Housing IS Economic Development

Community Housing Solutions

Additional Infomation

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Written by:

Jenifer Acosta in collaboration with Jeff Hawkins and Susan Wenzlick

Advisory working group:

Jenifer Acosta
President
Acosta Real Estate & Development

Ted Fines
Executive Director
Habitat for Humanity Northeast Michigan

Yarrow Brown
Executive Director
Housing North

Sarah Lucas
Chief Executive Officer
Lake Superior Community Partnership

Adam Robach
Project Assistant
Michigan Land Bank Authority

Harmony Fierke-Gmazel
AICP
Government and Community Vitality Educator
MSU Extension, Washtenaw County

Jill Ferrari
Managing Partner
Renovare Development

Jeff Hawkins
Chief Executive Officer
Envirologic

Thom Phillips
Sustainable Housing Director
Habitat for Humanity of Michigan

Steve Schnell
Program Director
Housing North

Marilyn Crowley
Vice President of Investment
Michigan Community Capital

Jim Tischler
Development Director
Michigan Land Bank Authority

Corey Leon
CEcD
Director
National Development Council

Shannon Morgan
Managing Partner
Renovare Development

Susan Wenzlick
Senior Brownfield Specialist
Fishbeck

Ryan Kilpatrick
Executive Director
Housing Next

David Allen
President
InnovaLab Development

Emily Doerr
Executive Director
Michigan Land Bank Authority

Tonya Young
Director of Housing Initiatives
Michigan State Housing Development Authority

Jane MacKenzie
Executive Director
Northern Homes Community Development Corporation

Justin Horvath
President and Chief Executive Officer
Shiawassee Economic Development Partnership

Forward

Why Should Local and State Government Endorse TIF for Housing?

The rationale for response to this question falls into a few key areas summarized below:

1. (Re)development of real estate is a principal engine to prosperity for households, businesses, and communities.
2. In most local markets, a financial gap exists between households at or below area median income who desire to purchase/rent new or rehabilitated housing units, and the actual cost and reasonable return on investment needed for market developers to deliver product for purchase/rent.. This is the affordable/attainable housing dilemma and is especially detrimental to small-scale developers producing small-scale projects in smaller communities.
3. Lack of housing inventory is now impeding economic development expansion activity in most markets.
4. Extraordinary building costs which preclude a reasonable return on investment will prevent (re)development unless said costs are offset. Governmental incentives are a principal means of offset.
5. Brownfield or Redevelopment Tax Increment Financing can address this problem. The Michigan Redevelopment TIF model (Act 381), in its parcel/project-based design, has a unique capacity to address this problem if said financial gap is defined as extraordinary.
6. Because Act 381 Redevelopment TIF is predicated on the offset of extra-ordinary costs to (re)development, it does not have a negative impact on local government or school revenues. Potential candidate housing properties which are not developed because of the cost-price gap provide $-0- new revenue to locals/schools at present. Without offset these properties will never be developed nor provide any new investment or revenue to communities. Conversely, with Redevelopment TIF assistance these properties, after capture term, will increase local/school revenues.
7. Local communities are protected since Act 381 Redevelopment TIF is a performance and reimbursement - based incentive tool which requires new investment with resulting increased taxable property values to generate new tax increment on a parcel. No new investment, no new taxes, no reimbursement obligation.

(Re)development of real estate is foundational to the built environment and societal prosperity, including revenue to government from taxes.

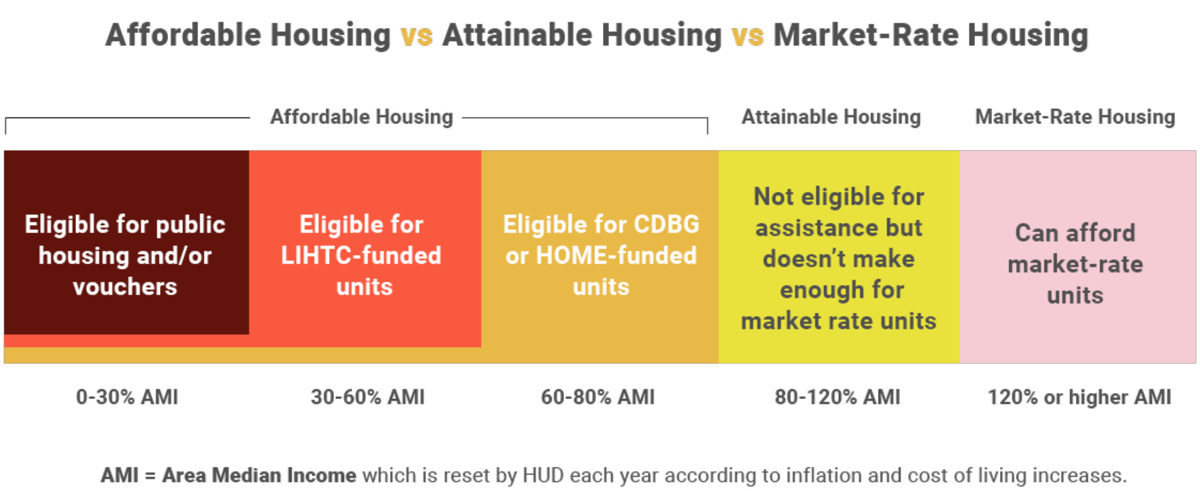
In our capital-based market economy, (re)development occurs when market players can achieve a return on investment of **time, capital, materials, and labor.**

Table of Contents

The problem.

In today's housing market, most communities do not have an inventory of homes for middle-income buyers or renters. The reason is pretty simple: housing costs have increased faster than peoples' incomes.

Homebuilders can't build new homes at a price that's doable for many working people to buy or rent. Government has programs to help low-income people rent or buy houses, but there are no programs to help middle-income people - those at 80-120% of the average median income for their area - with housing costs. The lack of affordable housing affects families' well-being and employers' ability to attract and keep employees.



While the above graphic is illustrative but speaks to, "What's attainable housing in your community?" Homes are priced for first-time buyers and people in the middle-income range. Housing in this price range is scarce because land and construction costs exceed affordability for many working people. The middle-income housing market doesn't work without government incentives.

Local governments rely on property tax revenue from housing to maintain public services and infrastructure. Moreover, a home is the primary investment people make. Quality housing is a key indicator of a community's financial health and ability to grow it.

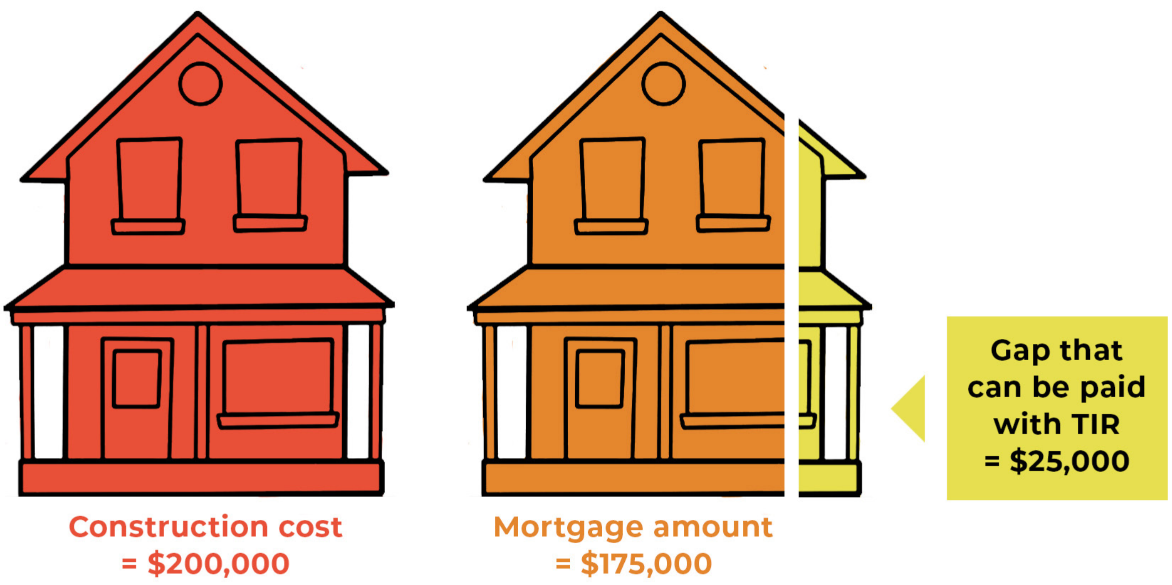
Housing is economic development. As companies look to retain or attract their workforce, housing is one of the essential components private companies require. Communities that offer housing choices or diversity of options are able to better retain their citizens throughout their life stages and housing needs as well as attract new residents.

Redeveloping vacant or underutilized properties at the end of their useful life cycle offers an opportunity for housing that can represent the community's current and future needs. New ownership opportunities in housing helps people build generational wealth through their investments.

A Solution.

Michigan law created a tool that can be used to help developers build homes and apartments for earners in the attainable range.

Public Act 381 of 1996, as amended (Act 381) was created to encourage reuse and redevelopment of a challenged property. It gives state and local governments the authority to offer financial incentives for blighted, functionally obsolete, and historic property, along with property near a transit hub or that's owned by a state or local land bank authority. While targets challenged property that qualifies as a Brownfield under Act 381, this tool is being used to incent development on any kind of property, provided the development is a public good.



Incentives in Act 381 encourage developers to create housing for different demographics, from young buyers who need to be near good schools and build wealth, to older people who might prioritize proximity to health care and low maintenance.

For developers, incentives can help close a funding gap - when the cost of building is more than the market value of the product - for housing or any other kind of development. For communities, incentives can help attract developers, offset local costs that support new development, like infrastructure improvements, and build economic prosperity. Housing is economic development - a public good - when it makes homes available for workers to fill jobs and retain talented people.

Housing is economic development

This guidebook will help developers and local government officials understand and address financial gaps that prevent and discourage builders and developers from entering the middle and lower-income housing market and solving housing shortages in many communities across Michigan.

We'll go into all these concepts in much more detail in the following pages. Meanwhile, here are some terms to know as you go through this document.

- **Act 381: The Brownfield Redevelopment Financing Act, Public Act 381 of 1996, as amended**
- **BRA: Brownfield Redevelopment Authority. These can be established by a village, township, city, or county.**
- **EGLE: Michigan Department of Environment, Great Lakes, and Energy**
- **LBA: Land Bank Authority. There's a state land bank authority that serves every county. Individual counties and the City of Detroit can also set up their own.**
- **MEDC: Michigan Economic Development Corporation**
- **TIF: Tax Increment Financing. The plan or act of using tax revenues to reimburse a developer for eligible expenses under Act 381.**
- **TIR: Tax Increment Revenues. The difference between the taxes paid on a property before development and after purchase/development/improvement. When a local government approves using TIR to help pay for development costs, it's commonly said the local government "captures" the TIR.**

The Development Process

Real estate development is an economic multiplier that can invigorate a municipality's landscape, employ a skilled workforce, and support small businesses while increasing the value to match current market trends, demand, and even break cycles of disinvestment or decline.

Communities benefit from new investments that contribute to current residents and support growth initiatives for long-term sustainability. Increased investment in any community increases the taxable values, keeps opportunities in line with demand, and can ensure resident pride increases so long as the products meet community needs.

Property development is the process of adding value to shape the built environment of your community. Like any business, development has to serve a need and solve a problem. What does the community need? Is there a need for housing that will help companies attract and retain employees? Is there a need for new quality homes built within city limits? What do residents want in their neighborhoods? Will adding housing improve safety and increase their home value?

Identifying opportunities in real estate development begins by understanding how to solve needs in the marketplace. A strong sense of purpose should be defined before pursuing potential development's physical, technical, finance, and risk assessments. Uncovering this purpose begins by speaking with residents, community leaders at the area's city, county, economic development, and businesses to quantify the need through these discussions.

Whether residential, commercial, or industrial needs, knowing how many spaces the community needs and what they should offer is critical. Many communities require a diversity of housing choices. If single-family homes are predominant, people who want to live in condominiums that are walkable to amenities or neighborhood-scale rentals like duplexes or small apartment buildings choose to live elsewhere to find the home that suits their needs.

Clearly articulating a community's need can help to advance community development.

Community and Economic Developers can work with real estate developers to encourage investment in the type of product needed.. Clearly articulating a community's need can help to advance community development. Whether a community needs 50 homes at accessible price points or 200 homes for a variety of income levels, knowing what is needed and which priorities are highest helps developers and investors work with local leaders to solve problems.

An emerging best practice is to publicly offer information around properties for redevelopment. By compiling information around land that is available for redevelopment through municipal, county, or state governmental agencies. The community agency makes the following publicly available: what could be built there from a zoning perspective, site history, market information, community needs, and potential incentives. This practice allows strong local leaders to articulate opportunities as they collaborate with private and nonprofit organizations.

Once the product is defined, it's up to a developer to build a team to shape what that will look like. How long will the building be built for? Is the construction methodology to be durable and long-lasting, or are they building for a quick lifespan? Perhaps rehabilitating homes or buildings that need major upgrades is what is most needed.

Developments should reflect their neighborhoods and locations as much as they reflect the investment team's decisions.

How can it represent both you as an investor and developer plus the neighborhood and place it resides in? Walking through a neighborhood and noting the scale at which the existing buildings are built, the materials used (i.e., siding, brick), and architectural style is a valuable exercise that should be performed before glancing at the zoning code. It demonstrates the vernacular of the neighborhood. Additionally, it allows developers to understand how the neighborhood functions concerning the building program outlined. Ensuring the place can serve the market need and be additive to the fabric of the community.

First-time developers should start with a renovation or rehabilitation project whenever possible.

Adding value to an existing building makes a multifaceted process more streamlined and removes some variables which will reduce risk and increase the likelihood of success. To ensure safety standards and compliance, all developments need to abide by building codes and be overseen by local building inspectors and permits.

Zoning ordinances need to be followed for new construction and renovations. This could be for "as a right" proposals or projects requesting variances (meaning they require approval of any change of use or additional density being requested).

Development Team

Building a team of professionals who have the experience in their field as well as the type of housing you are proposing.

1. Market Analyst
    a. Helps to determine the type of housing needed
    b. Determines absorption rates
    c. Assists in marketing plan
2. Developer
3. Architect
4. Attorney
5. General Contractor
6. Property manager
7. Lender
8. Accountant
9. Elected Officials
10. Investor
11. Environmental Consultants
    a. Remediation
    b. Documentation
    c. “Green” or Sustainability Consultants

A knowledgeable realtor in the local market could be your ideal market analyst

Predevelopment

The front end envisioning. What will be built? Performing the research, and calculating preliminary financial analysis.

1. Strategic Planning & Goal Setting.
Asking the following begins to define what can and should be developed.

a. Who will you serve in the community?
   i. Have conversations with city and community leaders to ask what types of housing are needed.
   ii. Which neighborhoods have properties that could be redeveloped?
b. How do you want to serve the community?
c. What role do you want?
   i. Full ownership and control
   ii. Partnering
   iii. No ownership- being a conduit to complete the project

2. Market Determination takes the general information that was collected and begins to refine it into a tangible product. Understanding who you want to serve first and foremost before moving into the market niche is important.

a. What are the sales and rental rates?
   i. Number of units
   ii. Bedroom mix
   iii. Cost in rent or ownership
   iv. Amenities
   v. Who is your competition?
   vi. Absorption rate: How fast will units be rented?

b. Is there a need for renovations or opportunities for new construction?
c. What are the neighborhood trends? Lots of investment or disinvestment? Is it diverse in terms of age, income, race, ethnicity, and family makeup or is it more of a monoculture?
d. Has the community identified land bank properties for redevelopment, brownfields, or neighborhoods that need reinvestment?
e. Chart out the market expectations at each price point.

Single-Family Home Rentals	\$1050/mo	» 2-3 bedrooms » 1.5 baths » 1200sf » Laminate flooring & Carpet » Older appliances, kitchen finishes, and mechanical systems. » Dedicated off-street parking.
Duplex rentals	\$900/mo	» 2 bed » 1 bath » 800sf » Renovation of home divided » Hardwood floors, Older kitchen, Older mechanical. » Shared driveway.
Granny Flats/ Accessory Dwelling Unit	\$850/mo	» 1 bed » 1 bath » 600sf » Engineered wood floors & tile, microkitchen, all new efficient mechanical » Street parking.

Operating expenses can make or break the success of a project. Developers need to know the annual costs, capital expenditures, and ways inflation over time will affect a property's ability to be resilient.

f. Uncover Operating Cost & Vacancy/Occupancy Rates.
    i. What will it cost to maintain the property (lawn, snow, capital reserves), pay property taxes, lease-up and turn over units?
    ii. How long does it take to lease up a rental within the neighborhood? Talk to other investors and landlords
    iii. What housing is absorbed most quickly? (e.g. 1 bedroom rentals have the lowest vacancy rates)
g. Construction and development costs
    i. What are home builders and contractors charging on average per square foot for the type of product you're looking to build?
    ii. What additional infrastructure, site preparation, and land costs will need to be accounted for?
    iii. What will design, engineering, environmental specialists, legal and other professional services cost?
    iv. Are there economies of scale that will reduce the costs when more units

3. Financing Availability
a. Mortgage
b. Equity
c. Construction Loan
d. Additional sources of financing
    i. Soft second mortgages/grants
    ii. Foundations
    iii. Energy-efficiency programs
    iv. Local initiatives

What financing sources are available to you?

4. Back of the Envelope analysis speaks to the strength and feasibility to move the conceptual development forward.
a. Compile the data into a spreadsheet.
b. Does the future value exceed the total cost of development?
c. How could it be tweaked or strengthened?
d. Is there a gap between the value of the product needed in the community and the market costs to develop it?

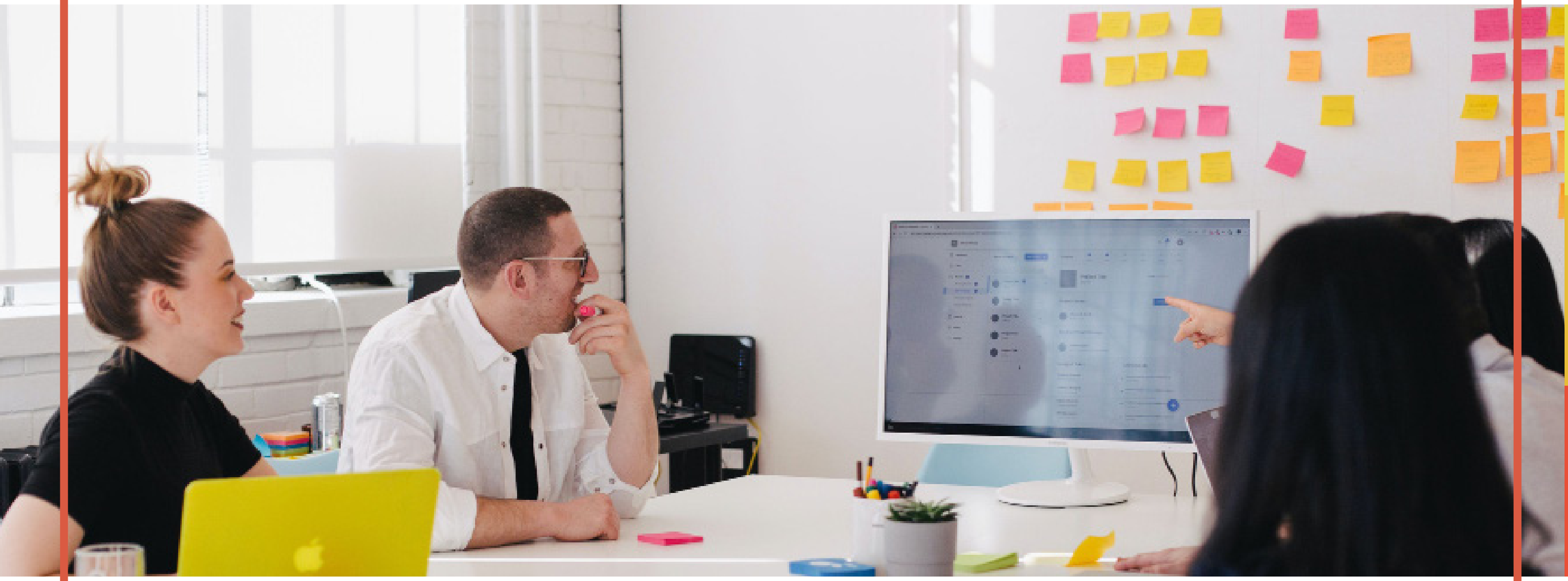
Back of the Envelope		
Address		
Monthly Rental Income		
Gross Potential Income		
Operating Expenses & Vacancy	55%	
Net Operating Income		
Total Porject Cost		
Equity	20%	
Monthly P&I		
DSCF		
Net Annual Income		
Cash on Cash		

Feasibility

The process where the concept begins to materialize.

1. Property selection - Where can I build what's needed?
    a. Identifying sites where housing can be built.
    b. Analyzing the neighborhoods of each site and their particular qualities in comparison to market analysis and property characteristics
    c. Note that the workload for developers that occurs prior to a property being identified.
2. Site control - getting a purchase or development agreement.
3. Due Diligence - The process of pursuing development criteria in relation to the land. Due diligence includes legal, title, entitlement, financial, physical, environmental, and market data.See due diligence checklist for environmental, entitlement, legal, and financial tasks.

4. Operating cost projections
5. Architecture & Design - What will it look like in the neighborhood and throughout? How will it fit on the property? How will the design fit the target market?
6. Preconstruction & building cost estimates -
7. Financial analysis / Proforma with multi-year cash flow analysis.
    a. MEDC Proforma Guide
    b. Direct Link to CRP Proforma
8. Putting a deal package together
    a. Project summary
    b. Location description
    c. Zoning and regulations
    d. Market research
    e. Physical product / Building program
    f. Unit mix and layouts
    g. Operating expense analysis
    h. Construction estimates
    i. Financial analysis
    l. Bank terms desired
    j. Investor returns anticipated
    k. Ways to mitigate risk or have a Plan B
    l. Overview of team bios and experience.



Development - Construction - Executing the concept

1. Financing. Take all cost estimates and work with your investors and a lender to get the necessary funds in order to deliver the project. Estimates should include both hard costs (construction - bricks & sticks) as well as soft costs (professional fees - legal & accounting). Projects should have contingency estimated for issues that may arise.
2. Construction begins.
3. Project Management. Oversight of the construction process so it meets the design requirements that were laid out.
4. Finish details. Ensuring the end quality and finished product is as desired.
5. Pre-leasing / sales. As construction comes to a close, pre-leasing can begin prior to completion or sales contracts can be created.
6. Closeout of construction. Receipt of the certificate(s) of occupancy.
7. Lease up or sell.
    a. If leasing:
        i. Permanent debt in the case of leasing.
        ii. Operations & Property Management
        iii. Refinance, sell or hold.
    b. If selling:
        i. Hire a broker to sell units
        ii. Ensure all deed and title work is clear
        iii. Sell

Financing a development project
Whether the housing being developed is for sale to be owner-occupied or to become rental units impacts the financial structure.

Financing housing for-sale is more straightforward from a return on investment perspective. Construction financing is used to develop housing. It gets paid down when sales are closed. Pre-tax cash flow or proceeds are what's left after all costs have been paid.

Pro formas

BUILDINGS FOR RENT	BUILDINGS FOR SALE
Rent collections	Sale Proceeds
-Operating expenses	-Commissions, etc.
-Debt payments	-Debt payments
Annual cash flow	Pre-tax cash flow

Spartyville Example

Disaster in Spartyville! A flood damaged homes and businesses in Spartyville and it's up to homeowners, businesses and private developers to put things back together. A pocket of courtyard style condos were gutted and owners decided to sell each unit to a developer for $40,000 for a total of $400,000. The developer renovated each unit over a year and sold them at a higher value to reflect the higher quality and finish level. The acquisition cost, construction & carrying costs come out to $1,8432,097 and condos were sold for $2,462,000 with sales and closing costs of $172,720 the pre-tax cash flow from the redevelopment of condos in Spartyville is $457,183.

What if the condos were rented out instead of sold?

Both of these hypothetical deals work in Spartyville but what happens when the development team talks to city leadership about pricing the units more affordably so it helps solve the deficit of attainable housing they face? Does it still provide great quality? Is the project feasible for the developer to charge less on rent and still provide a return to investors in order to do the project? What's the environmental liability required within the renovation work? How could the developer make this good deal GREAT by also adding in a social return on investment back to the community through offering the homes at more accessible price points?

Back of the Envelope		
Address	**Spartyville**	
Monthly Rental Income		$20,000
Gross Potential Income		$240,000
Operating Expenses & Vacancy	45%	$108,000
Net Operating Income		$132,000
Total Porject Cost		$1,832,097
Equity	20%	$366,419.40
Monthly P&I		$9,272.60
DSCF		1.186290792
Net Annual Income		$20,729
Cash on Cash		5.66%

The back of the envelope financials show such a negative return and inability to pay the bank back on the loan. Keeping the rents at accessible price points does not allow for in a social return on investment back to the community through offering the homes at more accessible price points?

In the following market rate housing example, you can see the developer is able to build housing in Spartyville but needs to charge a monthly rental rate of $1800 per month. You'll see in the attainable example where 80% of area median income, or $1450 per month, the investment is not feasible. The 2% return on investment is not enough for the risk and resources required to build the attainable housing. These examples showcase why there is a lack of housing options at this price point.

Gross Potential Value								
Unit type	sf / unit	monthly rent / SF	no. of units		subtotal sf	subtotal monthly rent / unit		subtotal annual rent
2 bedroom / 2.5 bath	1,600	1.13	30		48,000	$1,800		$648,000
total # of units			30					
total square footage					48,000			48,000
gross potential income								$648,000
Net Operating Income								
gross potential income								$648,000
vacancy allowance		5%	of GPI					$(32,400)
operating expenses	30%	$(6,480)	per unit		# of units:	30		$(194,400)
net operating income								$421,200
Project Costs								
land basis								$1,200,000
direct construction costs		$86	per sf		$137,710	per door		$4,131,291
indirect construction cost		$0	per sf		$500	per door		$15,000
architectural / engineering					$	per door		$-
Project Management Fee					$5,000	per door		$150,000
total project costs								$5,496,291
equity				20%		% of total costs		$1,099,258
debt								$4,397,033
Debt Service								
loan term		60	months					
interest only rate		5.00%	%					
loan amount								$4,397,033
monthly interest payment								$18,321
interest only debt service								$1,099,258
construction equity								$10,993
total project equity required								$1,110,250.78
Project Performance								
net operating income								$421,200
annual debt service								$(283,251)
leveraged cash flow								$137,949
% to hold for reserves		10%			of net operating income			$(42,120)
annual cash flow available for distribution								$95,829
debt service coverage ratio								(1.49)
cash-on-cash return								8.72%
depreciation basis								$5,496,291
annual depreciation								$199,865

Gross Potential Value								
Unit type	sf / unit	monthly rent / SF	no. of units		subtotal sf	subtotal monthly rent / unit		subtotal annual rent
2 bedroom / 2.5 bath	1,600	0.91	30		48,000	$1,450		$521,856
total # of units			30					
total square footage					48,000			48,000
gross potential income								$521,856
Net Operating Income								
gross potential income								$521,856
vacancy allowance		5%	of GPI					$(26,093)
operating expenses	30%	$(5,219)	per unit		# of units:	30		$(156,557)
net operating income								$339,206
Project Costs								
land basis								$1,200,000
direct construction costs		$86	per sf		$137,710	per door		$4,131,291
indirect construction cost		$0	per sf		$500	per door		$15,000
architectural / engineering					$	per door		$-
Project Management Fee					$5,000	per door		$150,000
total project costs								$5,496,291
equity				20%		% of total costs		$1,099,258
debt								$4,397,033
Debt Service								
loan term		60	months					
interest only rate		5.00%	%					
loan amount								$4,397,033
monthly interest payment								$18,321
interest only debt service								$1,099,258
construction equity								$10,993
total project equity required								$1,110,250.78
Project Performance								
net operating income								$339,206
annual debt service								$(283,251)
leveraged cash flow								$55,956
% to hold for reserves		10%			of net operating income			$(33,921)
annual cash flow available for distribution								$22,035
debt service coverage ratio								(1.20)
cash-on-cash return								2.00%
depreciation basis								$5,496,291
annual depreciation								$199,865

Deals that Don't Pencil

When a financial analysis on a project doesn't stack up to be profitable, it doesn't pencil. There's a **gap** between the cost of the project and the future value of the project. That gap is the difference in values. For example, a house costs $200,000 to build, but the appraised value is $175,000 leaving a $25,000 gap between the cost and value. That gap is an issue as it means the investor needs to add more equity and cash in, which would diminish the returns and potentially make the whole project a nonstarter. Some subsidies are available if the project meets all qualifications and approvals to help fill the valuation void.

The above example of one home being developed does not meet a lot of the qualification requirements for financial incentives needed to make the deal pencil. If a community needs 20 houses and the gap grows from 25,000 to $500,000, it becomes more appropriate for various incentives. For housing, in particular, one such subsidy program is tax increment financing.

The Process: how does a developer use the incentives?

Act 381 incentives can be used on any eligible property that generates taxes. The developer can be a non-profit or for profit, the project can be single family homes, condos, or apartments. As long as someone will pay taxes, a TIF plan can be developed to generate incentives.

The key is collaboration: developers and local governments working together to build quality homes for middle and lower income buyers and renters. A developer who wants to access Act 381 incentives needs participation from a property owner if the site isn't already owned by the developer, a local brownfield redevelopment authority (BRA), and sometimes a local or state land bank authority (LBA).

A BRA is required for use of Act 381 incentives. No other body has authority to approve a brownfield plan, the document through which incentives are described and authorized. There are nearly 300 BRAs in Michigan, some more active than others. A community or county without a BRA may be losing development projects to places where BRAs are active.

The key is collaboration: developers and local governments working together

Where do you find a redevelopment site?
A community or its BRA or LBA can help drive prospective developers to the properties they want redeveloped by creating an inventory of eligible properties. The list could include tax reverted property owned by the state or county, contaminated property (the Michigan Department of Environment, Great Lakes, and Energy, or EGLE, maintains a list of known contaminated sites), or property or areas in the community that are a high priority for redevelopment.

About half of Michigan's counties and the State of Michigan have land bank authorities that maintain lists of properties that may be available for redevelopment. Counties also keep lists of foreclosed properties on their websites.

The Obsolete Property Rehabilitation Act (PA 146 of 2000, as amended) established 148 qualifying communities called "Core Communities," also called Qualified Local Governmental Units. Core communities are eligible for certain redevelopment incentives that are otherwise only available to property owned by an LBA. Many Core Communities are urban centers which are seeking to encourage redevelopment offering various incentives.

Another resource for sites is Redevelopment Ready Sites, which are located within Certified Redevelopment Ready Communities (RRC).

Some communities or LBAs will reach out to developers to offer property for redevelopment, or develop Requests for Qualifications (RFQs) to solicit development professionals. RFQs may be posted on local government websites. Developers can proactively research available parcels on local government websites and buy them through surplus property auctions, but some – especially LBA property – may be available without waiting for the auction. Developers can also call or email local economic development or planning staff or state agency staff to ask about available properties.

What are eligible costs?

A piece of property must be "eligible" under Act 381 to qualify for redevelopment incentives. Eligible properties can be:

- Blighted
- Functionally obsolete
- Contaminated
- Historic
- Transit-oriented property
- Owned by a state or local LBA

Other Incentives may still be used for a property that does not meet any of these criteria. The local or state LBA may take temporary ownership or control of property to qualify it for incentives.

Act 381 lists some broad categories of "eligible activities" (we call them eligible costs here) that can potentially be reimbursed with TIR, provided the costs have been approved in a brownfield plan and if necessary, approved in an Act 381 work plan. Brownfield authorities and state agencies ultimately approve which specific costs within the broad categories are eligible for reimbursement. Eligible costs can be incurred by anyone -- the developer, the local government, BRA, LBA, a nonprofit.

Reimbursement for some eligible costs is available statewide, and some eligible costs can be reimbursed only for development projects in a Core Community or on property owned or controlled by a land bank authority.

For any project, anywhere in the state where there's a BRA, TIR can be used to reimburse costs for:

- Baseline Environmental Assessments, environmental due care, environmental response activities, underground storage tank removal and closure, environmental insurance, and other environmentally-related actions
- Demolition, including waste removal

- Lead, asbestos, and mold abatement
- Relocating public buildings or operations for economic development
- Brownfield plan and work plan development and implementation
- Interest on a loan taken out to finance eligible costs
- Associated soft costs

For project sites located in a Core Community or owned or controlled by the state or local land bank authority, TIR can be used to reimburse costs for all of the above eligible costs, plus:

- Infrastructure improvements
- Site preparation
- Costs incurred by the land bank authority or a BRA in a Core Community for clearing or quieting title, and selling or conveying property. These costs are especially important in making housing more affordable. These costs could include:
    - marketing the property
    - subsidizing buyers' closing costs
    - the gap between the cost of construction and product appraisal or qualified purchaser's mortgage
    - legal costs associated with title work, secondary agreements, lending agreements, or other legal agreements associated with home affordability and ownership
    - other eligible costs related to creating and maintaining middle market housing

It is possible to temporarily transfer ownership or control of a property into a state or a local land bank in order to make it eligible for the second group of incentives.

How are incentives accessed and who does what?

The common denominators in almost any brownfield incentive program are a developer and a BRA. Without a developer, there's no project to incent and no TIR to capture. Any county, city, village, or township can create a BRA, the only body with authority to approve local brownfield incentives. If you're a developer and your county or local government doesn't have a BRA to help you access incentives, talk to your local officials about forming one.

Other important partners typically work in collaboration with a BRA and developer to leverage incentives for redevelopment projects.

- A land bank authority (LBA) can be created by any county and by the City of Detroit. There's also a State Land Bank Authority (SLBA) that can serve the same function as a local LBA. Property owned by or under the control of a land bank qualifies for the same eligible costs as Core Communities, which makes land banks a great way to access incentives in places that are not Core Communities.

- Counties, cities, townships, and villages are important partners. City councils or county commissions (depending on which set up the BRA) must approve brownfield plans, and verify that the project is in the public good. Local governments can also apply for EGLE brownfield redevelopment grants and loans that help pay for environmental assessment and cleanup. Local assessors determine whether a property is functionally obsolete or blighted (which can qualify a property for incentives) and post-development property values. BRAs may also have Local Brownfield Revolving Funds that award grants or loans for eligible costs.

Counties, cities, townships, and villages are important partners.

- Two state agencies, EGLE and Michigan Strategic Fund (MSF), have authority to approve state school TIR capture that increases taxes available to reimburse a developer for eligible costs. State government can supplement local brownfield incentives with grants and loans. EGLE brownfield grants and loans can be awarded to counties, cities, townships, and villages, whether or not they have a BRA. MEDC Community Revitalization Program grants help with development costs in engaged Redevelopment Ready Communities, downtowns, and other corridors.

Developers interested in accessing incentives should start with a phone call or email to the BRA or LBA chair, economic development office, or local planner to learn about their process for approving incentives. Every community's is different. BRAs or LBAs may have an application form; local governments may want the developer to make a short presentation about their project to their governing body. Building a relationship with the local officials who will approve incentives is essential for BRA incentives.

In order for government agencies to determine whether they can commit incentives to a project, at a minimum the developer will typically need:

- **A summary of the project, including how it benefits the community: jobs, investment, housing, increase in the property's taxable value, blight elimination, environmental improvement, building demolition or rehabilitation, economic development benefits. The developer needs to make a convincing argument to local or state officials that their project needs incentives to be successful and is a public good. The summary should also describe why the site or project is eligible for incentives. How does it meet the criteria above?**
- **A project budget**
- **A draft site plan**
- **Environmental reports, if any**
- **Verification that the developer has project financing**
- **A timeline**

How does Brownfield TIF work?

Brownfield TIF is a method of financing eligible costs by capturing TIR authorized by a brownfield plan. The captured TIR results from investments or improvements that raise a property's taxable value, creating a tax increment. This tax increment can be used to reimburse, over time, a developer or other investors for the eligible costs incurred to redevelop a site (refer to examples later in this guidebook).

Two kinds of property taxes are available for capture. All local taxes can be captured, except special millages repaying a local debt. State school taxes totaling 21 mills can also be captured, but only with approval from EGLE or MSF, and only when the property owner actually pays state school taxes – a home used as a principal residence is exempt from the 18 mill school operating tax.

Can TIF be used with PILOT, LIHTC, historic tax credits, grants, loans, community land trusts, or other incentives? Depends on the project structure, other incentive, and layering may not be feasible or beneficial for small projects.

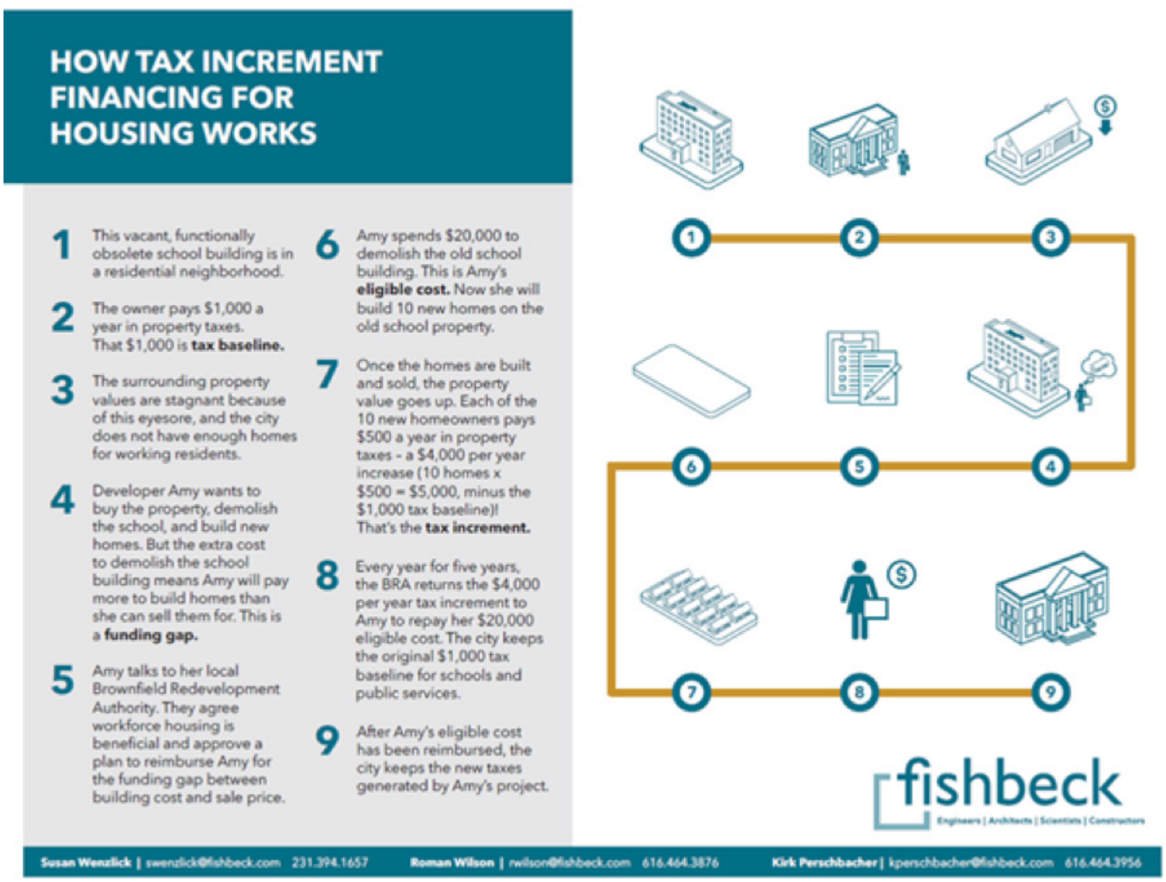
Some local governments will require plans to include state TIR if it's an option; this way the costs are shared by the state and the local government.

Authorization to capture local TIR (except debt payments and certain special assessments) is approved through a **brownfield plan**. Local taxing jurisdictions are not allowed to opt out of a plan. Each local BRA has the authority to decide how much TIR they'll capture for a project, and for how long.

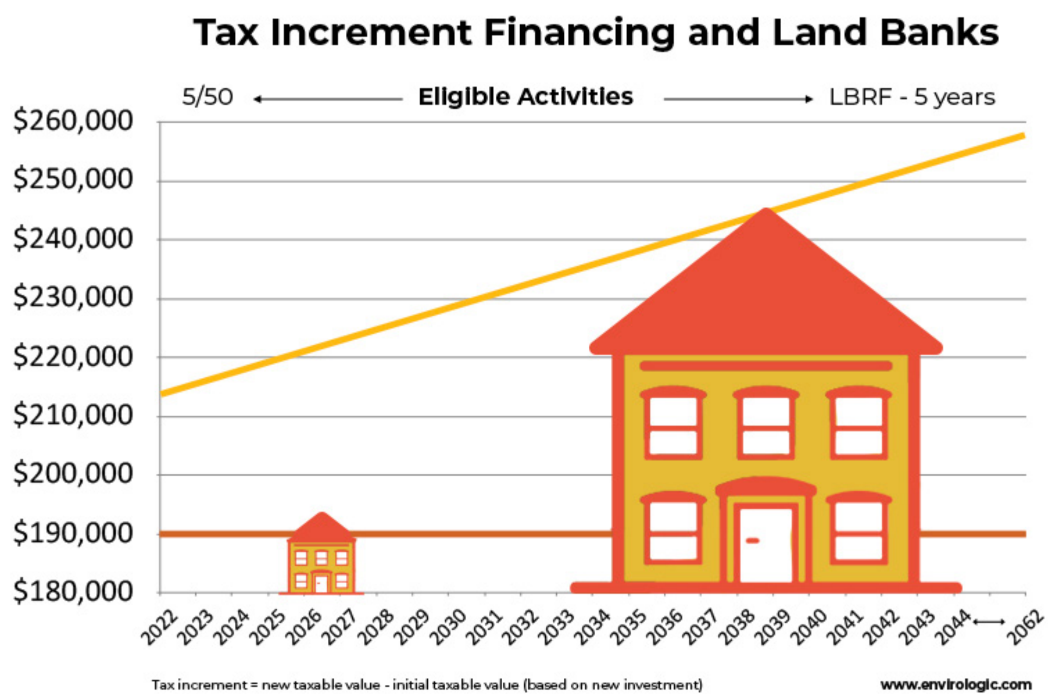
The BRA is not required to capture 100% of the eligible tax millage - they can capture a portion for the developer, and leave a portion for the taxing jurisdictions. The BRA can also decide how long they'll authorize capture. The law says TIR can be captured for up to 30 years, but some local governments won't approve that length of time, and most developers do not want to wait 30 years to be reimbursed for their eligible costs. City Council must approve brownfield plans after BRA approval for them to go into effect.

State TIR can be captured provided the appropriate state agency (MSF or EGLE) approves an **Act 381 work plan**. The developer will need to create a brownfield plan and an Act 381 work plan using a state template, so the project will be eligible for both state and local TIR capture. The templates in this guidebook are based on the state template and should meet state requirements. Reminder, the principal residence exemption means homeowners don't pay the 18 mill school operating tax on their primary residence. This means that when a developer sells a home, state TIR may be limited.

The following graphic shows a very simple TIF process using a functionally obsolete building. The process becomes more complex when a LBA must take control or ownership of property to access incentives, or when more complex incentives packages are needed to cover financial gaps.



The graphic below shows the TIR increasing over time as the property value increases. The property's initial or baseline assessed value is $0 to $5,000, which would represent a property in a land bank or a low cost vacant parcel. After it's improved with new housing, the assessed property value increases over 30 years from $5,000 to $260,000. The property tax increase from the initial assessed value of $5,000 to $260,000 through year 30 is the TIR – in other words, each year's tax minus the first year's tax is the tax increment. The TIR pays back a developer or other investor for the eligible costs that have been approved under a brownfield plan.



Some BRAs have created a Local Brownfield Revolving Fund (LBRF). TIR captured in the last five years of a brownfield plan may be collected by the BRA and used to pay eligible costs for other redevelopment projects. The LBRF doesn't affect the developer's reimbursement - it starts after the developer is fully reimbursed for their eligible costs.

What's in a brownfield plan?

Act 381 says that to use its incentives, someone - usually a developer - has to provide a brownfield plan to a BRA. The plan describes the project and what the incentives will be used for, and must be approved by the BRA and local governing body. If the project will use both local and state TIR, an Act 381 work plan - a more detailed plan - must be developed and submitted to EGLE and/or MSF for approval. This guidebook includes an Act 381 brownfield plan template.

A work plan is not the same as a brownfield plan. A brownfield plan is enough for a BRA to authorize local TIR capture. An Act 381 work plan plus a brownfield plan is required for state approval of TIR capture.

A brownfield plan includes information about the proposed redevelopment, the property (including why it's eligible for incentives), a description of the activities and costs for which TIR will be used, an estimate of capturable TIR, project financing, plan duration, impact on taxing jurisdictions, maps, and attachments for local resolutions, notifications, and other documentation that the project meets Act 381 requirements.

A brownfield plan can include multiple properties (or even a whole city or county). If TIR will be captured from a multi-property plan, consider the development's timing. If a single plan is approved for a project with multiple phases, the last phase developed will have less time to collect TIR than the first phase. If the BRA concurs, it may be beneficial to do a plan for each phase so TIF can be collected for up to 30 years for each phase.

When a brownfield plan is approved by a BRA, the BRA agrees to reimburse various parties for their eligible costs from the developer's or a subsequent owner's property taxes.

The BRA can capture only the tax increment - the difference between the property taxes generated from the initial or pre-development taxable value and property taxes generated from the new, post-development taxable value - to repay the eligible costs. Taxes on the baseline assessed value (the property value before redevelopment) are still distributed to taxing jurisdictions while the TIR are reimbursing eligible costs. Local governments don't get less money under a brownfield plan; the brownfield plan just defers the increase they'll see after eligible costs are reimbursed.

MEDC and EGLE each have criteria for evaluating and approving Act 381 work plans to capture state TIR. Work plans for environmental costs are submitted by the BRA to EGLE for approval to capture state TIR. EGLE doesn't distinguish between end uses or locations for its support – its priorities are environmental quality and public health and safety. MEDC, on the other hand, is prioritizes economic development and mixed use (residential plus commercial or retail) projects in traditional downtowns. MEDC rarely approves housing-only Act 381 work plans, but is becoming more open to workforce housing projects.

Combined Plans should be submitted to the State prior to local approval: The law allows a BRA to submit a combined brownfield plan / Act 381 work plan to the state agencies, but these are not recommended. If the state wants changes to Act 381 work plan, the revised plan / work plan needs to go through the whole approval process again: the BRA, notifications to taxing jurisdictions, the public hearing, and the city/county commission approval. Act 381 work plans that stand apart from brownfield plans do not need all these approvals; only the brownfield plan does, and those are not changed by state agencies unless they don't meet legal requirements.

Both state agencies want to be included early in the TIF planning process; be sure to reach out to appropriate state staff for guidance. This page has an interactive map showing MEDC contacts; this page lists EGLE contacts.

The TIF table, which describes the anticipated eligible costs and tax revenues, is the most difficult part of the brownfield plan. Each local tax millage must be listed. Most local government websites will have this information. Remember that local debt payments and certain special assessments cannot be captured. Assume a 1% increase in property taxes each year for the TIR estimate, but remember that the actual TIR may not be the same as the estimate. Reality does not always match the assumptions used for a brownfield plan.

The BRA may want the TIF table to include one or both of two fees they are allowed to collect. One is for local TIF plan administration, which helps cover extra administrative costs associated with tracking TIF plans and reimbursing developers. The other is a payment into an LBRF.

The local government can collect TIR for up to five years, either during developer reimbursement or after the developer's eligible expenses are paid, for this fund administered by the BRA for future brownfield projects.

If the property has been transferred into a land bank to make it eligible for TIR capture, or if the property is purchased from the LBA, the LBA may want fees added to the TIF table. Under the law, an LBA is allowed to capture 50% of TIR for five years (known as the 5/50 Rule) to cover their transaction costs. This amount may be negotiable. If MSF approval of state TIR will be requested, the LBA is expected to give up its 5/50. Is the local LBA willing to reduce or eliminate its share of TIR? *See more information on the 5/50 Rule on page 36.*

Here's a list of variables in a TIF table:

- **State school taxes: Include if you're seeking MEDC or EGLE approval for TIR capture, unless the project includes individual homes that will be sold for primary residences. In that case, the 18 mill school operating tax needs to be excluded.**
- **Increase in taxable value: 1% per year is a reasonable, conservative estimate**
- **Local debt and special assessments: Debt payments and certain special assessments cannot be included**
- **LBRF: Ask the BRA if it wants TIR for an LBRF included**
- **BRA administration: Ask the BRA whether it wants an administration fee included**
- **Land Bank 5/50: may be required if an LBA has been part of the project**

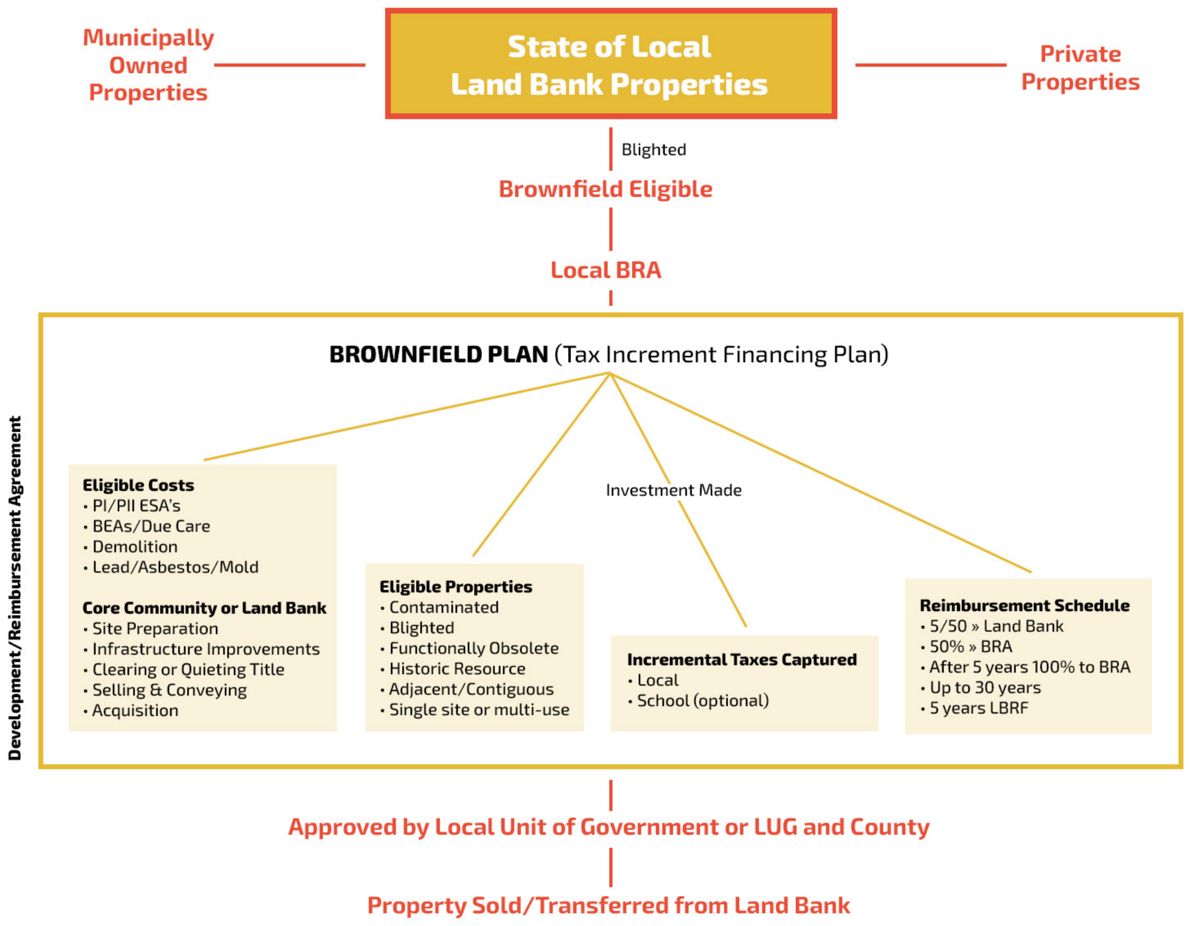
Getting a brownfield plan approved: it's not just about the form

Developers are encouraged to meet early in the project planning phase with local government officials and the BRA before completing a brownfield plan. Each BRA is different and may have an application process, fees, or want to negotiate incentives. Determine what the local government is willing to approve and understand their timing before drafting a plan. Keep in mind, the municipality's or county's meeting schedules will dictate the timetable for obtaining necessary approvals. Most eligible costs have to be approved before the work is done, so construction will need to wait until the local approval process is completed. A typical timeframe to get approval of a brownfield plan ranges from 60-90 days. If state school taxes are requested, add another 60-90 days for approval of an Act 381 work plan.

Not all BRAs are experienced with brownfield incentives. BRA members are local businesspeople, government officials, and residents, not necessarily development or incentives experts.

BRA members may need to be educated about Act 381 and LBAs, especially if a developer is proposing to assign temporary ownership or control of a property to an LBA to make it eligible for incentives.

Brownfield plans are performance-based: if a development is successful, the developer or other investors are reimbursed over time for the eligible costs approved in the brownfield plan. If the development doesn't happen, or generates less tax revenue than expected, the developer may not be fully reimbursed for their eligible expenses. Eligible costs may be reimbursed over a period of up to 30 years under Act 381, but may be much less depending on the TIR, the eligible costs, and the number of years a BRA or community will agree to commit TIR. A developer and local government or BRA should expect to execute a development / reimbursement agreement, a contract that outlines each party's responsibilities, expectations, and how the developer will be reimbursed with TIR. The development agreement may prohibit homes built with Act 381 incentives from becoming short term rentals for a specified time. Both parties should have their legal counsel review the agreement before signing.



Evaluating a project: when is the juice worth the squeeze?

Using tax increment financing through a brownfield plan to support attainable housing provides a viable, locally-controlled alternative to other more costly and competitive incentives. Clearly a brownfield plan will add time, work, and cost to a project, and requires communication and patience. One purpose of this guide is to help developers and project stakeholders decide when the outcome is worth the time and investment.

At the smallest recommended scale, infill housing on scattered standard lots can create for sale or for rent single-family housing. These small lots can also become home to duplexes, fourplexes and even incorporate accessory dwelling units (ADUs) or granny flats for multigenerational families or to generate rental income for owners. Communities that offer inclusionary zoning have the ability to offer a wider array of housing choices to retain and attract residents. These building types offer gentle neighborhood density and higher property valuations to amplify the economic impact and reimburse the developer's eligible costs more quickly.

The healthiest neighborhoods are the most diverse

Moving past lot level housing plans, larger parcels available for redevelopment offer the opportunity to build new housing that contributes to walkable neighborhoods and fills holes in existing street grids. With more land, developers have the potential to build multiple types of housing units at a variety of price points. The healthiest neighborhoods are the most diverse in terms of resident income, race, age, and family composition. A larger project with more TIR reimburses eligible costs faster.

To help decide when the juice (the outcome) is worth the squeeze (the input), evaluate the size of the project, its timing, the developer's willingness and ability to go through the incentives process or their capacity to hire someone to do the work. Some points to consider:

- **How much tax revenue is the project likely to generate, and how long will the payback on eligible costs take? Is it worth the wait?**
- **Can the project wait six months for incentives to be approved? Most incentives must be approved by a BRA before the eligible costs are incurred, so construction can't happen until after the brownfield plan and Act 381 work plan are approved.**
- **How much time can you commit to seeing the project through the process? Does the potential savings offset time that could be spent on other revenue-generating work?**
- **Are you able to attend meetings with local officials?**

Many of the eligible costs included in a brownfield plan can be reimbursed, but TIR is limited, no matter how big or small a project is. Consider the return on investment of your time, and remember that many environmental consultants and attorneys will create brownfield plans and Act 381 work plans.

No matter the scale, the tax increment financing offers a path for attainable housing to fill gaps in the local market.

The 5/50 Tax and Tax Increment Revenue Capture In Tandem

When developing TIF plans for land bank-owned properties, it's important to understand the Eligible Tax Reverted Property Specific Tax (ETRPS Tax), commonly referred to as the 5/50 tax, and how it interplays with Tax Increment Financing.

Act 260 of 2003 provides for the levy of a specific tax upon property sold or otherwise conveyed by a land bank authority. Once an eligible property is transferred, the property is subject to the specific tax and not the regular ad valorem levy. The same millage rates apply as the ad valorem tax, however 50% of the tax generated is transferred each of the next five (5) tax years following disposition by the land bank. After the fifth year, the property reverts to the regular ad valorem tax levy. Approved Act 381 TIF plans are allowed to capture the other half of the 5/50 tax not designated to the land bank subject to any tax-capture limits in Act 381.

A suggested thought-flow to follow when working with land bank properties and 5/50 might be as follows:

1. In years one to five after transfer, the 5/50 tax applies;
2. One-half of the tax levy goes to the land bank;
3. The other half is capturable for approved Act 381 TIF plans and can go into your TIF tables.
4. In year six and beyond, the 5/50 ends and the entire ad valorem amount levied and approved for local or state capture in TIF plans is available.

The Michigan Department of Treasury provides a calculation spreadsheet to determine the distribution of ETRPST to the brownfield authority, the land bank, taxing jurisdictions and the State. It is updated annually on their website.

A final note, the 5/50 tax may be waived by a land bank under Act 260 of 2003 (Tax Reverted Clean Title Act) Section 211.1025a Exemption, making the property subject to regular ad valorem taxes and TIF capture. Many times, a land bank will consider this arrangement, but keep in mind the 5/50 tax is the principal means of funding for land banks in Michigan, and their financial health is important to providing the parcel(s) that directly benefit from Housing TIF projects

Robinson Landing

A Case Study for City, BRA and LBRA Partnership for Attainable Housing

Housing Summit-
October 20, 2021

Marilyn Crowley
Vice President of Investment
Michigan Community Capital

About Michigan Community Capital (MCC)

- 501 (c) 3, private non-profit charity
- Originally Michigan Magnet Fund, founded in 2004 as a public private partnership between MSHDA, MEDC, and Great Lakes Cap Fund (now called Cinnaire) to attract New Market Tax Credits to the State of Michigan

Housing Next- Housing Needs Assessment

Ottawa County Housing Needs Estimates (2017 to 2022)

	Housing Segment	Number of Units*	Priority
Rentals	Low-Income Rental Housing (<$625/Month Rent)	~1,515	High
Rentals	Affordable Workforce Rental Housing ($625-$1,249/Month Rent)	~1,065	High
Rentals	Market-rate Rental Housing ($1,250/Month Rent)	~818	Moderate
For-Sale	Entry-Level For-Sale Homes ($100K-$149K)	~771	Moderate
For-Sale	Moderate-Income For-Sale Homes ($150K-$249K)	~1,659	High
For-Sale	High-Income For-Sale Homes ($250K+)	~927	High
Senior Care	Senior Care Housing (Assisted Living)	~524 (Beds)	Moderate
Senior Care	Senior Care Housing (Nursing Care)	~191 (Beds)	Low

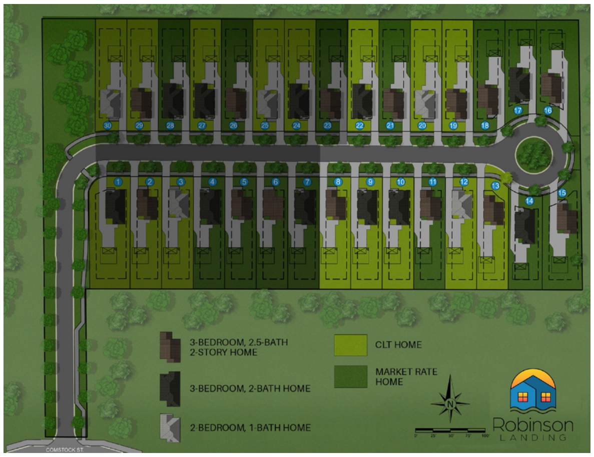
*Number of units assumes product is marketable, affordable and in an appropriate location. Variations of product types will impact the actual number of units that can be supported. Additionally, incentives and/or government policy changes could encourage support for additional units that exceed the preceding projections.

https://www.housingnext.org/housing-needs-assessment

Robinson Landing Project Summary

- MCC broke ground end of April 2021
- $8 million dollar development
- 30 for-sale, new construction homes on a quiet, tree-lined cul-de-sac.
- Subdivision through condominium
- Public- Private Partnership

https://www.robinsonlandingmi.com



Home Types and Price

16 of homes priced to be affordable to 80% AMI and in the Community Land Trust

- **(5) 2 Bed, 1 Bath- $139,000**
- **(6) 3 Bed, 2 Bath- $159,000**
- **(5) 3 Bed, 2.5 Bath- $179,000**

14 homes priced to be affordable to 80-120% AMI

- **(5) 3 Bed, 2 Bath- $239,000**
- **(9) 3 Bed, 2.5 Bath- $279,000**

Affordable "By Design"

» **Small lots (.15-.19 acres/lot)**

» **Modestly sized (940-1,450 sq ft)**

» **Panelized wood construction**

» **Slab-on-grade foundations (no basement)**

» **Garages are additional fee- not included in base price**

Focus on "Long Term Livability"

- All Appliances are energy star and included in purchase price
- Pursuing Green Star Certification
- Roof has lifetime warranty
- Windows are high-quality Anderson 100 series (20-year warranty)
- Siding has 10-year 100% warranty and 20-year pro-rated warranty
- Grass Seeding and Landscaping Included

Grand Haven Area Community Land Trust

- Started by City of Grand Haven
- Staffed by City of Grand Haven Staff
- Non-Profit with local stakeholders as board members
- Owns Land
- 99-year ground lease with home buyer

- $30/month
- Buyer must be 80% AMI or below
- Restrictions on resale price
- Home buyer education required

Creative Local Gap Filling Tools

- City Reduced Acquisition price to $32,000. Saved hundreds of thousands of dollars.
- City Reduced Tap fees from $10,000 per home to $1,000 per home. Saved $270,000
- Grand Haven Area Community Foundation approved a 2% interest- only Impact Investment for $1,500,000. Saved about $50,000 in interest and fees.

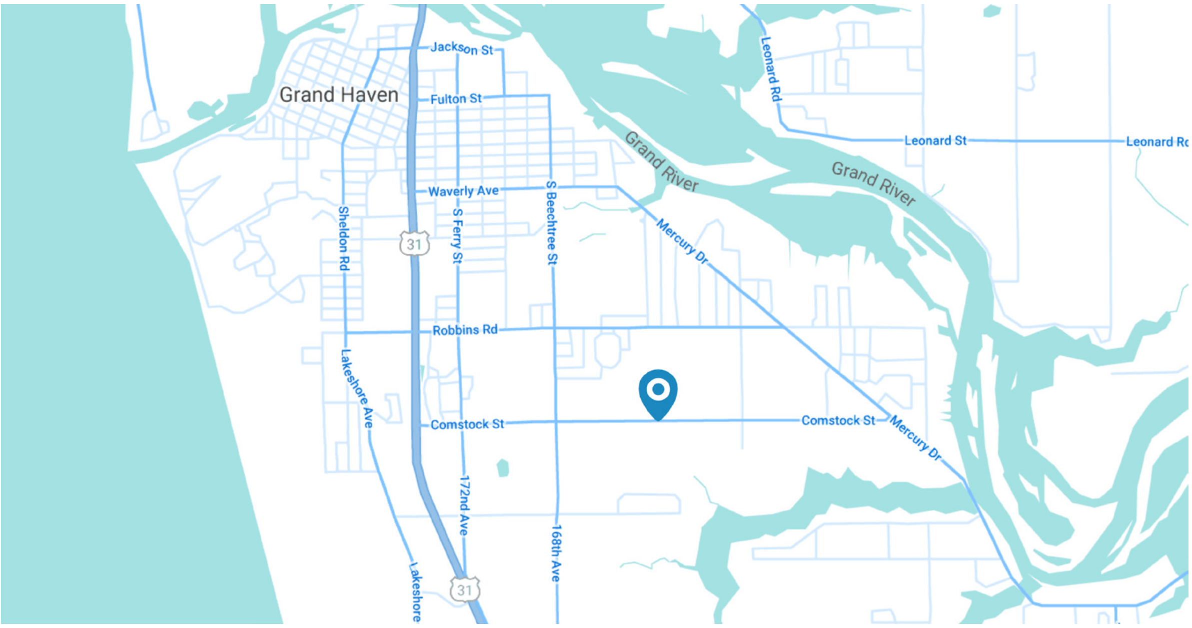
Brownfield Tax Increment Financing (TIF) Eligibility

- Facility (contaminated)
- Functionally Obsolete (as determined by level 3 or 4 assessor)
- Blighted (as outlined in the act)
- Being tax foreclosed or owned by landbank is a way to qualify a project as blighted
- Historic

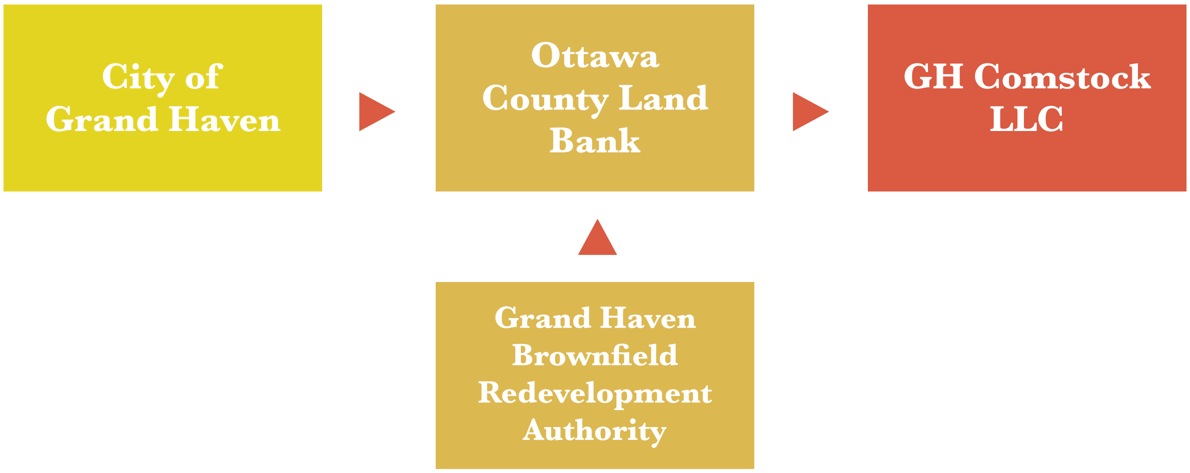
Eligible program uses under TIF include:

- Demolition
- Lead and asbestos abatement
- Site preparation
- Infrastructure improvements
- Assistance to land banks and local government units

Site- 7.5 Acres Owned by City of Grand Haven



Development Agreement



Robinson Landing TIF Plan

- Local- Only Plan
- 30 years
- Generates $175,133 for the Brownfield Redevelopment Authority
- Generates $362,106 for the Local Brownfield Revolving Fund
- Reimburses Developer for eligible activities

Summary of Local-only Eligible Activities	
Eligible Activities	**Cost**
Environmental Activities	
EGLE Pre-Approved Activities	$14,500
Sub-Total Environmental Activities	**$14,500**
Non-Environmental Activities	
Site Preparation	$374,087
Infrastructure Improvements	$1,374,995
Sub-Total Non-Environmental Activities	**$1,749,081**
Contingency (15%) *	$100,00
Brownfield Plan Preparation	$12,000
Brownfield Plan Implementation	$15,000
Interest (5%, simple) **	$1,074,840
Total Eligible Cost for Reimbursement	**$2,965,421**

Grand Haven Area Community Land Trust

Increase in taxes after development completely reimburses the developer

Taxes paid before development continue to be paid

Year 1	Year 2	Year 3	...	Year 29	Year 30
$	$$	$$		$$$	$$$$

Bridge loan=Money up front

Leverages annual TIF payments

Robinson Landing Sources and Uses

Project Budget	
Acquisition	$34,646
Legal	$23,500
Title	$8,750
Insurance	$22,621
Predevelopment A+E	$66,700
Environmental	$23,800
GMP with DK	$6,968,685
Contingency inside of GMP	$90,476
City Infrastructure	$217,673
Soft Cost Contingency	$15,000
Owner Contingency	$100,000
Commitment Fee	$10,664
Bank Interest Reserve	$321,367
Foundation Loan Interest Reserve	$30,000
Construction Tax Reserve	$35,000
Total Project Cost	**$7,968,882**

Project Sources	
Bank Loan	$4,300,000
MCC Equity (Repaid through home sales)	$293,750
Brownfield TIF Loan from MCC	$1,875,132
Grand Haven Area Community Foundation Loan	$1,500,000
Total Sources	**$7,968,882**

Robinson Landing Partners

- Michigan Community Capital: Developer-provided capital, guaranteed debt
- Housing Next: commissioned housing study, identified site, played “match-maker”, encouraged pro-active zoning
- Grand Haven Area Community Foundation: $1.5M low-cost capital
- Ottawa County Landbank: transferred site to allow for brownfield eligibility
- City of Grand Haven: zoning updated to allow for smaller lots and smaller homes, reduced acquisition price, approval of brownfield tax increment financing, reduced tap fees by 90%, created a Community Land Trust
- Dart Bank- Construction Loan
- Blue West Properties: Local broker reduced commission to 1%

Summary

- **Workforce/ Attainable Housing needs will not be addressed by private market alone**
- **Most housing for working/middle class families will need subsidy**
- **Economic Development Professionals, Planners, City Officials and Businesses MUST be pro-active to encourage housing to meet their needs**
- **Identifying sites, completing market studies and raising capital all will help to attract investment**
- **Brownfield Redevelopment Authorities, Municipalities and Land Bank Authorities can work together to creatively incentivize the kind of housing their communities need**

Disclaimer:

The content of this guidebook is not a substitute for your own due diligence, analysis, calculations, and judgement. Where calculations and valuation tools are provided, they are intended for general illustration and education only. Any pre-defined values offered are generic and must be amended according to your own market research. We do not endorse any outputs calculated. As such, we will not be liable in respect of any damage, expense or any other loss you may suffer arising out of such information or any reliance you may place upon such information.