

# Missing Middle Housing Program

**Michigan State Housing Development Authority**

Rental Housing: Encouraging New Construction

**HFA Staff Contact**

Mark Garcia

[garciam8@michigan.gov](mailto:garciam8@michigan.gov)

### **The Statewide Middle Income Housing Need:**

Attainable housing is a substantial need across all income ranges in the state of Michigan. Generally, these income ranges are divided into three separate segments:

- Lower income households earning less than 60% of the Area Median Income (AMI)
- Middle income households earning between 60% of AMI and 120% of AMI
- Higher income households earning greater than 120% of AMI

Two datapoints can be used to sum up the difficulties that the 60% AMI to 120% AMI workforce household cohort has in meeting their housing needs in Michigan. According to the [2020 five-year American Community Survey](#) (“ACS”) sample, housing market conditions, particularly pricing and unit availability, have led to a current gap of nearly 160,000 housing units priced at levels affordable to households earning between 60% and 120% of AMI. Partly due to this shortage of units, and exacerbated by the COVID-19 pandemic, affordability has become a significant issue for this group. Adding to the challenge, national construction cost increases have far exceeded wage increases making it financially infeasible to build housing that is attainably priced for workforce households.

### **Understanding the Statewide Housing Need:**

The middle income housing shortage and the resulting need is being driven by the following key factors:

- **The budget does not currently balance for attainable housing.** The incentive for a developer (for-profit or non-profit) to build a quality housing product that is attainable to middle income households does not currently exist. Construction costs are too high and interest rates have risen sharply causing the development of attainable housing to be a nonexistent endeavor across the majority of the state. As a result, housing that was once attainable for middle income households is scarce and dwindling. By solving for that financing gap, Michigan could unlock and leverage multiple times that amount of potential investment in middle income housing.
- **Middle income housing programs do not exist.** The vast majority of mainstay housing programs focus on households below 60% or 80% of AMI and middle-income households do not qualify.

### **Strategic Objectives:**

Recognizing those challenges that are causing a scarce and dwindling supply of attainable housing for middle income households, Michigan quickly recognized the need for a program that would be specifically focused on middle income/workforce housing. Michigan also knew that this new program would need to adhere to the following strategic objectives to best ensure its success across the state:

- **It needs to be specific, understandable, and replicable.** Past attempts at creating middle income/workforce housing have involved piecing together multiple mainstay affordable housing programs that were not created to address middle income housing. This was done out of necessity to address the problem at hand, but created significant complexities and inefficiencies while not being replicable and still not making a dent in the real need. We needed a program specifically crafted for middle income housing development in order to effectively tackle the issue.
- **The need is statewide. The program needs to be simple and flexible.** The knowledge gap and resulting barrier to entry on mainstay affordable housing programs is significant. While the

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mainstay programs have been extremely successful, they have become equally complex. In order to activate more statewide development capacity and also deliver the right housing product in all areas of the state, the program must be simple to access and manage so housing developers and community organizations who are newer to government housing programs are willing to consider it.

- **It needs to be for rental AND for-sale housing.** Rental housing should not be the only option. The housing needs to meet the specific needs of the community.

### **Setting out to achieve the Strategic Objectives:**

On March 30, 2022, Public Act No. 53 of 2022 established the Missing Middle Housing Program and funded it with \$50 million of State and Local Fiscal Recovery Funding (SLFRF) (the program was later increased to \$100 million). The program contained many of the key objectives that were highlighted above that would allow it to meet the variable needs throughout all areas of the state.

The concept of the program was met with substantial praise:

- Community organizations in the most rural areas as well as the most populated areas of the state had been exclaiming the need for attainable housing for middle income households. The Missing Middle Housing Program would address that need.
- Businesses had been struggling to secure housing for their employees who were earning a living wage, but were still priced out of housing or simply not able to find housing available due to a lack of supply. The Missing Middle Housing Program would address that need.
- Small communities throughout the state appreciated the flexibility to be able to develop housing at a scale that is appropriate to their community. Not every community needs a 40-unit housing development and the Missing Middle Housing program would make it possible to develop those 8 or 10 unit developments that would serve the needs of smaller communities.
- Finally, the program allowed for the development of for-sale housing, which greatly expanded the range of options that communities could utilize in their effort to offer the type of housing that would be right for their residents.

### **Leveraging Statewide Partnerships:**

With the program legislation officially signed and the program funded, MSHDA staff set out in the spring of 2022 to work with partners and stakeholders to formulate a plan for the implementation of this new Missing Middle Housing Program. The housing need throughout the state was imminent and time was precious to make the resources available to meet the need. An initial workgroup consisting of staff from MSHDA, the Michigan Land Bank, the Michigan Economic Development Corporation, and the Michigan Department of Agriculture and Rural Development was assembled to brainstorm key concepts, strategies, and timelines for the implementation of this critical resource. Draft plans were developed and circulated to over 100 key stakeholder groups throughout the state to solicit feedback. Many meetings, calls, and workshops were held with groups from all over the state to communicate program strategy, answer questions, and gather comments. Finally, a draft of the Missing Middle Housing program was posted on the MSHDA website for public comment. The engagement process was a delicate balance of speed and intentional outreach.

### **The Emergence of a Replicable Middle Income/Workforce Program:**

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On August 17, 2022, the MSHDA Board approved the Missing Middle Housing Plan that would set forth the framework for how Michigan would intentionally tackle the middle income/workforce housing crisis. Since that time the program has continued to advance forward, has received an additional \$50 million of funding (for a total of \$100 million), and has undergone an amendment to bring it to its current framework which includes the following:

1. Qualifying households must have incomes between 60% AMI and 120% AMI.
2. Rents and sale-prices must be attainable to those middle income households, meaning that they pay no more than 30% of their income towards their housing costs.
3. The Missing Middle funding is a development subsidy, meaning it assists with paying for the costs to construct the rental or for-sale housing. It is flexible grant funding. Grant funding is available as follows:
  - a. Up to \$80,000/Missing Middle unit for projects of 11 units or less
  - b. Up to \$70,000/Missing Middle unit for projects of 12 units or more
4. The funding requires a 10-year rental compliance period and/or a 5-year for-sale compliance period.
5. The funding is distributed geographically to meet the needs all throughout the state.

### **A Proven Track Record:**

Thus far, MSHDA has completed an initial round of funding under the Missing Middle Housing program and is currently in the process of administering the second round of funding. The response has been incredible. Below are some interesting facts about the applications received:

- In total, over 60 projects have been submitted for Missing Middle grant funding. This is incredible response given the program has been established for only one year.
- All \$100 million in the program is already oversubscribed demonstrating the number of development-ready opportunities throughout the state that were sidelined without a feasible financing path, until now.
- The smallest project that applied is 1-unit and the largest project that applied is 213 units, proving that the program works across an extremely wide range of development sizes and specifically does not need a large-scale development to be feasible.

### **Benefits that Exceed Costs and Effective Use of Resources:**

The \$100 million Missing Middle Housing Program is gap filler. With a limit of \$70 - \$80 thousand per unit, the program is not designed to cover the full costs of a development but rather to provide only a development subsidy that allows an otherwise infeasible project to be feasible. It is designed to work well with bank financing and other traditional sources of financing that projects can typically leverage. As a result, Missing Middle housing projects typically have conventional loans and many have other third party local or foundation funding that is assisting with the financing as well. The Missing Middle program is projected to leverage approx. \$2.00 of outside investment for every \$1.00 of program investment. The Missing Middle Housing Program significantly leverages other resources, has significant social and economic benefits that outweigh costs, and efficiently uses the funds to unlock development that otherwise would not happen.