

# Affordable Housing Model for Rural Communities in Northern Michigan

## ABSTRACT

The Northern Michigan Region has agricultural, tourism/recreational and retirement related businesses that are dependent upon both seasonal and year-round employment. The advent of short-term vacation rentals has *driven* the workforce and service sector employees to more urban settings *or* to leave the area due to a lack of housing options. This, coupled with a lower population in rural areas and, seasonal employment, translates into a lack of funding options to support affordable housing. To maintain growth and stability in Region D<sub>1</sub>, the following idea is proposed.

### The Model:

Homestretch, working in the capacity as a Community Housing Development Organization (CHDO) has created a repeatable model for small scale urban development. A unique set of circumstances of knowledge, experience and capacity has been realized to position Homestretch as a leader toward innovative, cost effective and sustainable housing for rural communities. While every project varies with respect to utility providers, municipal infrastructure and site conditions, a common blueprint for the underwriting and installation of *sustainable* Townhouse style dwellings is the key to delivering production quotas. To achieve this goal, the following parameters are used for implementation.

### Target Market:

The services sector is the most prevalent source of employment in the primary market area and specific to our targeted households. Additional demand and source of revenue to support the developments will target Housing Choice Vouchers (HCV), low income and workforce income. These three categories are best described as follows:

1. **30% AMI (10% of total)**
  - a. Retirees with part time employment
  - b. Veterans and disabled
2. **50-60% AMI (50% of total)**
  - a. Agricultural
  - b. Construction
  - c. Manufacturing
  - d. Retail
  - e. Elderly care
3. **60-80% AMI (30% of total)**
  - a. Educational
  - b. Healthcare (nurses and Dr. aides)
  - c. Arts and Entertainment

# Affordable Housing Model for Rural Communities in Northern Michigan

4. **80-120% AMI (10% of total)**
  - a. Paramedics
  - b. Supervisors
  - c. Paralegal
  - d. Other professionals

## Financing/Underwriting:

Long term debt is required to be at 40-year amortization with rates close to 4% and debt coverage ratio (DCR) of 1.15. This low-cost financing is only available to nonprofit housing organizations and is a key component to future affordability as it will be discussed in the body of this paper. These terms align with USDA RD facilities direct loans where affordable and workforce housing is an eligible activity. Other long term debt propositions to MSHDA utilizing tax exempt bond financing for multiple sites packaged under the same ownership will be requested. A blend of these programs may be necessary, if allowed, to reduce annual financial audit expenses. Further requests will be made to CDFI's for supplemental debt, as required. Underwriting assumptions/requirements:

Debt Coverage Ratio	1.15
Vacancy Rate	5%
Management and Administration fee	250 per unit per year (PUPY)
Maintenance	\$1,875 PUPY
Site and Municipal Utilities	\$560 PUPY
Tax Abatement PILOT	6% minimum.
Insurance	\$625 PUPY
Replacement Reserve	\$300 PUPY add \$50 if owner supplied W/D
Annual Audit (wholesale pricing)	

## Use of Funds

**Land:** Land Bank, Land Trust, and philanthropic donated sites are the preferred method of Acquisition. In exchange, the property is subject to a 20-year affordable housing Deed Restriction that is extendable when tax abatements are maintained. In the event the land must be purchased, the per unit cost shall not exceed \$20,000 including onsite excavating or manipulation. Offsite improvements are required to be paid for by Township or County contributions and State matching grants where available. The goal is to acquire the land plus offsite improvements with *zero cost* reflected on the financial proforma. Permanent debt ratio to cost should not exceed 40% to ensure affordability.

## Affordable Housing Model for Rural Communities in Northern Michigan

**\*Construction:** Small scale developments DO NOT benefit from economies of scale or using mid-rise structures which layer units one above another. Rather, the best cost cutting measures are accomplished through repeatable design, or a “cookie cutter” mentality for each development. A townhouse design is better suited for this purpose and requires NO municipal water to meet fire suppression or building separation. For waste treatment, a rural site can offer lower utility costs to the developer *and* tenant by amortizing a private septic facility over 30 to 40 years. Conversely, a private well can produce the same benefits. Low flow plumbing fixtures and recirculating hot water taps with smart technology are mandatory specifications which lower *use* and *operational* costs as well as promote environmental sensitivity. If the use of fossil fuel energy is prohibited or not available to the site, a 100% electric energized development with solar enhancement becomes more desirable, particularly in a rural setting.

Our Townhouse design is 16 feet wide and 28 feet long with a gable roof over 2 levels. The living, kitchen and dining rooms are located on the 1<sup>st</sup> floor with 2 bedrooms and a full bath on the second floor. A single story third bedroom or stand-alone efficiency 1 bedroom may be attached to either side for additional density.

**The Building Envelope:** Whatever energy is produced to heat and cool the interior habitat, it must be contained and controlled. Outside temperature above and below 68 degrees must not affect the interior temperature, therefore the building envelope is the focus of creating a comfortable and healthy environment. *This is commonly known as weatherization.* Acting as a *thermally insulated compartment* we can adjust the interior atmosphere regardless of the exterior temperature influence. Essentially, we are building a passive house envelope which is airtight and utilizes energy efficient doors and windows with high quality gaskets and sealants. Using Energy Recovery Ventilators (ERV) to import fresh air maintains a high level of indoor air quality for the inhabitants. The economic benefits of this system are realized well into the future and the additional cost to create this super insulated structure can be amortized over the life of the permanent loan. A direct correlation of this methodology reduces energy consumption and increases the quality of life through lower operational costs. Our goal is to deliver a building envelope which helps our families lower their heating costs, be more comfortable, and benefit the environment for years to come.

**Materials:** Structural Insulated Panels or SIPS, make up the exterior wall components for the super insulated and airtight envelope. The second level floor system consists of Cross Laminated Timber or CLT’s, commonly known as “mass timber floor cassettes.” The interior walls and roof trusses are prefabricated light framing components. All three products are *produced in a factory setting and assembled on site* with minimal labor and energy. This “hybrid” of site constructed, and factory built affords the best of both options where costly shipping and labor and time are minimized. They are also highly rated for sustainability and carbon sequestration.

Exterior claddings and Interior finishes are chosen for durability, green attributes, and low volatile organic compounds (VOC’s.) Mechanical fixtures are Energy Star Certified and

## Affordable Housing Model for Rural Communities in Northern Michigan

specified to match minimum load requirements or “right sized” for each application. A 100% electric installation is now feasible utilizing cold climate heat pumps for heating, cooling and water conditioning. Homestretch has perfected this *carbon neutral* housing model and is poised to have a positive impact on housing affordability and beneficial to the planet.

### **Execution:**

Homestretch was created in 1996 with seed money from Rotary Charities and Fannie Mae. The fourteen member Board has representation from the low income community, banking, legal counsel, municipal and real estate professional as well as local developer and other retired professionals related to the real estate development industry. These dedicated members help guide the executive director and staff of four dedicated employees to achieve success. The company has a \$400,000 operating budget and reinvests profits into predevelopment activities and project equity. The benefits for utilizing Homestretch to build affordable housing projects can be summed up in the following list:

- a. Developer *and* General Contractor
- b. Full-Service in-house bookkeeping and subcontractor relations
- c. State approved property management company
- d. Tax exempt procurement of all materials
- e. Volume purchasing advantages
- f. Repeatable process and design
- g. Low maintenance sustainable structures
- h. Ecological landscaping design and youth group deployment

It is our hope that whether you are a housing advocate, lender, philanthropy or foundation, State, or local entity, that you recognize this proven urban housing model so you will promote and support Homestretch in whatever capacity you can. We strive to help people who need safe, decent affordable housing while providing economic development and prosperity to the Northern Michigan Region.

We have several projects under development that require various amounts of funding. If interested, we will provide you with information specific to each project. Furthermore, if you have an idea for a project or are looking for a partner to bring a project to reality, please contact us, we are glad to help.

Jonathan Stimson  
*Executive Director*  
HOMESTRETCH HOUSING

