

GROWING TREND IN
SINGLE-FAMILY HOUSING SUBDIVISIONS
FOR RENT

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EXECUTIVE SUMMARY

There is a growing trend within the housing market for developers to build or invest in entire neighborhoods of single-family homes strictly for rental purposes. However, this is a relatively new concept and therefore this study looked into the background of this movement, the rental market as a whole and what steps developers might take to get involved. The need for this report is to address the single-family detached for rent market and explore its connection to the municipal level, as well as to provide insight for developers looking to get involved with this new trend.

This report aims to provide a guidance for developers that are looking to make investments towards rental residential neighborhoods and provide insights regarding the municipal view to such developments. To achieve this aim, a review of the literature and industry resources were conducted, followed by developer interviews.

Overall, the participants of this study agree that a rental development such as this might fare better on the west coast than the east coast. Many during their interview stated that some of their most successful projects had low land acquisition and site development costs, and the relationship they have with their local municipality was a pivotal point of success to the project. Finally, discussions for Michigan and external sources are provided as they relate to this market.

A brief on the findings of this report is presented below.

- These developments became popular sometime in 2014 and have continued gaining momentum since then.

- If land acquisition costs and site development costs are low, projects can be successful even in a less stable market due to the ability to recuperate those costs quickly.
- Developing relationships with municipalities can be important to getting projects approved. Key aspects in developing these relationships include:
 - working closely with members of the municipal planning department
 - meeting goals of the city as laid out in the Master Plan, and
 - being a responsible participant in respective commissions (for example company staff member(s) to attend Planning Commission public meetings and the Development Committee in their municipality to stay informed on all projects and further to facilitate a positive interaction).
- Relationships between developer and municipality can be crucial for project success which can be described as having:
 - full support from the municipality and engagement from the community,
 - a low vacancy rate in the units and maintaining a steady supply of residents.
- Feasibility studies are the key to understanding the market where single-family developments for rent can be successful. These feasibility studies can look at:
 - market saturation
 - market need
 - demographics of the community
 - other developments nearby, and
 - codes and regulations of the municipality.

- Study participants mentioned that the West Coast currently has the most amount of these rental developments but this type of model could work across the country.
- The case of *Michigan*:
 - Michigan municipalities do not currently have much exposure or experience with single-family for rent developments. Since the recession, Michigan is a prime candidate for single-family for rent developments with many individuals turning towards more affordable housing options.
 - Specifically, those located around a major university see an influx of millennials, who are looking for an alternative to a conventional 30-year mortgage.
 - Those with high property taxes are potential individuals that should be a target for single-family housing for rent developments. A web search revealed that Michigan on average has a 1.83% property tax rate, making it the seventh most expensive state to live in as of 2016. Based on the same search, the highest three property tax by Michigan counties are:
 - Ingham County 2.343%
 - Clinton County: 1.588%
 - Eaton County: 1.771%

Section 6 – Results and Section 7 – Discussions provide further insights and details to these results.

TABLE OF CONTENTS

- 1. INTRODUCTION 6**
- 2. BACKGROUND 7**
 - 1.1. Housing Market Analysis: Past, Present, and Future 7
 - 1.2. Rental Housing Market Demand 10
 - 1.3. Is There a Market for Single-Family Rentals?..... 11
 - 1.4. Summary 12
- 3. RESIDENTIAL DEVELOPER PERSPECTIVE..... 12**
 - 3.1 Types of Investments for Residential Developers..... 12
 - 3.2 Incentives to Choose Single-Family Developments 13
 - 3.3 Where to Invest? 14
 - 3.4 Investor Strategies 15
 - 3.5 Summary 16
- 4. CONSUMER PERSPECTIVE 16**
 - 4.1 Rental Single-Family Homes: Benefits to Consumers 16
 - 4.2 The Perspective of Financing 18
 - 4.3 Summary 20
- 5. METHODS..... 21**
- 6. RESULTS 22**
 - 6.1 Summary 28
- 7. DISCUSSIONS..... 33**
 - 7.1 Summary 35
- 8. CONCLUSIONS 36**
- REFERENCES 38**
- APPENDIX: STRUCTURED INTERVIEW QUESTIONS 42**

1. INTRODUCTION

There is a trend among developers building entire neighborhoods of homes strictly for rental purposes. With considerable sustained demand for stand-alone home rentals that look identical to their for-sale counterparts, developers can capitalize on this distinctive new movement. In 2015, approximately 25,000 detached homes were newly constructed for rent; however roughly 12.7 million of today's 120 million households are rentals, showcasing a market for existing single-family homes as well. Overall, 11.6% of housing demand in the nation is for detached single-family homes for rent (Anderson, 2015).

This demand comes from younger millennials and aging baby boomers who want the space and luxuries of a single-family home, but without the long-term commitment of a conventional mortgage. Moreover, individuals who cannot afford traditional down-payments on a for-sale home, such as younger millennials with rising student debt amounts, prefer the lower up-front costs of single-family for rent. Renters choose to partake in this route being unable to qualify for a conventional mortgage. Additionally, the flexible ability to relocate, and the reduced aspect of completing maintenance on the home are strong selling points to rent over buy. Furthermore, from the developers' perspective, building for rental can lower costs, produce faster cycle times, create higher volume, and allow for efficient overhead.

This study examines factors that residential developers need to take into account when thinking of getting involved in the rental subdivision market and some of the roadblocks they might face. To achieve these objectives, this study undertook a literature review to (1) list the types of investments for a residential developer; and (2) review and outline the potential factors that might affect rental neighborhoods to be more successful in certain geographic

areas in comparison to their traditional counterparts seen across the country. Examining the market in each selected area: including but not limited to economic growth, population, density, demographics, and types of housing options are also explored in this study. Second, a field study of a developer in the state of Michigan was conducted, where cases of rental units have been successfully implemented. However, additional developers across the country were interviewed to verify the findings of the literature review. Further, this study expands and provides information for developers to catalyze their opportunity to enter or strengthen their presence in the single-family for rent market. The findings of this study aim to serve as a guide for developers that are looking to make investments towards rental residential neighborhoods and provide insights regarding the municipal view to such developments.

2. BACKGROUND

1.1. Housing Market Analysis: Past, Present, and Future

Analyzing the housing market in three phases: pre-crisis, crisis, and post-crisis showcases the variety of changes that occurred over a period of years that led us to our current position in this cyclical market.

Pre-Crisis Housing Market: Before the housing crisis in the mid-2000s, housing stock and homeownership were booming, stemming from the economic increase after World War II. The overall rate of homeownership between 1940 and 1960 grew approximately 18 points, where 62% of American homes were owner-occupied.

Beginning after World War II, the housing industry, along with homeowner rates were on the rise. Dramatic changes took place due to a booming post-war economy, favorable tax laws

under the Truman and Eisenhower eras, a resurgence in the home-building and construction industries and flexible financing plans (Garb, 2005). As a result of these culminations, in 1950, U.S. homeownership increased to 55% and continued to grow thereafter, following the congressional passage of the G.I. Bill, allowing soldiers returning from war to purchase homes (Aguirre Jr & Martinez, 2014).

This increasing rate of homeownership continued throughout the 1960s and rose until 1980. From thereafter, the rate of Americans owning homes remained relatively stable until near 1998. In the late 1990s, we began to see a slight change in the market, where new regulatory shifts, changes to the structure of the mortgage market, and rising housing prices led to the creation of the second mortgage lending regime (McCoy et. al., 2009).

When the market began a noticeable shift, many Americans experienced constraints when it came to qualifying for a mortgage. The constraints of wealth (through maximum loan to value ratio), income (through maximum debt to income ratio), and credit (through minimum credit score) impacted the ability for many to qualify for a traditional home mortgage (Acolin et. al., 2016).

Between 1998 and 2004, the rate of ownership increased even more, reaching a high of approximately 69% (Acolin et. al., 2016). Accordingly, 69% of homes occupied by an owner in the 2004 housing market is stated as an all-time high and peaked shortly before the sub-prime mortgage crisis that followed.

Housing Market During the Crisis: Through this increase in the second mortgage lending regime, the number of mortgages originated increased from 4.3 million in 2001 to approximately 5.7 million in 2004. From this point thereafter, the number of mortgages

originated remained above 5.5 million through 2006 and the subsequent downfall of the housing market (FFIEC, 2015). Following the collapse of the market in the 2008 recession, the national average of homeownership has plummeted. What was once seen as a strong market with almost 70% of homes owner-occupied, was now at a 50-year low of roughly 62% and saturated with foreclosures (Rohe, 2017.)

Between 2006 and 2011, average housing prices across the country fell by more than 30%. Because of this approximately \$7 trillion was wiped from the value of housing assets, due to the collapse, many Americans were then left unable to afford their mortgages. It was common for a large number of Americans at this point to be considered “underwater” on their mortgage payments (Keely et. al., 2012). A common explanation for “underwater” is as mentioned, a mortgage loan with a higher balance than the free-market value of the home. With a home that is considered underwater, a homeowner is typically prevented from selling the home unless that owner can pay cash for the loss on the value out of pocket. At the same time, it also prevents a homeowner from refinancing their loan in most cases, which was a common issue during the housing crisis.

During the crisis, it became known to some that the system the U.S. was following, was unsuccessful. The nature of U.S. housing policy during the crisis and subsequent recession showcased a downturn in overall housing prices, both owner-occupied and renter-occupied. It also showcased greatly diminished construction activity with extremely low housing start values for several months on-end, and surging rates of foreclosure and mortgage default (Schwartz, 2011).

Post-Crisis Housing Market: Post-crisis, in today's market, housing sales and prices are on the rise. In July 2017, approximately 571,000 new houses were sold at a median sales price of \$313,700 (U.S. Census and HUD, 2017). Over the last four quarters, total production of new single-family houses for rent was 28,000 homes. Now, individuals look towards rental housing, as they find themselves still burdened by debt and unable to qualify for a conventional mortgage. The shift into rental housing is considered by some to be a solution post-crisis to the fall of the housing market.

Rental housing is a significant share of the nation's increasingly varied housing market. Since the downtrend of building construction in the 2008 recession, housing market revitalization shifted to multi-family housing (Rappaport, 2015) and multi-family construction has since surpassed pre-crisis levels. However, even with the strong rebound of the housing market, particularly in the multi-family niche, the decade-long surge in rental demand is unparalleled (JCHSHU, 2015.) The market share of single-family homes built-for-rent, as measured on a one year moving average stood at 3.5% of total starts as of the second quarter of 2017 (U.S. Census Bureau, 2017).

1.2. Rental Housing Market Demand

With the onset of the Great Recession and declines in overall homeownership rate, due primarily to foreclosure, the share of built-for-rent homes rose. In mid-2015, approximately 43 million families and individuals lived in rental housing, increasing roughly from 34 million in 2005. Additionally, the number of US households that rent instead of own rose from 31 percent to 37 percent of the market (JCHSHU, 2015). For many low- and moderate- income Americans,

rental housing is often the only viable option, and many are now entering the market specifically for rental housing.

There is a stronger than expected demand for rental housing in the current market, reflected by comparatively low rental vacancy rates from previous years. The rate of growth in new housing starts have been less robust than in previous economic recoveries, leading to a belief that the market is less strong for new units and therefore supporting a shift into more rental housing. However, both housing prices and rent prices are on the rise with nearly 500,000 households joining annually until 2025 (HUD User, 2018). The nature of affordable rental housing demand, however, is changing and moving from high income and aged populations and low income to middle income category (HUS User, 2018).

According to the U.S. Census Bureau, in the past few years, new residential construction starts, permits, and completions show a positive trend across the country, but in recent months these values have been falling slightly, leading to a higher demand in rental housing. Because these values are dropping, a trend can be analyzed that new construction is slowing, as the market is still saturated with existing homes and because of that, demand for new construction has fallen as of late. (U.S. Census Bureau, 2017).

1.3. Is There a Market for Single-Family Rentals?

Overall, single-family rentals account for just over 10 percent of all housing stock, but in some markets like Las Vegas, Miami, and Riverside-San Bernardino, they account for more than a quarter of the single-family stock (NMHC, 2017.) Overall, in the second quarter of 2017, there were 136,456 (thousands) housing units and approximately 43,183 (thousands) were renter-occupied; showing there is a market in the U.S. specifically for rental-occupied single-family

housing. Approximately 83 percent of individuals entering the housing market are looking for a single-family detached house (Zillow, 2016.)

1.4. Summary

There is certainly a market need for single-family for rental housing, and the trend is growing across the nation. Demand in a post-crisis market is high, as individuals are looking for single-family homes that meet their family's needs for space and flexibility among other requirements. As the trend is shifting away from multi-family housing or apartment complexes, there is a need for either new construction to be designed for rental purposes or for existing single-family homes to be available for rental purposes. Even though individuals are looking for a single-family detached home, rental housing might be their only viable option depending on level of income.

3. RESIDENTIAL DEVELOPER PERSPECTIVE

3.1 Types of Investments for Residential Developers

It's estimated that the size of the global institution-grade commercial real estate market is valued at over \$32 trillion, and for that reason, real estate itself should be considered as part of any investor's portfolio, including residential (Baum, 2015.) There are many different types of residential real estate to consider investing in or constructing; all the way from condominiums to manufactured or modular homes, vacation homes and single-family residences. In addition to this, properties are either considered investment properties or owner-occupied. Below is a list of common investments involving the real estate market and can be applicable to the housing types listed above.

- Direct Real Estate
 - Buying a stake in a specific property – acquiring ownership interest in an entity that directly owns a real estate asset.
 - Buying a stock in a housing company, such as an investor who purchases the stock of any one homebuilder who has a large rental portfolio.
- Real Estate Investment Trust (REITs)
 - A tax-advantaged form of indirect real estate – buying shares in a trust or publicly or privately held company.
- Unlisted Funds
 - Used as a way to diversify a portfolio and balance assets. Property fund mainly comprises direct property but may also include other property related interests.
- Mutual Funds and Funds-of-Funds
 - Investment program funded by shareholders that trades in many diversified holdings and is professionally managed – pool of moneys collected from many investors for the purpose of investing.

3.2 Incentives to Choose Single-Family Developments

Dating back to the 1940's, President Harry S. Truman released a much waited for statement of his housing plans, now that veterans were returning home. He added that while, at the time, the nation was booming in single-family suburban homeownership he wanted the federal government to support rental housing. He stated returning veterans should not be compelled to make hard choices in order to afford a home for shelter when they could rent. Throughout

his tenure, he introduced many programs specific to housing, with incentives to build and occupy for rent (Glock, 2016.)

It can also be an incentive for investors to choose single-family developments, specifically for rent instead of owning because the rental market is generally seen as more stable in terms of pricing. It could be safer to invest in properties like these because the difference in volatility, especially in the last two decades, is pronounced. It's shown that between 1997 and 2006, real house prices increased by 63%, whereas rental prices rose by 18%, and the difference between those two values could be even farther apart in certain geographic areas that were hit harder by the recession than others (Xiaojin & Kwok, 2017.)

3.3 Where to Invest?

There is a sweet spot for developers investing in real estate, as some markets do better than others, and some economies do better than others. Recently, it's been found that single-family homes closer to an urban core or to a central city held their value better in the recent recession and are increasingly becoming revitalized. Those homes with "new urbanist" features appeared to be a better choice for communities and possible investment opportunities (Dong, 2015.)

Notably, during the recession in the mid-2000s, some markets were hit harder than others, and are just now showing strong signs of bouncing back and being a "hot" market for developments of any scale. States like California, Florida, Michigan, and Ohio were known to have the highest foreclosure rates during the recession and suffered the most in terms of home appreciation.

Potential options to locate a new development include areas like Nevada, where the subprime mortgage market accounted for 30% of all loans in 2006. Other options include states in both the Rustbelt (New York, Pennsylvania, West Virginia, Ohio, Indiana, and Michigan) and the Sunbelt (Florida, Georgia, South Carolina, Alabama, Mississippi, Louisiana, Texas, New Mexico, Arizona, Nevada, and California), where land acquisition prices might be low or recovering from the recession, depending on geographic area (Aalbers, M., 2009.)

3.4 Investor Strategies

Specifically, investors in a distressed market such as Las Vegas during the end of the recession, are notably different than investors in stable markets. Varieties of investors include those known as flippers or rehabbers, those who purchase in poor condition for low prices and rent them out with minimal maintenance, those who hold properties to rent out for short periods to achieve cash flow and resale, and those who hold properties to rent out for the long-term. On top of those investor types and strategies, there are also investors who might buy a few houses on the same block, or cul-de-sac, creating a small community. A very small portion of the market is controlled under corporate investors, buying entire subdivisions or dozens to hundreds of houses (Mallach, 2014.)

It should also be noted that some worry about strategies for investors depending on the political climate and the administration in office. Some worry that government regulations have made the available supply of housing less affordable for all – both owners and renters (Saks, 2007.) At the same time, some argue that affordability problems facing renters could be eased by removing regulatory barriers that impede the construction of affordable rental housing (Quigley & Raphael, 2004.)

Traditionally, real estate investments or actions in the real estate market had been a fairly passive process, with many investors participating in a buy-and-hold strategy (Amedee-Manesme, et. al, 2015.) However, in certain markets, this is becoming less of a popular strategy for single-family housing.

3.5 Summary

There are many different avenues of real estate for an individual to invest in; therefore, understanding the market is important. Additionally, investor strategies can differ depending on the geographic location. Investor strategies also differ depending on type of housing style such as single-family for own, single-family for rent, or multi-family properties. There are many variables at play when it comes to making a decision for investment, for example market conditions, current housing regulations, interest rates, available capital, etc. However, there are some incentives to choosing the right geographic location as well as investing in single-family for rent properties, which can include high returns.

4. CONSUMER PERSPECTIVE

4.1 Rental Single-Family Homes: Benefits to Consumers

Living in a single-family home for rent have benefits to the consumer, as well as the developer. Some basic advantages for consumers who rent a multi-family property in comparison to buying a single-family property include the following (Haury, 2017):

- Little to no maintenance costs or repair bills
- Cheaper utility bills due to small floorplan
- Flexibility to relocate
- No excessive mortgage interest

- No capital improvements

Some basic advantages for consumers who chose to rent a single-family home in comparison to renting a multi-family property include:

- Access to home luxuries such as: open space and privacy, larger floorplans, custom choices
- No large down payment on the home; which can conventionally reach 20 percent
- Flexibility to downsize or relocate without being attached to a long-term mortgage
- A typical fixed rent amount, no mortgage interest.
- Lower insurance costs such as investing in a renter's insurance policy instead of homeowner's insurance
- Renting can save money compared to a home that's purchased through traditional means.

An individual, when living in a single-family subdivision for rent, does not have the same obligations as they would owning a conventional home. Those going through the home buying process are typically much more diligent in their search for a home to call theirs because they have to maintain the home themselves as opposed to a housing association or similar entity. Those looking to formally purchase a home should take notice of capital improvements that need to be made, such as issues with the foundation, the roof, or likewise.

Comparatively, when a renter is looking to secure a home, they could be less inclined to care if the roof has to be redone in seven years if they are planning on moving before then; or, knowing they pay a housing association fee, know that the management company would take care of the roof regardless. Renters care more about their commute to work, the amenities the neighborhood has to offer, and the overall space inside their home; not if the exterior of the

home needs some sprucing up or if they need the furnace tuned up, as the landlord would bear those costs (Blanchett, 2017.)

Another benefit to renting instead of owning that many people enjoy is the flexibility to move. It's stated by many realtors that the average length an individual stays in one home is seven years. Contradictorily, the National Association of Home Builders produced a report in 2013 stating that the average length of homeownership was 13 years (Emrath, 2013). However, data pulled after 2013 was still primarily influenced by the housing crisis of 2007-2008 and had not recovered to the level that it has today. It's now stated that in quarter three of 2017 that those who sold their home owned for an average of 7.94 years, higher than pre-recession rates of 4.26 years. In other words, Americans are known to move around from time-to-time and could arguably have lived in 4 houses before the end of one 30-year conventional mortgage (MPA, 2016.)

4.2 The Perspective of Financing

Uniquely, something to also be considered in the debate of renting versus buying a single-family home other than the other argument of new construction versus old construction is the variable of student loan debt. Millennials are a large portion of the housing market regardless of whether they rent or buy, but their insurmountable student loan debt is shown as a deterrent to saving up for a conventional down-payment; and when young millennials are forced to pick between paying off their loans, saving for retirement, having spending money, and saving for a house, among other items; some choices are pushed back (Carter, 2017).

Student loan debt at the end of 2016 was \$1.3 trillion, and increase of 170 percent from 2006. On average, graduates have about \$34,000 in debt (Chakrabarti, et al. 2016.) In

comparison, in June 2017 the estimated total outstanding credit card debt for the U.S. was listed at only \$818 billion. Not only do most millennials have student loan debt, chances are they also have credit card debt. Approximately 77 percent of all Americans report that they have at least one credit card (Larrimore, et al. 2016.)

If young millennials are suffering from both student loan debt, and credit card debt, it's likely that they are not saving money for a large, conventional down-payment on a mortgage. In fact, it's sometimes described in popular culture that younger professionals are now working more hours for less pay than the generation of their parents. So, in turn, those entering the market to buy a house, typically have less money on-hand to do so. Additionally, some individuals are looking to buy a home, but have to wait until later in their life to do so. A mortgage, on average, is the largest household expenditure at 33 percent (Blanchett, 2017.) Because of this, some buyers are forced to wait until they can afford the traditional down-payment or look to purchase a cheaper house to afford the mortgage payments. For all buyers, the median period of time that debt delayed a home purchase and saving for a down-payment was three years. However, 16 percent of individuals were delayed 5 years and 22 percent were delayed more than 5 years (Lautz et. al.) An option for them in the meantime is to rent, and potentially rent a single-family home in a subdivision that they could later purchase.

The cost of owning a home is a common deterrence for individuals and could cause financial constraint among those looking to purchase, especially in today's market where housing prices are high. On the one hand, when prices are high, an individual has to sacrifice more in their life to afford the down-payment, especially when the buyer is a first-time purchaser, typically in their mid-20's. Due to the cyclical nature of the real estate market, the

individual might elect to postpone the home purchase until middle age where the cost of sacrifice is less. Therefore, the literature supports that higher housing prices decrease the probability of individuals buying first time homes at early ages (Agarwal et. al, 2015.) On the opposite side of the spectrum, it can be extrapolated that an individual may buy a house early in their life cycle if housing prices are low and expected to rise fast, however, this is typically a rare occurrence.

A potential solution for younger millennials or those with large amounts of consumer debt but still looking to maintain a single-family home lifestyle or potentially own a single-family home later in life is the approach of rent-to-own. It's still commonality among individuals to follow the "American Dream" and live in a single-family home, and many millennials are optimistic about their financial future and their ability to purchase a home, and in fact, many still consider purchasing a single-family home a good investment, but eventually later in their lives. It's shown that approximately 70% of individuals would consider a rent-to-own approach and even think that approach will be easier on their wallets overall (Burbank, 2015.)

4.3 Summary

The overall rising costs of housing, the growing student loan debt, consumer desire for flexibility in housing, among other factors bring the concept of single-family housing subdivisions into fruition. There is a considerable demand for rental housing within the United States, and as the millennial population gets closer to pursuing single-family housing opposed to multi-family housing, renting could be a common option many turn to. However, developers looking to create communities in certain geographic locations within this niche market face challenges.

5. METHODS

Based on a gap in literature regarding the growing trend in single-family housing for rent, developers are prime candidates to interview for their opinions on these types of developments and the ability they have to capitalize on this format of economic growth and bring a new housing concept to their communities. Those developers that are looking to progress towards a more urbanized notion of housing should provide a potential solution to the community that addresses the need for this study. First, a developer in Michigan was contacted to provide insight on a project located in East Lansing, Michigan.

Additional developers across the nation were selected to provide their insights on the processes of presenting their projects to the municipalities and gaining support to continue developing in the community. Furthermore, developers were selected to provide insight on this trend across the nation, and to allude to the success that single-family for rent developments have in certain markets, or that have certain characteristics.

Interviews were conducted over the phone with two interviewees and over a Zoom Conference Call with the third interviewee. Individuals were selected based on their employment within the development company and how knowledgeable they were with the subdivision complex at question. Companies were picked based on successful rental subdivisions of theirs that have been highlighted in the media, either online or in print media, sources that were used included the company website, articles in the National Real Estate Investor database, and those that were highlighted by or have affiliation with the National Association of Home Builders. Key words searched to find these companies or developments

included: single-family, rental development, subdivision for rent, single-family development companies, single-family for rent trend, and rental housing development.

Those interviewed were asked questions as seen in Appendix, and focused more on the interactions between the company or project team and the municipality. Each interview lasted between one and one and a half hours, and were conducted in December 2017. When discussed, each individual was asked how they present their case to the municipality for support, and what types of data they collect to present as supporting evidence that their project and delivery model of single-family detached homes will be successful. Additionally, respondents were asked their struggles and obstacles, and if they've had better luck in varying municipalities.

Moreover, questions were asked of the individual regarding incentives and investments that they seek from municipalities and whether or not they seek those incentives for single-family for rent projects. Interviews lasted approximately one hour, and were conducted over the course of several weeks.

A data collection protocol was developed following the guidelines for the Michigan State University Human Research Protection Program and went through the Institutional Review Board process to assure that the study protects individuals who are the subjects of research. The process of the Human Research Protection Program ensures the safe, ethical conduct of research.

6. RESULTS

Participant 1 is employed by a national residential development company with regional offices located in Detroit, Chicago, St. Louis, Cincinnati, Minneapolis, Washington D.C., Dallas,

and Scottsdale. However, this particular employee is based in Detroit, and has previously worked on a project located in East Lansing, Michigan. The company employs about 150 individuals. Participant 1 is specifically responsible for land acquisition in the company and has been employed by this company for six years, while in the industry for an additional 11 years. The company manages approximately 40,000 apartment homes within 50 cities, and also has some commercial space across the country.

The developer has a successful development in Mid-Michigan and owns half of the property, while the other half of the property was purchased by a Mid-Michigan homebuilder/developer which is true single-family detached housing, but for owning instead of renting. Additionally, this developer has transitioned almost entirely into a management company, and has shifted mostly from single-family detached units to apartment, condominium and commercial buildings. While this company now primarily serves a different style of living compared to traditional single-family homeowners, they are prevalent across the country. Participant 1 and their company were selected to provide insight from Michigan, and help guide local developers into the market.

Participant 1 mentioned that they were excited to see how the market would shift over the course of the next several years, and how many more properties like theirs could be brought to Michigan. At the time of the interview, Participant 1 was unaware of any other properties in Michigan that followed their same business model of single-family for rent at a large scale.

Participant 2 works at a company with their central Nevada office located in Las Vegas, but has previously worked in their Houston office. Participant 2 has been employed by this company for 13 years and is responsible for overseeing all of the Nevada developments. The

company employs over 200 individuals across the country. For their most recent Nevada development Participant 2 stated that their concept originally began with over 100 units, and as it stands now sits at 80 units. After beginning their feasibility study, conceptual plans, and working their way through the development process, the team felt it was necessary to drop the number of units to create a community that would be more successful among residents, and provide for additional comfort for each resident in their housing space. It was stated that dropping the number of units was not purely a financial motive and in-fact the development was chosen at a smaller scale to further test the results of a single-family for rent development in greater detail than a larger project.

It was stated in the interview that the best practices the company as a whole helps their projects be successful in front of the municipality. Participant 2 speculated that they have been more successful, even after the recession because of the overall size of their company. It was noted that on occasion a municipality could be more inclined to reject a proposal (specifically for rent) from a smaller company or one that is not as prevalent in the local community. Of the different rental projects that Participant 2 has been a part of, all were located within Nevada. Participant 2 also stated that the municipalities they work with are typically very open to a single-family for rent development and do not generally have reservations about approving a project within their boundaries.

Participant 2 also claimed that they are aware of the other out-of-state single-family for rent developments within the same company and states that those are just as successful and positively viewed by their respective municipalities. When asked how they interpreted some other developments across the nation, Participant 2 noted that most of the successful projects

are on the West Coast of the U.S. and in Texas, due to cheaper land prices and higher demand for these developments.

Furthermore, Participant 2 stated that they were aware that feasibility studies were being conducted in different locations such as North Carolina, Florida, Georgia, and Tennessee, noting that they all have relatively benign regulatory markets from a municipality perspective, offer more inexpensive land acquisition costs than some other states, and have popular, in demand school districts. Participant 2 concluded their interview by stating they believe this trend will continue to grow and will be successful for the younger, millennial age demographic.

The interview with Participant 3 echoed similar tones to Participant 2, and stated that while Arizona had inexpensive land acquisition costs, site development costs were also typically low, therefore making a rental community less subject to volatility of recuperating costs of construction. Participant 3 also noted that their most successful single-family rental communities are located in cities or towns with highly rated school districts.

Participant 3 works for a small company located solely in Arizona, that currently has three communities but is looking to expand. This company has its main office in Phoenix and employs 40 individuals. Participant 3 is mainly responsible for conducting market research and seeing where projects would be most feasible. Participant 3 has been employed with this company for 17 years but noted that their company structure changed shortly before the recession, where they previously operated solely as a company who would only develop land and sell off lots, or purchase the slowest selling floor plans or the last few homes in a community. When the recession took hold in the middle of their transition, Participant 3 stated that it was a goal of the company to provide affordable and easy living for their clients. At that point, they turned

over to the rental model, taking the slowest selling floor plans or last few homes in a community and renting those, having roughly no more than a dozen rental homes in a community. Now, as the recession has ended and the company model has proved to be successful, this particular developer now focuses its priority on entire communities for rent.

Participant 3 noted their success is still evolving and best practices are being established over time, however, provided an insight that projects on the West Coast might be more successful in single-family for rent ventures due to the overall more innovative style that is predominant in day-to-day activities. It was identified that states along the East Coast or Midwest typically follow more conventional paths, are more traditional, and are sometimes slow to accept innovative change, especially when it comes to real estate in places like the Midwest which has ample land and no real need for creative projects featuring vertical construction.

However, Participant 3 mentioned that they would be interested to see feasibility studies and input from the public on the East Coast to see if single-family subdivisions for rent could become a nationwide trend. Participant 3 also mentioned their company, which is currently only in Arizona, has been considering expanding and potentially looking at other opportunities in nearby Texas, but would also consider states like Florida, Georgia and Tennessee if they could support a rental subdivision community and if it could be successfully run in that environment.

Participant 3 explained that while they originally encountered struggles with municipalities in the Arizona market, does not feel that municipalities were apprehensive due to company size, meaning that they do not believe their smaller company size has hindered their role in the

rental subdivision market. Participant 3 maintained that while some larger companies might be better known nationally, local companies can also have success on the municipal level.

Participant 3 stated that in order for a venture to be successful, the developer must present the project to such a way to the municipality that the values of the potential renter are always considered. Participant 3 went into brief detail regarding their company values and how it's a priority among the company to provide a healthy and safe home for residents in the area. The interview with Participant 3 concluded with noting that developments in Michigan may not be ready for this type of housing development format. They stated that due to the overall lack of progressive movement the state has when it comes to innovative trends, it may not work in this area yet. Participant 3 ultimately hopes that single-family for rent subdivisions will become commonplace across the country to provide an affordable, and flexible solution for the community. Participant 3 stated that Michigan, while being a prime candidate for inexpensive land, should consider smaller developments of no more than 25-30 lots rather than entire platted subdivisions with several dozens or hundreds of houses, and stated they thought those developments would be more successful for the first few years as Michigan experiments with these types of rental communities. However, Participant 3 stated that Michigan should ultimately be successful as individuals are always looking for inexpensive and flexible housing options after the recession.

As discussed in the interviews with all three participants, each are hopeful that single-family subdivisions for rent will become ordinary across the nation in due time. One participant estimated that process to amount to 10-15 years. Participants 2 and 3 were very optimistic for rental communities to continue to be successful on the West Coast and hoped that the East

Coast or other states would begin to be more accepting of innovative ideas for housing. Each of the participants noted that feasibility studies are important tools to understanding their market and the needs of the citizens in their community. Participants 2 and 3 noted that factors in selecting their communities include popular school districts and the size of the community.

While Michigan does not particularly have a true development that is single-family detached homes for rent that was located at the time of this report, the development in East Lansing, Michigan is successful and similar enough to compare to other developments across the nation.

6.1 Summary

Findings are summarized in this section:

- All three developers are looking forward to more single-family for rent properties across the nation over the next several years.
 - It was noted that these developments became popular sometime in 2014 and have continued gaining momentum since then.
- If land acquisition costs and site development costs are low, projects can be successful even in a less stable market due to the ability to recuperate those costs quickly.
- There is a great need for single-family housing for rent, especially in certain markets such as Nevada and Arizona, where land acquisition prices and site development costs are low. While there are certainly more characteristics than acquisition costs and site development costs; both of the developers strongly placed emphasis on these two factors. This makes cost recovery easier in comparison to other states in the nation where those costs might be higher.

- Smaller development companies can be successful at the municipal level getting projects approved. In this case, a smaller company such as the one in Arizona operates in a limited capacity, in two cities, whereas the company Participant 2 works at is a national company, operating in 18 states.
 - Participant 3 mentioned one of their roadblocks in the beginning stages of the transition of their company was getting approval from municipalities for their properties. However, as relationships formed between the developer and municipalities, Participant 3 was able to have large rental projects approved, even with a small office team and less capital than a national developer. When Participant 3's company shifted into entirely single-family for rental purposes, they mentioned that there was some hesitation supporting an innovative project that was new to their area, and not widely seen to be successful across the county. The first development Participant 3 started began in 2012 and finished build-out in 2016. However, since completion of the project Participant 3 has noted success and overall support for more single-family for rental projects in their community.
 - Key aspects in developing these relationships include working closely with members of the municipal planning department, meeting goals of the city as laid out in the Master Plan, and overall being a responsible participant in their processes. Participant 2 mentioned that a member of their staff tries to attend all public meetings from the Planning Commission and the Development Committee in their municipality as to stay informed on all projects and further

provide a positive interaction between company and members of the respective commissions.

- Relationships between developer and municipality can be crucial for project success.
 - Project success in this instance can be described as having full support from the municipality and engagement from the community. At the same time, success would also be described as having a low vacancy rate in the units and maintaining a steady supply of residents.
 - As mentioned above, relationships between those that sit on municipal committees that approve a development project could easily fast-track or slow down a project depending on the relationship and perception of the company. If a mutual positive relationship is established between developer and municipality, the effect on success could be as simple as getting the required approvals and support for the development, making the overall process easier on everyone.
- Feasibility studies are the key to understanding the market where single-family developments for rent can be successful.
 - These feasibility studies can look at topics like market saturation, market need, demographics of the community, other developments nearby, and codes and regulations of the municipality.
 - Examples of market saturation could include locations where real estate prices are continually rising, even though there is no new submarket to serve.

- Examples of market need is related to market saturation. For instance, if a market is saturated and prices are high, with no major change in population, some questions to ask include: why are prices rising? Is there a demand for these units? Are individuals looking for new housing options? Are individuals moving to more affordable locations or locations with a different housing type?
- Examples of demographics of the community and what role they could potentially play are outlined in the discussions section, later in this report as it relates to Michigan. Demographics include the income level of the community, and the type of housing they can afford. Other aspects of demographics include age of the population, noting that a much younger or a much older population might prefer rental units over conventional units; either because of the cost or the flexibility of the unit.
- Examples of noting other developments nearby is commonsense, as developers should always be aware of their competitors and their share of the market. Even if a development was the only kind of its nature in the area, expecting to capture 100% of the market is unrealistic because of the other types of developments in the area. Investors looking to enter the market should be aware of other developments by competitor companies nearby to theirs as they would be competing for the same or very similar submarkets. This is just one step to a feasibility study and

determining if a project will ultimately be successful in the location selected.

- Examples of codes and regulations of the municipality include understanding if your project is lawfully complying with municipal orders. If a new development is innovative and passes all other categories of the feasibility study, but does not comply with the rules of the municipality, then the project cannot be built on those terms and will have to be re-evaluated. Investors conducting feasibility studies have to determine if there are any different regulations or ordinances from the municipality regarding rental properties. For instance, should a municipality regulate the density of rental units per acre, that rule would have to be factored into the feasibility study. There were no specific insights mentioned in the interviews regarding how a single-family for rental subdivision development is different than its traditional counterpart other than financial return and investment differences. Examining codes and regulations at the beginning stages of the project would likely be similar for either type of development, as they are constructed and designed traditionally the same way.

The interviews conducted proved to provide thoughtful insight to these types of rental communities and where they are currently the most successful. All three participants mentioned that they were excited to see where this trend would expand to next and mentioned that even if they encounter roadblocks from time to time from municipalities such

as getting their new projects approved, they ultimately found that their residents were highly satisfied with their living arrangements and the location of these developments. Each of the participants mentioned that the West Coast currently has the most amount of these rental developments but this type of model could work across the country.

7. DISCUSSIONS

As stated earlier in the report, finding viable and reliable reports from municipalities proved to be challenging, however, the information in this report is still crucial to understand the parties at hand, and to recognize the potential issues developers face when approaching a municipality to get approval for the project. At the beginning of this report, Michigan municipalities were contacted for their insight on rental markets but because Michigan does not currently have many developments that fit the parameters of single-family housing for rent, the success of these developments in Michigan is still being explored.

Michigan is very much a market that in almost all facets, struggled greatly during the late 2000s recession. Housing stability in Michigan became a hot topic, and many individuals faced foreclosure and walking away from their mortgages. Changes in macroeconomic conditions and increased instability elsewhere, most notably employment, meant that a broader range of individuals in the United States face financial risks (Kalleberg, 2009.)

Particularly, in Michigan employment and housing were just two of many factors that were affected by the recession, and therefore affected the residents of Michigan more greatly compared to some other locations. As instability in Michigan grew, those who owned a single-family home faced greater health challenges ranging from stress and anxiety, to chronic health

conditions that were brought out as a consequence of severe housing instability (Burgard et al., 2012.)

There is much discussion in the Tri-County Area of Mid-Michigan consisting of Clinton, Eaton, and Ingham counties for more housing options that are both affordable and attainable. Many people throughout these counties are facing difficulties of purchasing a home or staying in their owner-occupied homes due to rising costs, low-employment levels, and a lack of developers or investors (Kim, 2014). In this area, it's been documented there is a small amount, and therefore a need, for more affordable rental or single-family unit housing options.

Specifically, in Michigan, those located around a major university such as Michigan State University, you see an influx of young families or young professionals. There are many individuals with diverse backgrounds near a university, from those who just graduated and are staying in the area to raise a family, those who relocate to work, or those who are visiting faculty or graduate students. Some members of this community near the university and in the Tri-County area do not have much job security in place, or they are on tight budgets and therefore need more housing options, especially those with families, where two to three bedroom homes for rental in good school districts can be in high demand.

Additionally, it can be established that in a community such as the those in the Tri-County area have large disparities in income levels, and the median income level in even the three counties have a large difference among them. Furthermore, certain areas in the Tri-County area face higher taxes than others, making affordable housing options a must-have (Kim, 2014).

7.1 Summary

- Michigan municipalities do not currently have much exposure or experience with single-family for rent developments.
- Since the recession, Michigan is a prime candidate for single-family for rent developments with many individuals turning towards more affordable housing options.
 - Michigan was hit hard economically after the recession, with many forced into foreclosure when they went underwater on their mortgages. Because of this, many individuals still to this day require affordable housing, or safer financial choices in housing which could easily be found in single-family for rent developments.
- Specifically, those located around a major university see an influx of millennials, who are looking for an alternative to a conventional 30-year mortgage.
- Those with high property taxes, such as those in the Mid-Michigan Tri-County area and lower than or around median income levels (median household income in Michigan is \$52,492) are potential individuals that should be a target for single-family housing for rent developments.
 - Michigan on average has a 1.83% property tax rate, making it the seventh most expensive state to live in as of 2016 (Investopedia, 2017). Ingham County has a rate higher than 2.0% with an average payment of \$2,786.

- A website was used to compare property tax by Michigan counties and can be further narrowed down by city and assessed home value.¹
 - Ingham County 2.343%
 - Clinton County: 1.588%
 - Eaton County: 1.771%

8. CONCLUSIONS

The need for this report is to address the single-family detached for rent market and explore its connection to the municipal level, as well as to provide insight for developers looking to get involved with this new trend. The objective was to find successful case studies and interview participants either at the municipal level or those who work for developers. Developers or companies were selected after a web-search and individuals were contacted based on their role within the company, such as land acquisition, operations, or market feasibility coordinator. Participants were asked to elaborate on their daily responsibilities as well as provide insights to how their companies approach municipalities to get their projects approved. Some lessons-learned from the municipality that each provided included that roadblocks can typically be overcome with a successful venture and relationships between developers and those at the municipal level can be crucial for project success.

¹ <https://smartasset.com/taxes/michigan-property-tax-calculator#Rt5YcgIVsS>

Regardless of the current Michigan market, it's been proven that single-family detached subdivisions for rent can be and are successful in other states. Respondents to the interview noted some of their best practices and theories as to why their developments are successful in the communities that they are, specifically noting that a large portion of the demographic of their renters are millennials. Mentioning this provides support that millennials should be a primary target for rental purposes, as they struggle with surmounting student loan debt and the inability to afford the traditional 20% down-payment on a conventional mortgage.

Since the end of the recession near 2010, the demand for rental units have gone up, however, there is also high demand for single-family housing instead of the traditional multi-family apartment complex. Developers should be sure to note that this trend appears to be strong and is not projected to reduce much over the course of the next several years, providing a stable opportunity to have communities specifically for rent across the nation, and find success.

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APPENDIX: STRUCTURED INTERVIEW QUESTIONS

Date:

Name and Location of the Company:

Years of experience with this company/in similar roles:

1. Your role within the company
2. Projects you've worked on in the past
 - a. **Rental Single-Family Units:**
 - b. Please briefly describe the following: (based on a specific development)
3. How your company views rental housing?
 - a. Does your company have any single-family additional residential developments for rental purposes?
 - b. If not, please briefly describe why and if your company would be supportive of having more of this type of development.
4. Specifically, can you discuss lessons learned from a municipality perspective?
5. Can you describe any roadblocks your company has faced during this process?
6. Please add any additional comments you may have.
 - a. **Single Family Housing:**
 - b. Please briefly describe the following:
7. How your company views single-family housing?
8. What is the current breakdown of developments in your company relating to single-family units?
9. Please add any additional comments you may have.
 - a. **General Insight:**
 - b. Please briefly describe the following:
10. How does this development company operate?
11. What are some of your current projects? What does your company specialize in?
12. What is the housing market like in your area?
13. What trends are you noticing in the housing market in general?
14. What do you project the housing market nationwide will look like in 10-15 years?