood Housing Initiatives Division (NHID) innovative program started with an idea of encouraging and promoting the concept of modular housing in low- and moderate-income communities where new construction of affordable housing is not common. The program was developed as a response to the local officials demonstrating a market for affordable, workforce single-family housing but being deterred by a lack of construction financing availability due to a lack of comps within the market. Manufactured modular housing had never been attempted by any of the pilot communities and some had not had affordable housing units, or any new construction built in decades, so this program generated a lot of local housing excitement and built capacity, which are key components to MSHDA's mission.

MSHDA Mod was awarded through a repayable grant up to \$224,500 to local units of government, nonprofits, or for-profit developers, structured in the format of a limited dividend housing association (LDHA) The program provided financing to construct a modular or modified technology home with the opportunity to recycle the funds if successful. MSHDA Mod Pilot launched in 2019 and was established as a permanent program in 2021. The program transitioned into MI-Neighborhood in 2024, when the Housing and Community Development Fund (HCDF) was created, and a permanent funding stream secured. The original funding source is MSHDA's General Operating Fund – Allocation amount \$2 million with \$1 million for M3 (MSHDA Multiple Modulars) pilot program and is now available part of a \$60 million-dollar HCDF/CDBG program.

Responsiveness to Housing Needs

When NHID created the MSHDA Mod Pilot in 2019, MSHDA Mod was designed based on the premise that we could play a critical role as a catalyst for addressing the workforce housing issue by providing one spec model within an existing neighborhood and allowing the public to watch the entire construction process (set and finishing), tour the final product, facilitating the establishment of value, and developing local capacity and partnerships to undertake this type of housing beyond the program. This program establishes a comparable market value, encourages local construction financing, and increases public education, awareness, and overall engagement regarding modular products and how they can fit into existing areas.

MSHDA has finalized the Michigan Statewide Housing Plan which found that nearly 47% of Michigan's residential units (either owner- or renter- occupied) were built before 1970. Thus, demonstrating a need in Michigan to develop new housing to assist communities with the building of new units for workforce single family housing. Since this is MSHDA funding, only the activities that are being assisted are required to meet full code compliance, not the whole property allowing the funds to be distributed to assist more properties.

MSHDA Mod funds homes that are either fully constructed or partially constructed, such as panelized walls, at the factory and shipped to the site, assembled, and finished by a licensed builder. Local subcontractors are utilized to complete plumbing, electrical, HVAC, driveways, landscaping, porches, and other interior and exterior finishing.

Seven different manufacturers were chosen by the communities, some within the State of Michigan and some outside of the state, and each selected model was designed to fit within the specific lot and to blend in with neighboring homes.

Program compliance and repayment is secured by a mortgage on the modular home until sale. Once the house is sold, MSHDA expects full return on the investment plus 3% of any profit generated. If full return is not provided, the Grantee cannot recycle the funds into another home unless at least 90% of the funds are returned or 80% with a written explanation.

Each community has the opportunity to recycle the funds received from the sale to undertake additional homes. A loan loss reserve has been established by MSHDA to address any unforeseen losses. The average return on investment rate for the pilot was 89% and 88% for the permanent program. The initial investment continues to be recycled after 5 years.

To date, the MSHDA Mod program has built 17 homes since its pilot in 2019. 14 in the pilot and 3 in the permanent program. Currently there are 6 organizations with a MSHDA Mod grant, working towards building their home.

Effectively employ partnerships

At the outset, the success of the new program relied on MSHDA's partnerships with local community organizations. In the statewide competitive selection process, the agency sought project proposals from non-profit organizations with experience and proven track records in the following: (1) project/program management; (2) technical implementation; and (3) grant administration. The MSHDA Mod funding – viewed by MSHDA as catalyst grants – was an opportunity for nonprofit organizations to directly assist and facilitate neighborhood housing-oriented rehabilitation and improvements in conjunction with other community-based actions occurring within the targeted area. Each applicant response was asked to define a vision for how the funds would be strategically utilized based on local resources, capacity, and assets that the respondent could bring to the table. Applicants were expected to efficiently and effectively manage high production levels while also achieving high impact by undertaking activities that were best suited to the neighborhood needs. Ultimately, the outcome would help residential and neighborhood stabilization and revitalization, and develop local capacity and create synergy.

Cost-Effective: High-Impact/Low-Cost

While MSHDA has other housing programs, the NHID team took an innovative

approach to them addressing a single-family workforce housing need. NHID essentially designed a program that would team up with local agencies to get high-impact results by providing construction financing and to complete the projects in a quick timeframe to deliver results to the local area. On all points, the MSHDA Mod was successful in both the pilot and permanent implementation. Applicants are currently building upon MSHDA Mod and NHID has continued to expand the program to enhance the local projects even more. MSHDA responded to communities' needs by modifying the submission process to encourage regional participation through the new MI Neighborhood to access single application funding resources.

Innovative, Replicable, and Transformative

NHID staff followed strict standards of protocol in establishing the MSHDA Mod grant program. However, there were additional behind-the-scenes elements that contributed to its success. *Championing the Project* – Individual NHID staff were assigned as “Champions” to each grantee as enthusiastic advocates and partners in the grant process, from project start to grant closeout. As state-based project champion staff maintained close contact with its local partners, actively tracked progress on a weekly basis, and acted as a helpful resource to troubleshoot any issues or answer questions as needed. In this way, NHID staff provided a positive and supportive team atmosphere with its local partners. *A PROMISE Concept* – In supporting and funding local projects, NHID staff recognized key elements that helped identify the strongest possible candidates for the limited funding available under the program. It was distilled into a P.R.O.M.I.S.E. concept.

- **P**otential Catalyst for Change
- **R**ealistic
- **O**pportunity to Improve the Area
- **M**akes a Difference to the Neighborhood
- **I**mmEDIATE Physical/Psychological Impact
- **S**afe or Safer Area post-grant
- **E**ngaged Neighbors to think differently about modular homes.

The success of the MSHDA Mod pilot program is transforming the housing construction bias regarding non-stick built products. The use of MSHDA resources is allowing creative, innovative, and flexible project selection and implementation to better serve Michigan residents.

Additional Resources:

MI Neighborhood (michigan.gov) -
<https://www.michigan.gov/mshda/neighborhoods/mi-neighborhood>

MSHDA Mod (Michigan.gov) -
<https://www.michigan.gov/mshda/neighborhoods/mshda-mod-lower-half>

Before/After- 600 E. North Street:



Before/After- 505 Spruce:



Other Completed Homes:

