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Each January at their annual retreat the MAP Board identifies a policy priority - an issue or challenge facing our industry - and over the course of the year seeks to learn more about that topic, ultimately developing a policy to guide the work of MAP, and of our members.

To that end, the board “links” with experts throughout the year, inviting leaders from planning or other industries to join the board for conversations about the topic, deepening our understanding, and informing our policy direction. What we learn is incorporated into our policies, and ultimately shared with our members through educational programming, Michigan Planner features, and advocacy. Sometimes it results in new partnerships or grants.

These board linkage conversations are so rich with content that we believe our members will find useful that we developed this series of Board Linkage Summaries to highlight the key findings of these exchanges with others - typically non-planners - who join us in the space of community building.

The objective of this series of to allow you to also better understand who the board is meeting with, the objectives of those meetings, and the takeaways that will help us all understand the interconnectedness we share with other disciplines and professions, and how we can apply this knowledge to our work as planners.

## Board Linkage Briefs

# Why is There a Housing Shortage? *(part one)*

### ***What is the Technical Definition of a Shortage?***

According to microeconomics, if a market is not in equilibrium a situation of a surplus or a shortage may exist. A shortage, also called excess demand, is the amount by which the quantity of a good demanded by consumers is greater than the quantity supplied by producers and occurs when prices are below the equilibrium price.

The difference with a housing shortage is that people do need to be sheltered and live someplace. In this way, the demand for housing is very different than other goods like a Tickle Me Elmo doll or diamond pendant. While housing prices may increase due to demand, people typically cannot choose to not live someplace, like they could choose to not buy the doll or jewelry. Furthermore, housing is a fixed asset, so a surplus of housing in North Dakota does not alleviate the need for housing in Oregon.

### ***Not Enough Starter Homes***

The majority of people in Michigan can afford a home that is valued at \$250,000 or less. The inventory that is affordable to middle income households is shrinking. Millennials are coming of age to buy their first house and there aren't enough homes available to purchase.

Demand is increasing, but wages have not kept pace with housing costs. Even residents with technically good paying jobs will be unable to purchase a home, due to high cost. ALICE (Asset Limited, Income Constrained, Employed) is a new way of defining and understanding the struggles of households that earn above the Federal Poverty Level, but not enough to afford a bare-bones household budget. In Michigan in 2019, 26% of the state's population lived above the Federal Poverty Level, but less than the cost of living in the county where they lived.

Homes that are being constructed by the developers with only conventional financing continue to serve the needs of higher-income households. For a developer, determining what type of housing to build is a balancing act between the economy, the actual cost of construction, and the price the market can bear. The total cost of development is based on the following:

- Land cost
- Developing the site: infrastructure, parking, landscaping

- Construction: building, permits, property taxes, materials, skilled trades and construction workers
- Marketing: advertising, realtor expenses, promotional materials

The total cost is then divided by the number of housing units that can be built on the property to determine the cost per unit, and the profit a developer can make on a project. There is little difference in these fixed costs between a high value unit and an affordable unit.

The big question is what price is the market willing to pay? Many factors need to be considered, such as the quality of the school system, access to work and shopping, recreational attraction in the area, etc. – the overall desirability of the area. Based on this criteria, the developer must determine whether the project is viable to develop. Often these calculations mean that houses not affordable to the majority of Michigan residents are being constructed.

Since new starter homes are not being constructed, there is a limited supply. People who currently live in these homes are often reluctant to sell because they are concerned about being priced out of another home in this market. This means that the supply of modest homes—homes that were built years ago - are very attractive to new buyers . . . the very ones who can't afford the new houses built for higher-income households. In many areas, bidding wars are occurring, resulting in fewer and fewer units available within a price range that is truly affordable to a median-income family.

In sought after locations such as Ann Arbor and Traverse City, home values have increased as those areas attracted high-paying jobs and subsequent population growth. During the Great Recession, the period between 2007 and 2013, the production of new housing slowed drastically. While Michigan lost population during that time period, housing construction still fell behind, leading to an ever increasing demand and driving prices upward.

MAP's Board Linkage *Why is There a Housing Shortage, Part Two* looks into other causes of the housing shortage.

### ***Did You Know?***

In Kent County, 22,000 new housing units are needed per year just to match growing demand. The new housing units don't account for growing families, families that would rather relocate to something more affordable, or families that are in housing that is substandard. There has been a 68% increase in the average sale price of houses and a 39% increase in average rent over last 6 years. Wages have not kept pace with the rising price of housing.