Michigan State Housing Development Authority
Housing Tax Increment Financing (TIF): Leveraging Established Tools for Innovative Solutions
Category: Rental Housing
Subcategory: Encouraging New Construction and Promoting Preservation

Overview

The Housing Tax Increment Financing (TIF) program represents a new and unique way for local units of government and the State of Michigan to invest tax resources into the creation of affordable/attainable rental and for-sale units throughout the state. When new housing units are built on a vacant parcel of land, the property value and the associated property taxes increase significantly. The Housing TIF program works by giving local units of government the ability to capture a large portion of that increased local and state property taxes for up to 30 years and provide a reimbursement to the housing development. In exchange for this reimbursement, the housing development commits to restricting units to 120% of AMI and below. This reimbursement helps fill a funding gap and allows the development to be feasible.

Responding to Michigan's Housing Crisis

Over the past 10 years in Michigan, housing prices and rents have doubled while household incomes have risen by less than half that amount. About 50% of Michigan renters and 25% of Michigan homeowners pay too much for their housing leaving not enough income for other basic essentials. Construction costs have risen rapidly making it more and more difficult to build new units. In fact, from 2015-2024, Michigan permitted only 208,000 new homes compared to 397,000 new employed residents that it added (a 50% ratio). Nationally, this ratio is close to 1:1. This affordability crisis is compounded by the fact that much of Michigan's existing housing stock was built many years ago and needs to be updated.

In response to this housing crisis, the Michigan State Housing Development Authority (MSHDA) has taken bold steps to increase production by investing in proven housing solutions and launching new, innovative tools and programs. Since 2022, MSHDA has sharply and steadily increased its investment in housing:

- 2022: Total investment of $756 million
- 2023: Total investment of $1.23 billion
- 2024: Total investment of $2.16 billion
- 2025: Total investment of $2.61 billion

However, while many mainstay federal housing programs seek to assist households with incomes at 60% of Area Median Income (AMI) and below, there is little available to assist those households that are commonly called the "Missing Middle" (with incomes falling between 60% AMI and 120% AMI). These Missing Middle households do not earn enough to afford housing in many areas of the state, but earn too much income to qualify for any assistance under the traditional federal housing programs. Even an income of 120% AMI is not enough to afford to purchase a home in many Michigan communities given upward trending housing prices and current interest rates.

Truly impactful solutions to these types of challenges are not passive and do not operate on the margins. They are bold and creative. A solution of this magnitude needs to be consistently funded, open, and available so that the housing industry can rely on it and developers can move forward boldly, penciling it into their pro-forma from the start rather than competing for funding over multiple years and rounds. The tool would need to be flexible enough to work in multiple different scenarios, across various housing types, and responsive to localized housing needs. All of these are characteristics of the Housing Tax Increment Financing (TIF) Program that was recently launched in the State of Michigan and has been gaining speed with impactful results.

Using Proven Methods for Modern Challenges

The Housing TIF program builds upon a proven financing tool but uses it in a way that creates housing production. In the past, the Tax Increment Financing tool has largely been utilized for commercial Brownfield development sites in Michigan. The TIF financing mechanism hinges on the concept that property development increases the value of that specific property by improving it, providing other ancillary benefits to the community as well. When a vacant property is developed and improved, the Taxable Value of that property increases drastically, going from being taxed as vacant land to being taxed as improved property. The Tax Increment Financing tool allows a municipality to “capture” that incremental increase in property taxes and reimburse a significant portion of it back to the project for up to 30 years. This provides the development with a long-term stream of property tax reimbursements that that can be leveraged in various ways and allow the project to be feasibly built.

Housing TIF is unique from more traditional forms of TIF in that it does not require a site to be a Brownfield, instead it can be a greenfield site. The key trigger that activates Housing TIF is the inclusion of affordable units restricted at or below 120% of AMI.

Creating Impact Through Flexibility and Partnership

There are many benefits to this tool and approach, including the following:

1. **Locally driven:** The Housing TIF program is centered around local control. No Housing TIF plans are approved by the State until they are approved locally. This also allows local municipalities the ability to negotiate with developers to meet their local housing needs.
2. **Flexible:** The Housing TIF program is intentionally flexible to allow for those robust negotiations to occur between developers and local municipalities. The State provides broad oversight to ensure that negotiations result in Housing TIF plans that reasonable and in compliance with statutory requirements, but the tool is flexible enough to allow local municipalities to meet their housing needs. Some of these key characteristics are the ability to be used with rental or for-sale developments and allowing for mixed-income projects with the inclusion of market-rate units.
3. **Open and available:** Unlike many oversubscribed federal housing programs, Housing TIF program has an open window for developers and local municipalities to apply at any time and is uninhibited by artificial funding caps or availability of resources. This creates a tool that developers and municipalities can depend on for long-term planning purposes rather than being dependent on the uncertainty of annual appropriations of funding, limited funding availability in a particular year, and competitions for funding. Additionally, because this program derives its funding from future increases in tax revenue, it does not require a municipality to raise funds prior to using it, they can begin utilizing it immediately.

Accomplishing Strategic Outcomes

Since its inception in mid-2023, the Housing TIF program has been wildly successful and widely accepted in Michigan.

- As of the date of this submission, 70 Housing TIF projects have been approved throughout the state. This represents a total of 5,089 housing units. 47% of these units will be available to households below 120% of AMI.
  - In 2024, MSHDA approved 11 Housing TIF plans, providing funding for 862 housing units. 65% of these units will be available to households earning less than 120% of AMI.
  - In 2025, MSHDA approved 49 Housing TIF plans, providing funding for 3,646 housing units. 45% of these units will be available to households earning less than 120% of AMI.
  - As of the date of this submission, MSHDA has already approved 11 Housing TIF plans in 2026, providing funding for 581 housing units. 32% of these units will be available to households earning less than 120% of AMI.

Aside from the incredible amounts of production, MSHDA is also witnessing some very key exciting aspects of this program:

1. These numbers will continue to grow! MSHDA is continuing to receive locally approved Housing TIF plans for new developments on a weekly basis. MSHDA is already aware of a pipeline of over 60 additional Housing TIF developments that are being worked on locally that may eventually be submitted for MSHDA approval.
2. Many of these projects would not be happening without the support of this tool. The Housing TIF program fills a financing gap in projects that take them from being unworkable to feasible. Developers and local municipalities will be building new housing in these communities because Housing TIF is now available. For some communities, this is the first new housing they have seen in years.
3. The developer profile of the Housing TIF projects is very different than many traditional affordable housing programs. Most Housing TIF developers are historically market-rate developers who are now interested in including affordable units in their projects in order to access this new tool. This brings a completely different segment of the development community into the fold of not only producing more housing but also producing housing that is affordable.
4. As shown by the data, this program allows for true mixed-income developments where affordable units are blended with market-rate units. This is an ideal approach to creating more affordable units.

Conclusion

In three short years, the statewide support and reception for the Housing TIF program in Michigan have been incredible to witness. Housing TIF is continuing to gain momentum as local municipalities recognize its potential to meet their housing needs and developers recognize its potential to balance their pro forma. Its structure as a flexible, available, and locally driven financing tool makes it an ideal program for other states to adopt to quickly and efficiently increase affordable housing production to meet their statewide housing needs.