



BERRIEN COUNTY HOUSING STUDY



Prepared for:

- Berrien County, Michigan *and*
- Southwest Michigan Community Action Agency

June 8, 2009

McKenna
ASSOCIATES



BERRIEN COUNTY HOUSING ANALYSIS

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1. EXECUTIVE SUMMARY

A. SUMMARY OF DEMAND

The Southwest Michigan Community Action Agency retained McKenna Associates to conduct a housing analysis for Berrien County. The purpose of this housing analysis is to compare projected housing need against housing supply in the County to identify expected housing supply deficits for resident households between the years 2008 and 2030.

This study compares the expected demand for owner-occupied and rental housing units at different price ranges based on the income and demographic characteristics of Berrien County's population. Demand for owner-occupied and rental housing is estimated by assessing income levels and propensities to rent or buy homes based on household size, type, and age. These demand calculations are then compared with the existing supply of owner-occupied and rental housing to generate an assessment of the deficit or surplus of housing at various price points.

The following tables are the summation of the analysis contained in this report:

Deficit/Surplus of Single-Family Housing Units, Berrien County and Sub Regions, 2008

Housing Value	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$50,000 - \$87,500	(2,842)	261	(720)	(2,925)	860	(312)
\$87,501 - \$125,000	1,096	551	(539)	520	326	243
\$125,001 - \$155,000	2,689	393	(359)	1,699	513	444
\$155,001 - \$187,500	423	21	(645)	904	(124)	268
\$187,501 - \$250,000	1,018	(21)	(670)	1,117	(181)	776
\$250,000 - \$375,000	1,733	23	(408)	990	(184)	1,313
\$375,000 +	3,215	314	(249)	785	(194)	2,561
TOTAL:	7,332	1,542	(3,590)	3,090	1,016	5,293

(Red numbers) = undersupply/deficit

Black numbers = oversupply/surplus

Deficit/Surplus of Renter-Occupied Housing, Berrien County and Sub Regions, 2008

Monthly Rent	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$0 - \$375	(2,798)	(443)	234	(1,292)	(939)	(391)
\$376 - \$875	8,860	745	2,788	1,370	2,708	307
\$876 - \$1,250	(3,348)	(265)	(752)	(248)	(940)	(173)
\$1,251 - \$1,550	(840)	(84)	(190)	(216)	(282)	(67)
\$1,551 - \$1,875	(859)	(86)	(190)	(240)	(272)	(70)
\$1,876 - \$2,500	(484)	(49)	(107)	(129)	(162)	(36)
\$2,500+	(337)	(35)	(64)	(101)	(115)	(22)
TOTAL:	194	(217)	1,719	(856)	(2)	(452)

(Red numbers) = undersupply/deficit

Black numbers = oversupply/surplus

Executive Summary

The above tables indicate that there is an overall deficit of single family housing units, particularly affordable housing units priced at \$125,000 or lower. In general, the market for owner-occupied housing in price ranges above \$125,000 is fairly well balanced, suggesting that the private sector has met demand for units above \$125,000, but not units priced below \$125,000. The data in the table indicates that providing affordable housing units in the County will continue to be an important policy goal.

The rental housing market is well balanced, with overall supply slightly exceeding our calculated demand. The County does not have a high percentage of rental units that rent for \$876 or more, but it is likely that the rental market data is not reflecting single-family houses that are rented. Households that choose to rent and can afford to pay higher rents will often select single-family housing units. While there is not an immediate need to provide additional rental housing units, the County should continue to monitor the rental market to identify any future needs that may arise.

B. SUMMARY OF RECOMMENDATIONS

The following is a summary of the recommendations of the Housing Needs Study. Refer to Section 7 on page 43 for a full description of the following recommendations.

- 1. Establish a Countywide Affordable & Workforce Housing Advisory Committee.** The County Board of Commissioners should establish a permanent committee to study and advise on affordable and workforce housing matters. The committee should evaluate impediments to providing affordable and workforce housing in local development standards, and should also prepare an affordable and workforce housing assistance plan to meet the estimated demand for housing units priced \$125,000 or lower.
- 2. Affordable and Workforce Housing Assistance County Master Plan Element.** The Berrien County Planning Commission should incorporate the affordable and workforce housing assistance plan as one of the Planning Commission's physical development recommendations within the Berrien County Master Plan. This element would guide the County Planning Commission when executing its review of all master plans prepared by local governments, as required by Section 41 of the Michigan Planning Enabling Act, P.A. 33 of 2008, as amended.
- 3. Educate the Populous about Residential Density and Smart Growth Principles.** The Berrien County Planning Commission and the Affordable & Workforce Housing Advisory Committee should develop and carry out a county wide education program addressing innovative residential development techniques that reduce land consumption and infrastructure costs. These techniques include neo-traditional design, residential conservation design, and other design methods that use compact development styles to increase density in developed areas while resulting in greater open space preservation.

Traditional residential land development incorporates certain development cost factors into the price of a home. Normally, 20% of the cost of a single-family home in a traditional residential development is based on the cost of raw land and infrastructure such as water, sewer, storm drainage, streets, sidewalks, and the like. It is easy to comprehend that lower densities and wider street frontages for residential lots will result in higher land and infrastructure costs per house because these costs are being distributed over a smaller number of units. On the other hand, higher densities spread land and infrastructure costs over a higher number of units, reducing the per-unit cost. Accordingly, higher density development is more affordable because land and infrastructure costs are minimized.

Incorporating Smart Growth principles in new residential development design can reduce land, infrastructure, housing, and transportation costs. Those principles include:

- Creating a range of housing opportunities and choices.
- Creating walkable communities.
- Preserving open spaces, farmland, natural beauty and environmental areas.
- Taking advantage of compact design.

4. **Educate Developers and Landlords about Financial Incentive Programs.** In Michigan, the Michigan State Housing Development Authority (MSHDA) offers a number of housing assistance programs either directly to the developer of certain housing units or subsidies given to purchasers or renters of housing units.

We recommend the Affordable & Workforce Housing Advisory Committee sponsor three education programs throughout Berrien County:

- Programs for Home Purchasers.
- Programs for Renters.
- Programs for Developers.

5. **Housing Maintenance Code Enforcement.** The Affordable & Workforce Housing Advisory Committee should work to bring together local governments to discuss uniform administration of the housing maintenance code possibly through assignment of code responsibilities to a specialized enforcement function to assure prompt and uniform administration. Continuous maintenance of the County's housing stock protects home values, and also prolongs the life span of existing housing units.

6. **Establish a Residential Infrastructure Revolving Loan Fund.** A county revolving loan fund should be established to assist in funding infrastructure costs for affordable and workforce housing projects. Infrastructure costs are typically shouldered by developers, and are a significant proportion of overall development costs – typically 25% - 50%. These costs have a significant impact on the final price of a housing unit, and reducing these costs will help private sector entities to provide affordable and workforce housing.

As a practical matter, it is recommended that loans be granted to the municipality who ultimately assumes ownership of the infrastructure with repayment being negotiated based on the amount of additional new tax valuation created by the infrastructure investment (this repayment plan is similar to Michigan's current tax increment financing policy).

7. **Establish Home Buyer Down Payment Assistance Program.** Anecdotal information provided by mortgage lenders and various community development agencies serving Berrien County indicate that a major impediment to affordable and workforce housing is the inability of the householder to purchase a home due to the lack of funds for a down payment. While there are selected state and federal programs that can assist these applicants, the applicant must be identified prior to submission of an application for such funding. Due to the length of time this process takes, many applicants get discouraged and abandon their attempt to purchase a home.

A countywide home purchase down payment assistance program will assist employees of service and tourism related jobs, which are projected to be the most common types of jobs in the County in the future, to seek housing within proximity of their place of employment. Such a program can be an extension of current programs offered by existing community development corporations specializing in housing assistance or organized under the Berrien County Community Development Department.

2. INTRODUCTION

A. PURPOSE OF REPORT

The Southwest Michigan Community Action Agency retained McKenna Associates to conduct a housing needs analysis for Berrien County. The purpose of this housing needs analysis is to compare projected housing need against housing supply in the County to identify expected housing supply deficits for resident households between the years 2008 and 2030.

It is **not** the intent of this study to assess the demand for seasonal or vacation housing. Berrien County's abundant natural beauty will continue to make it an attractive place for out-of-county households to purchase second homes or retirement homes. However, the demand for seasonal housing is independent of the demand for resident household housing, and is therefore outside of the scope of this study. The purpose of this study is to determine housing need for households only who have their primary residence in Berrien County.

The overall purpose of this report is to determine if housing deficits are expected in the County at varying housing price levels for resident households, and to ensure that quality housing options are available for all segments of the population within the County and its sub regions.

B. APPROACH and METHODOLOGY

This report analyzes the link between future household growth and housing supply between 2008 and 2030 by estimating future housing need associated with changes in housing structure Berrien County. The report also examines potential changes in the economic structure of the County, and how those changes may impact housing demand. Finally, the report examines the impact of vacation/seasonal housing demand on housing affordability and choice for resident households. Household income and standard household expenditure assumptions are used to generate affordable housing cost figures.

A Key Assumption

The methodology, findings, and conclusions of this report are based on a stabilized economy and a functioning financial system.

The economic dislocation in place as of June, 2009 will temporarily preempt the findings of this study. Once the economy stabilizes and market conditions return to a normal state the findings herein should be reexamined. We expect the findings of the study to remain valid, but the housing value ranges used in this study may need to be adjusted based on the new market equilibrium.

This report estimates new worker and non-worker household estimates to project housing need. Household formation patterns are used to estimate the number of households at regular intervals from the present time to 2030. New non-worker households are based on the Census 2000 relationships between worker and non-worker households by income level. Total new households are converted into total new housing unit need by using a minimum vacancy rate assumption (after discounting for temporary use/seasonal housing in appropriate communities).

A baseline housing supply estimate is created based on 2008 household estimates and extrapolations from Census 2000 data incorporating building permit data.

This study analyzes housing need for the County as a whole, and also for five County sub regions, which are as follows:

Introduction

Table 1. Berrien County Sub Regions

Northeast	East Central	West Central	Southeast	Southwest
Coloma City	Bainbridge Township	Baroda Township	Berrien Township	Chikaming Township
Coloma Township	Benton Township	Baroda Village	Berrien Springs Village	Grand Beach Village
Hagar Township	Benton Harbor City	Bridgman City	Bertrand Township	New Buffalo City
Watervliet City	Pipestone Township	Lake Township	Buchanan City	New Buffalo Township
Watervliet Township	Sodus Township	Lincoln Township	Buchanan Township	Michiana Village
		Royalton Township	Galien Township	Three Oaks Township
		St. Joseph City	Galien Village	Three Oaks Village
		St. Joseph Township	Eau Claire Village	Weesaw Township
		Shoreham Village	Niles City	
		Stevensville Village	Niles Township	
			Oronoko Township	

Refer to the map on the following page for a graphic representation of the County sub regions.

C. DATA SOURCES

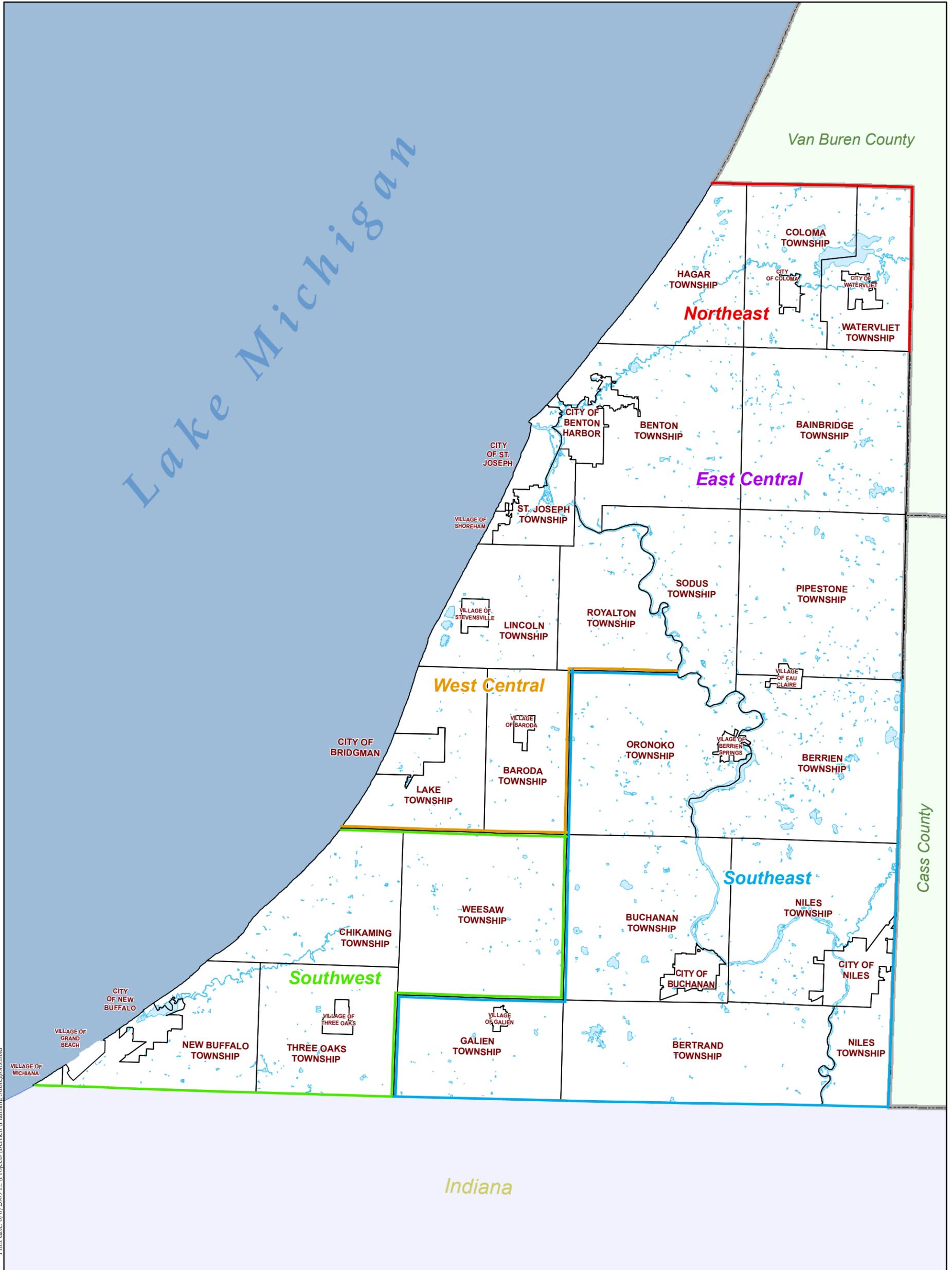
This report uses the best available data sources to identify historical trends, existing conditions, and future projections. We have relied upon third-party data providers ESRI and Woods & Poole Economics for many of the existing conditions and future projections. ESRI and Woods & Poole are respected data providers. The following is a brief description of each provider:

ESRI

ESRI is a leading provider of Geographic Information Systems (GIS) software and specializes in spatial data analysis. ESRI combines GIS technology with extensive demographic, consumer, and business data to provide accurate reports for any geographic area, from the entire US down to the census tract block group. We have used ESRI as the primary data source for the County sub region data in this report.

Woods & Poole Economics

Woods & Poole is an independent firm that specializes in long-term county economic and demographic projections. Woods & Poole maintains a database for every county in the U.S. and provides projections through 2030 for more than 900 variables, including data by age, sex, and race; employment and earnings by major industry; personal income by source of income; retail sales by kind of business; and data on the number of households, their size, and their income. Each year Woods & Poole updates the projections with new historical data. We have used Woods & Poole as the primary data source for historical trends and future household and employment projections at the County level in this report.

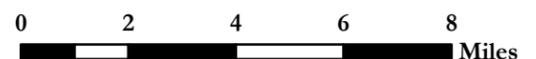


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Planning Subregions

Berrien County, Michigan

Data Source: Berrien County 2008, MCGI v7b



D. PUBLIC REVIEW and COMMENT

On March 31, 2009 the County hosted a public meeting to review the first draft of the Housing Needs Study and receive comments and questions about the report. The meeting was held at the County Administration Building in St. Joseph. Approximately 25 people attended the meeting. Included among the attendees were developers, appraisers, realtors, housing providers, public officials from the County and local municipalities, and residents of the County. Because a draft of the Plan had been available for review on the County's website for several weeks prior to the meeting, many in attendance were familiar with the Plan, its findings, and its recommendations.

After brief introductions, a representative from McKenna Associates presented a summary of the Housing Needs Study. This included a discussion of the existing housing conditions and trends in the County and its subregions, current and projected housing demand, current and projected housing supply, the deficit or surplus of housing in the County and its subregions, and the conclusions and recommendations that have been generated from these findings.

During the course of the presentation, several specific questions were asked about the information being presented. The questions and comments were primarily regarding the source of the information and the confidence in those findings. Upon conclusion of the presentation, attendees were then given the opportunity to ask additional questions or provide general comments.

One individual asked what the original purpose of this study was and if the results satisfy that purpose. It was stated that the purpose was to provide policy makers with quantitative tools to address two critical questions that were being raised consistently – what do we do to reverse income loss and the housing affordability issues that result, and how do we supply housing at the income levels that will be coming to the County in the future? The data and recommendations in this report stimulate the conversation and assist the local communities as they work to answer these questions for themselves.

A representative from the Southwest subregion was concerned that the information for that area was not accurate. Specifically, he felt that the number provided for the supply of housing in the lower value ranges was too high. The increase in property values in that part of the County has eliminated most of the units in those price ranges. After much discussion regarding the source of the data and its veracity, it was determined that the seemingly inflated supply of lower value units is due to vacant, undeveloped parcels. Low value parcels had been removed from the model assuming they were undeveloped. However, because of the high property values in this subregion, it is likely that many of the undeveloped properties have values that exceed the threshold that was used at the time and therefore were being counted as part of the housing supply. This artificially inflated the supply count. It was strongly suggested that the threshold value that was used be reviewed in this subregion, as well as the West Central, or a more refined data source be utilized in order to find a more accurate depiction of supply.

A couple questions were raised about the process used to arrive at the results for supply and demand and the confidence in those results. The use of the County equalization data, SEV multiplier, and projections for future results was explained. The methodology was supported by several in the audience.

When asked about the recommendations, one member of the audience suggested that there be mention of how communities can help to increase the percentage of home ownership. He suggested identifying specific tools, regulations, or programs that can be used to transition areas where homes are predominately owned by absentee landlords and rented into areas with stable ownership rates.

Having heard all the comments, the attendees were informed of the remaining steps in the planning process – inclusion of these comments, final draft of report, and adoption by the County Board of Commissioners.

3. DEMOGRAPHIC and ECONOMIC CONDITIONS

A. DEMOGRAPHIC DESCRIPTION

1. Population Characteristics

The following Table 2 presents basic population, household and age data for Berrien County and its sub regions. Table 2 indicates that, as a whole, Berrien County has a somewhat smaller household size than the nation as a whole (2.46 for Berrien County vs. 2.59 for the entire US), and a higher median age than the nation as a whole (39.5 for Berrien County vs. 36.8 for the entire US).

Further, Table 2 indicates that the major population centers in Berrien County are the East Central and West Central sub regions, which include the cities of St. Joseph and Benton Harbor and the urbanized townships of Lincoln, St. Joseph, and Benton; and the Southeast sub region, which includes the cities of Niles and Buchanan and Niles Township.

Table 2. Population Characteristics, Berrien County and Sub Regions, 2008

	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
Population	163,816	15,790	38,840	46,368	53,412	13,410
Households	64,923	6,456	13,111	18,977	20,597	5,785
Avg. Household Size	2.46	2.42	2.58	2.38	2.50	2.31
Median Age	39.5	39.5	33.2	43.1	37.7	46.4

Source: ESRI

Over the 1990 – 2008 period, the population of Berrien County increased by 2,438 persons, an increase of 1.5%. By contrast, the population of the United States as a whole grew by 22.5% over the same period.

2. Household Trends

Most measures of household data for Berrien County have remained fairly static over the past 18 years. The total population has grown by a total of 2,438 persons, while the number of households has grown by 3,898. This points to a trend towards smaller household sizes and an increase in the number of one and two-person households. In fact, the number of family households in the county has decreased by 391 over the 1990-2008 period.

With a decreasing household size comes a different demand for housing. Family households, and particularly family households with children, often desire a detached one-family dwelling unit. Nonfamily households which often consist of a householder living alone have more flexibility in the type of housing they seek, but also typically have lower incomes than family households. As a result, nonfamily households are more likely to be renter households and are also more likely to seek out attached or multiple-family dwelling units.

Table 3 presents population and household trends for Berrien County over the 1990 – 2008 period, while Figure 1 displays the changes over the 1990-2008 period from the 1990 baseline value.

Table 3. Population and Household Trends, Berrien County, 1990 - 2008

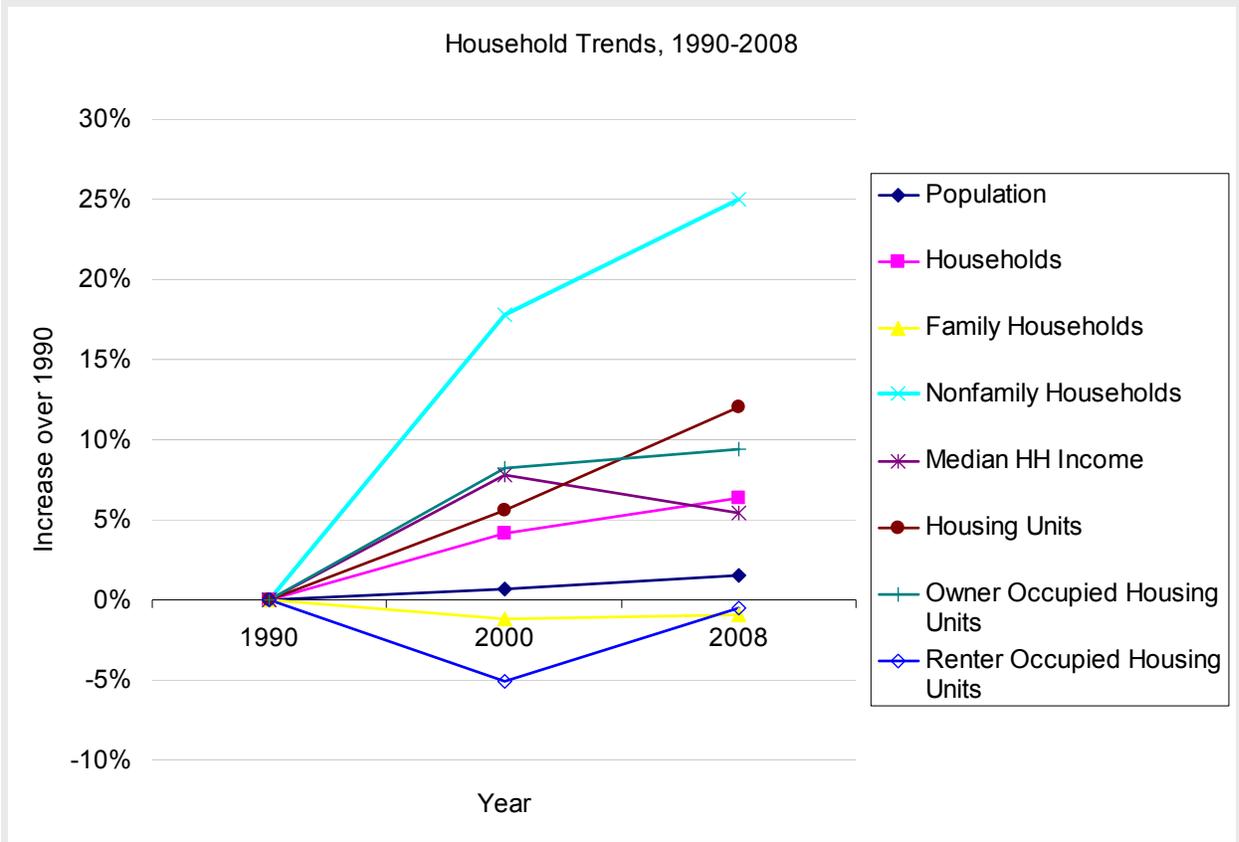
	1990	2000	2008
Population	161,378	162,453	163,816
Households	61,025	63,569	64,923
Family Households	43,845	43,336	43,454
Nonfamily Households	17,180	20,233	21,469
Median Household Income	\$27,245	\$38,513	\$47,083
Housing Units	69,532	73,445	77,917
Owner Occupied Units	42,452	45,938	46,447
Renter Occupied Units	18,573	17,631	18,476

Source: US Census Bureau, ESRI

Figure 1 on the following page indicates several significant trends that have occurred over the past two decades:

- Total Population, family households, and renter occupied units have experienced little change.
- Nonfamily households (households consisting of two or more unrelated persons sharing a dwelling unit) have increased by 25% over their 1990 levels, pointing to a potential increased demand for smaller and less expensive housing options.
- The total number of housing units has increased at a faster pace than both household growth and owner-occupied housing units. This indicates that the temporary/seasonal use home market has increased its share of the overall housing market.
- There has been little growth in the number of owner-occupied housing units over the 2000-2008 period, but stronger growth in the number of renter-occupied units. This indicates that households are either unable to afford to purchase a home, or are choosing to live in rental units because those units better fit their lifestyle.
- Median household income has decreased in real terms over the 2000-2008 period once income is adjusted for inflation, pointing to a diminished ability to pay for housing when compared to the year 2000. This is consistent with the rise in renter-occupied households over the same 2000-2008 period.

Figure 1. Household Trends – Percent Change from 1990 Baseline, Berrien County, 1990 - 2008



Source: US Census Bureau, ESRI

Population life stage characteristics are another important indicator of housing demand. Households at different life stages demand different kinds of housing options. For instance, households that are in the post-schooling/family formation period will be looking for starter housing at the smaller and cheaper end of the scale, while empty-nester households may be looking to downsize from a larger housing unit to a smaller, but more luxuriously appointed housing unit.

Table 4. Population by Life Stage, Berrien County and Sub Regions, 2008

	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
0- 4 (Preschool)						
2008 Population:	10,721	1,053	3,109	2,479	3,412	668
% Change from 2000:	1.3%	1.9%	(0.2%)	0.9%	4.1%	(5.2%)
5 - 19 (School Age)						
2008 Population:	32,151	3,014	8,356	8,334	10,278	2,173
% Change from 2000:	(10.9%)	(14.1%)	(8.6%)	(12.1%)	(11.2%)	(11.4%)
20 - 34 (Family Formation)						
2008 Population:	30,223	2,903	6,676	7,548	11,194	1,902
% Change from 2000:	5.0%	3.4%	0.0%	8.9%	7.1%	(0.3%)
35 - 54 (Middle Age)						
2008 Population:	46,127	4,697	8,963	13,857	14,690	3,923
% Change from 2000:	(3.8%)	(4.4%)	(2.2%)	(5.3%)	(2.0%)	(8.0%)
55 - 74 (Empty Nesters)						
2008 Population:	32,615	3,120	5,853	10,041	10,039	3,567
% Change from 2000:	17.4%	8.7%	9.9%	25.2%	16.5%	19.8%
75+ (Golden Years)						
2008 Population:	11,979	1,003	1,892	4,109	3,794	1,177
% Change from 2000:	6.1%	2.2%	2.0%	13.8%	2.1%	11.8%

Source: ESRI

Table 4 identifies some notable trends in population life stage in the County over the 2000 - 2008 period:

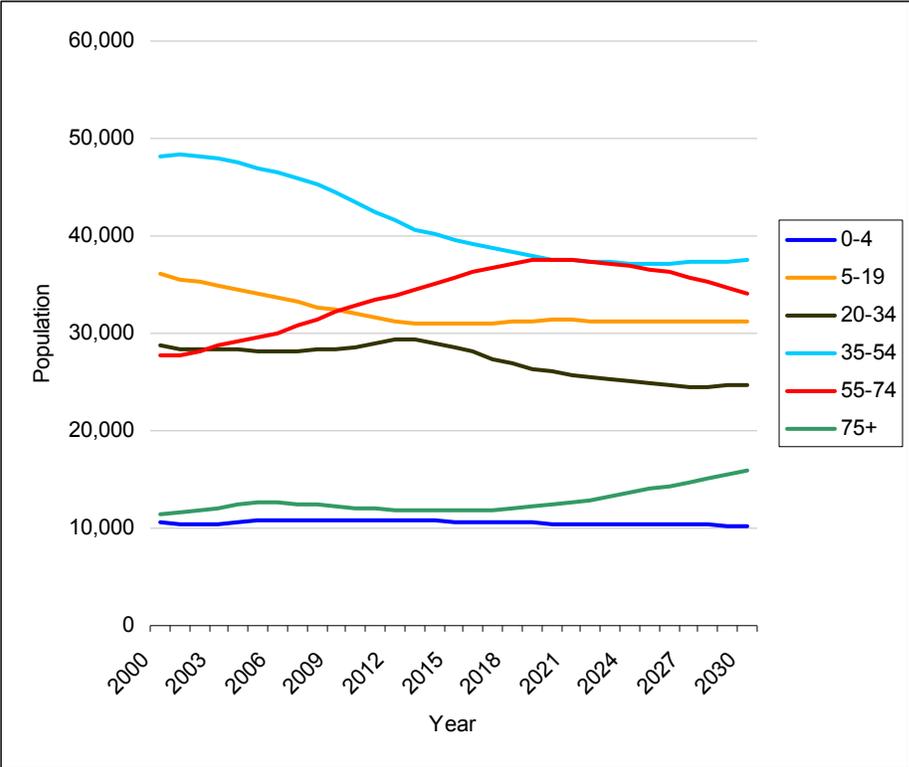
- Declining School Enrollment. The school age population declined by 8-14% across all sub regions in the County.
- Continuing Enrollment Declines. The pre-school age population rose slightly in the Northeast, West Central and Southeast sub regions, but not enough to replace the declines in the school age group. It is likely that school enrollment will continue to decline during the foreseeable future, particularly in the West Central and Southwest sub regions, where both the preschool and school age groups declined during the 2000 - 2008 period.
- Aging Population. There were large increases in population in the older life stages, particularly the empty nester group. **This age group's housing demands will be the largest driving factor behind housing need in the County other than job creation.** This is the group that is most likely to own a single family home, so if this age group intends to "age in place" in their current homes, the single family housing market should remain relatively stable. However, if this group seeks to downsize/upgrade their current housing, or even to retire to a location out of the County, it could create an oversupply of single family housing units. The family formation age group is not large enough to fill all of the units that would be vacated if the empty nesters leave the County en masse.
- Limited Organic Demand for New Single Family Housing. It is likely that new job creation will be responsible for the vast majority of all new demand for owner-occupied single family housing in the County, as sufficient supply exists to accommodate organic population and household growth over the coming 10-15 years.
- Organic Demand for Active Adult/Senior Housing. It is likely that there will be organic demand for new housing targeted towards active adults and seniors over the coming 10-15

years as the empty nester group continues to age and moves into the golden years life stage.

3. Population by Life Stage Projection

Figure 2 shows population by life stage projections for Berrien County over the 2000 – 2030 period. The figure indicates the presence of a demographic bubble that will move through the population as time progresses. The current large number of 35-54 year olds will age and move into the 55-74 year old age group during the 2008 through 2020 time frame, at which time the 55-74 year old age group will begin to decline in numbers and the 75+ age group will begin to expand. After about 2015 the 20-34 age group is expected to decline, as well.

Figure 2. Population by Life Stage, Berrien County, 2000-2030



Source: Woods & Poole Economics

4. Household Formation

Population by age group is important because different age groups have different propensities for forming households. As the age structure of the population shifts, the number of households that a given population will yield will also change. The way in which a population divides itself into households is related to a range of social and economic factors including income, housing prices, governmental assistance, marriage and divorce rates, and mobility.

Household sizes declined significantly in the 1970s and continued to decline more slowly in the 1980s. The rate of decline slowed significantly during the 1990s, but the factors that lead to household formation do not exhibit a clear and convincing trend pointing to the direction of future change. Therefore, for the purposes of estimating households in the housing needs model, we have assumed that household formation rates and the distribution of household

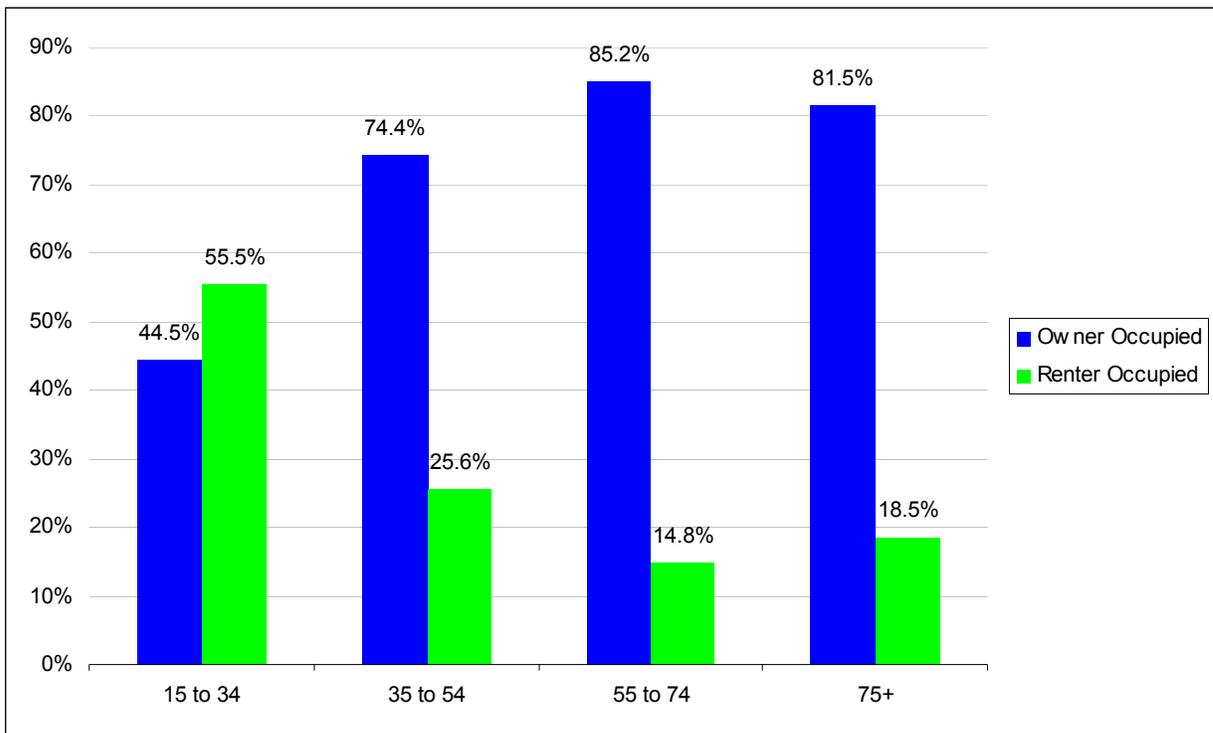
characteristics will remain constant in their Census 2000 proportions out to the projection horizon of 2030.

Household headship rates, that is, the percentage of persons in a particular age group who are defined as the householder for Census purposes, is determined by dividing the number of householders in each age group by the total population in that age group. This percentage is then applied to the population projections to determine the number of households for each population life stage group.

5. Tenure by Age of Householder

Figure 3 presents tenure by age of householder. Not unsurprisingly, the figure shows that younger householders in their family formation years are more likely to be renters, while older households have higher homeownership rates. Therefore, areas which can expect high growth rates among younger households will experience a greater demand for rental units in the near term, and owner-occupied units in the longer term.

Figure 3. Tenure by Age of Householder, Berrien County, 2000



Source: US Census Bureau

6. Household Income

The type and level of housing demanded by a household is proportionate to its ability to pay for housing. Therefore, the housing needs analysis considers the income of County households. For the purposes of this study, we have established five income categories based on the 2008 median household income for Berrien County of \$47,083. The income categories presented in Table 5 are based on percentages of the County median income.

Specifically, very low income households make less than 30% of the median income, low income households are between 30% and 60% of the median income, moderate income households are between 60% and 100% of median income, median households are between 100% and 130% of median income, above median households are between 130% and 160% of

median income, moderate high households are at 160% - 200% of median income, and high households are at 200% or more of median income.

Table 5. Households by Household Income Categories, Berrien County and Sub Regions, 2008

Household Income	Category	Households					
		Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$0 - \$15,000	Very Low (<30% AMI)	8,868	698	3,360	1,695	2,578	537
\$15,001 - \$30,000	Low (30%-60% AMI)	11,420	1,117	2,802	2,697	3,842	963
\$30,001 - \$50,000	Moderate (60%-100% AMI)	13,958	1,503	2,755	3,579	4,868	1,258
\$50,001 - \$62,500	Median (100%-130% AMI)	7,986	899	1,278	2,459	2,626	725
\$62,500 - \$75,000	Abv. Med. (130%-160% AMI)	7,986	899	1,278	2,459	2,626	725
\$75,001 - \$100,000	Moderate High (160%-200%)	7,688	762	958	2,730	2,410	829
\$100,000+	High (>200% AMI)	7,017	579	688	3,357	1,647	749

Source: ESRI

The above income categories are an important determinant of housing affordability, and play a critical role in the calculation of housing need presented later in Chapter 5.

B. ECONOMIC DESCRIPTION

1. Workforce, Major Employment Centers, and Jobs/Housing Balance

Table 6 summarizes the workforce in Berrien County in 2006, while Table 22 lists the number of businesses and employees located in the County and its sub regions in 2008. Table 22 indicates that County businesses employed a total of 74,122 persons in 2008, while there were 75,502 employed County residents in 2006.

The apparent discrepancy where there are more employed County residents than jobs in the County is explained by the fact that a large percentage of County residents work outside of the County. Census 2000 data indicates that 13,964 Berrien County residents worked outside the County at that time, while 11,702 jobs in Berrien County were filled by persons living outside of the County. The 2008 data is consistent with the Census 2000 data, as there continue to be more employed County residents than jobs located in the County.

Table 6. Berrien County Workforce, May 2008

Category	Measure
Total Workforce	81,601
Number Employed	75,502
Number Unemployed	6,099
Unemployment Rate	7.5%

Source: Michigan Department of Labor and Economic Growth

At this point in our analysis of existing demographic and economic conditions in the County, we should note that the County has 64,923 households and a workforce of 81,601, which equates to 1.25 workers per County household. This figure is used to correlate new household formation to expected future economic growth in the County, and is an important input into the housing demand model in Chapter 5. It is important to note that the 1.25 workers per

Demographic and Economic Conditions

household include unemployed workers and commuters out of the County, and is therefore slightly different than the jobs/housing ratio for Berrien County.

Table 7 also identifies the ratio of jobs to households in the County and its sub regions. This ratio is typically referred to as the jobs/housing ratio, and is determined simply by dividing the number of jobs in a given area by the number of housing units in the same area. A lower jobs/housing ratio indicates that a particular area is a housing rich bedroom community, while a higher jobs/housing ratio indicates an employment center.

Table 7 indicates that, as a whole, Berrien County has a balanced jobs/housing ratio of 1.14, which is close to the “optimal” ratio of 1.25 (see the box at right). However, the total balance comes mostly from combining areas that are housing-rich with other areas that are jobs-rich. The Northeast, Southeast and Southwest sub regions are primarily bedroom areas. Residents from the Northeast sub region presumably commute to jobs in the West Central sub region of Berrien County or jobs in Van Buren County, while residents from the Southeast sub region presumably commute to jobs in the West Central sub region of Berrien County or St. Joseph County IN. It is unlikely that any of these areas will experience significant job creation, so our housing demand analysis assumes that these sub regions will continue to be bedroom communities for the foreseeable future.

Berrien County's Optimal Jobs/Housing Ratio

There is no one “perfect” jobs/housing ratio. In fact, the “perfect” jobs/housing ratio will depend upon your perspective – if you are an economic development professional a higher jobs/housing ratio will mean higher tax revenues and lower cost of services per capita; if you are a resident who desires to live in a quiet rural area or bedroom community, a low jobs/housing ratio will appeal to you; and if you want to live in a vibrant downtown area where there is “24/7” activity, you will likely seek an area that has a balanced jobs/housing ratio.

From a community and economic development perspective, there are dangers to having an “unbalanced” community. An area that is heavily residential can incur a high cost of services per resident, while an area that is an employment center with a small residential population will likely be an uninviting ghost town during non-business hours.

In a “balanced” community most residents could, in theory, work relatively close to home. Even in a balanced community some percentage of residents would still commute out of the area by choice or necessity, as the level of housing and the amount of pay offered by jobs can never be perfectly in balance. Still, studies have shown that people on average do commute shorter distances in areas where jobs and housing are in balance. There are approximately 1.25 workers in every Berrien County household, so an optimal jobs/housing ratio for the County as a whole would be around 1.25.

The West Central sub region has a high ratio of jobs to housing, although it also has the highest residential population of any of the sub regions. The high ratio of jobs to housing indicates that there may be an opportunity for increased residential density in parts of the West Central region.

Table 7. Business Summary, Berrien County and Sub Regions, 2008

	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
Total Businesses	6,973	567	1,661	2,103	1,845	795
Total Employees	74,122	4,170	17,634	29,875	17,038	5,390
Households	64,923	6,456	13,111	18,977	20,597	5,785
Employee/Housing Ratio	1.14	0.65	1.34	1.57	0.83	0.93

Source: ESRI

2. Commuting Patterns

Not every worker who lives in Berrien County will work in Berrien County, just as some jobs in Berrien County will be filled by workers who live outside of the County. Differing preferences and factors influence where people choose to live, and ensure that there will always be some county-to-county worker flow. The Census 2000 journey to work data provides more concrete

insight as to where County residents work outside of the County. In 2000, 13,964 County residents commuted to other counties for work, while 11,702 jobs in Berrien County were filled by out-of-county residents. The journey to work data series provides county-to-county worker flow data, which is summarized in Table 8.

Table 8. County to County Journey to Work, Berrien County and Sub Regions, 2000

	County Commuted To								
	Berrien, MI	St. Joseph, IN	Cass, MI	Van Buren, MI	LaPorte, IN	Elkhart, IN	Cook, IL	Kalamazoo, MI	Other
Berrien County	81.4%	8.3%	2.1%	1.6%	1.3%	1.3%	0.8%	0.6%	2.5%
Northeast	84.1%	0.9%	0.8%	8.2%	0.0%	0.3%	0.7%	1.9%	3.2%
East Central	92.7%	1.9%	2.3%	3.4%	0.4%	0.1%	0.2%	0.9%	3.5%
West Central	93.1%	1.6%	0.4%	1.1%	0.6%	0.1%	0.4%	0.5%	2.2%
Southeast	64.5%	22.3%	5.7%	0.4%	0.3%	4.2%	0.1%	0.5%	1.9%
Southwest	73.0%	3.6%	0.6%	0.6%	0.1%	10.4%	0.4%	5.4%	0.6%

Source: US Census Bureau

Table 8 identifies important commuting patterns. As a whole, 81.4% of Berrien County residents worked in the County in 2000, while 8.3% commuted to jobs in St. Joseph County, IN. Within the sub regions, 8.2% of Northeast area residents commuted to Van Buren County, MI; 22.3% of Southeast area residents commuted to St. Joseph County, IN, and 14.0% of Southwest area residents commuted to St. Joseph and LaPorte Counties in Indiana. Housing demand is to a large extent dependent on job creation, so job creation in LaPorte and St. Joseph Counties will impact housing need in the Southeast and Southwest sub regions of Berrien County.

3. Major Industries and Employers

Table 9 lists the 10 largest employers in Berrien County. The location of major industries and employers demonstrates that St. Joseph/Benton Harbor is the major employment center within the County.

Table 9. Major Employers, Berrien County, 2008

Company Name	Employees
Whirlpool Corporation	3,464
Lakeland Medical Center	3,100
Four Winds Casino	2,300
Andrew's University	1,900
Michigan Pizza Hut, Inc.	1,600
Indiana/Michigan Power/Cook Nuclear Plant	1,500
Berrien County	745
Martin's Supermarket	628
Benton Harbor Area Schools	616
Tyler Refrigeration	600
Leco Corporation	535

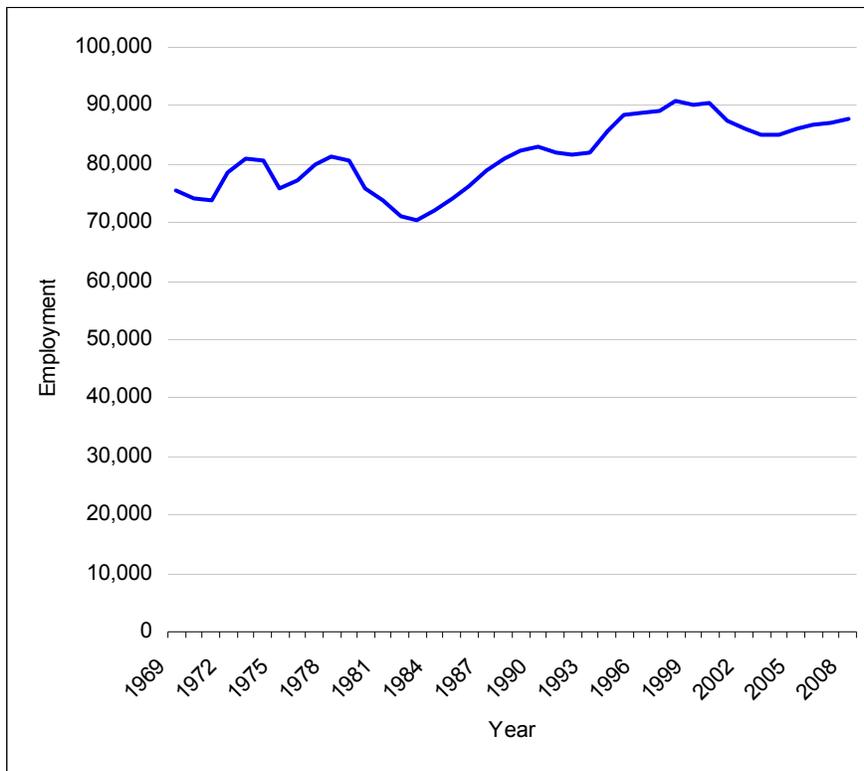
Source: Berrien County

4. Employment and Job Creation Trends and Forecast

Job creation is a contributing factor in household growth. However, job creation in Berrien County will impact household creation in the County. As described in Table 7, Berrien County had an employee/housing ratio of 1.14 in 2008. Assuming that this ratio continues into the future, we can assume that one additional household will be created or attracted to Berrien County for every 1.14 jobs that are created in the County.

Figure 4 shows the historic employment trend in Berrien County over the 1969 through 2008 period. Employment in the County has steadily risen over the past 40 years, with notable declines associated with the economic slowdowns of the early 1980's and early 2000's. Employment in the County has displayed a slight upward trend since 2003, but has not reached the levels achieved during the late 1990's.

Figure 4. Employment Trend in Berrien County, 1969 - 2008



Source: Woods & Poole Economics

Table 10 on the following page summarizes Woods & Poole Economics' job forecast for Berrien County to the year 2030. Table 11 shows the projected change in the number of jobs from the 2008 baseline in five-year increments beginning in 2010, and sorted by the average earnings for each job category.

Table 10. Employment Forecast, Berrien County, 2008-2030

	2008	2010	2015	2020	2025	2030
Total Employment	87,842	89,071	92,230	95,526	98,970	102,582
Farm Employment	2,123	2,104	2,058	2,012	1,967	1,922
Non-Farm Employment	85,719	86,967	90,172	93,514	97,003	100,660
Private Employment	77,257	78,447	81,508	84,709	88,056	91,571
Agricultural Services	1,077	1,110	1,192	1,275	1,360	1,446
Mining	156	155	154	154	153	152
Construction	4,284	4,333	4,457	4,583	4,708	4,834
Manufacturing	15,631	15,412	14,866	14,317	13,766	13,213
Transport, Communications and Public Utilities	3,731	3,803	3,980	4,157	4,332	4,506
Wholesale Trade	3,266	3,311	3,423	3,536	3,648	3,761
Retail Trade	15,244	15,435	15,910	16,384	16,860	17,338
Finance, Insurance & Real Estate	4,900	4,996	5,235	5,474	5,711	5,949
Services	28,968	29,892	32,291	34,829	37,518	40,372
Government	8,462	8,520	8,664	8,805	8,947	9,089
Federal Civilian	386	381	370	358	347	336
Federal Military	319	320	323	326	329	332
State and Local Government	7,757	7,819	7,971	8,121	8,271	8,421

Source: Woods & Poole Economics

Table 11. Projected Job Change from 2008 Baseline, Berrien County, 2008-2030

	Average Income (2008)	Change from 2008				
		2010	2015	2020	2025	2030
Federal Government (Civilian)	\$78,070	(5)	(16)	(28)	(39)	(50)
Manufacturing	\$75,283	(219)	(765)	(1,314)	(1,865)	(2,418)
Mining	\$65,122	(1)	(2)	(2)	(3)	(4)
Transport, Communication & Public Utility	\$64,621	72	249	426	601	775
State and Local Government	\$48,927	62	214	364	514	664
Wholesale Trade	\$48,236	45	157	270	382	495
Construction	\$39,943	49	173	299	424	550
Finance, Insurance & Real Estate	\$33,382	96	335	574	811	1,049
Services	\$30,948	924	3,323	5,861	8,550	11,404
Federal Government (Military)	\$26,940	1	4	7	10	13
Retail Trade	\$18,143	191	666	1,140	1,616	2,094
Agricultural Services	\$16,688	33	115	198	283	369
TOTAL:		1473	5,236	9,139	13,191	17,413

Source: Woods & Poole Economics

Table 11 shows that, among job categories where significant growth or contraction is forecast, **high-paying manufacturing jobs are expected to continue to decline, while most job growth is expected to occur in lower paying jobs in the services and retail trade industries.** This is consistent with a shift in the economic base of Berrien County towards a tourism and service base. However, tourism and service jobs do not pay wages comparable to manufacturing jobs, so this shift will have an impact on the future demand for housing in the County.

The average income for all jobs created between 2008 and 2030 is projected to be \$26,056 (normalized to 2008 dollar values). At an average of 1.14 workers per household, this equates to an average household income of \$29,703, which is approximately 60% of Berrien County's Area Median Income for 2008. **If this projected shift in the labor market towards lower paying jobs occurs, there will be a need for additional affordable housing in the County.**

4. HOUSING DEMAND ANALYSIS

Job creation and structural changes in the population drive overall demand for new housing, while household characteristics define the demand for specific kinds of housing units. There are four basic household characteristics that drive housing demand:

- Tenure
- Age of head of household
- Income of household
- Cost burden

Those characteristics will determine what kind of housing is needed in Berrien County over the next 20 years.

The data presented in Chapter 3 indicate that the population as a whole is projected to remain fairly steady over the 2008-2030 period. However, the shift away from higher paying manufacturing jobs to lower paying service jobs is expected to continue. This shift may reduce the affordable housing payment for resident households in the county, increasing pressure for affordable housing choices.

This section calculates housing need for **resident households** in the County based on household formation projections over the 2008-2030 time period. This housing demand analysis does not assess the continuing demand for seasonal or vacation housing. Berrien County’s abundant natural beauty will continue to make it an attractive place for out-of-county households to purchase second homes or retirement homes. These households are not resident households, so the demand for seasonal housing is outside of the scope of this study. **The purpose of this study is to determine housing need for households who have their primary residence in Berrien County.**

The housing needs projection identifies the characteristics of housing that is needed in the County in 2008, a mid term projection for 2020, and a long term projection for 2030. The housing need projection is founded on the four basic household characteristics that drive housing demand that have been presented up to this point.

A. HOUSEHOLD GROWTH PROJECTIONS

The first step in calculating housing demand is to generate households by age by income projections. Table 12 through Table 17 on this and the following page presents households by age of householder by household income estimates for 2008, 2020, and 2030 for Berrien County and its sub regions.

Note that the 2020 and 2030 columns in the following tables are the change in number of households from the 2008 baseline.

Table 12. Change in Households by Age by Income, Berrien County, 2008-2030

Household Income	15-34			35-54			55-74			75+		
	2008	2020	2030	2008	2020	2030	2008	2020	2030	2008	2020	2030
Total	12,244	(1,163)	(1,549)	25,503	(4,733)	(4,791)	19,965	3,052	866	8,027	306	2,672
\$0-\$15000	1,942	(185)	(246)	2,036	(378)	(383)	2,593	396	112	1,891	72	630
\$15001-\$30000	2,189	(208)	(277)	2,714	(504)	(510)	3,690	564	160	2,732	104	910
\$30001-\$50000	3,062	(291)	(387)	4,444	(825)	(835)	4,226	646	183	1,788	68	595
\$50001-\$62500	1,548	(147)	(196)	2,925	(543)	(549)	2,123	325	92	535	20	178
\$62500-\$75000	1,222	(116)	(155)	3,449	(640)	(648)	1,914	292	83	377	14	126
\$75001-\$100000	1,146	(109)	(145)	4,004	(743)	(752)	1,942	297	84	175	7	58
\$100000+	1,136	(108)	(144)	5,930	(1,100)	(1,114)	3,478	532	151	529	20	176

Source: McKenna Associates

Housing Demand Analysis

Table 13. Change in Households by Age by Income, Northeast Sub Region, 2008 - 2030

Household Income	15-34			35-54			55-74			75+		
	2008	2020	2030	2008	2020	2030	2008	2020	2030	2008	2020	2030
Total	1,144	(109)	(145)	2,598	(441)	(447)	1,855	365	154	766	3	222
\$0-\$15000	206	(20)	(26)	325	(55)	(56)	196	39	16	86	0	25
\$15001-\$30000	227	(22)	(29)	437	(74)	(75)	292	57	24	123	1	36
\$30001-\$50000	244	(23)	(31)	525	(89)	(90)	367	72	31	153	1	44
\$50001-\$62500	135	(13)	(17)	329	(56)	(57)	241	47	20	99	0	29
\$62500-\$75000	58	(6)	(7)	165	(28)	(28)	126	25	10	51	0	15
\$75001-\$100000	121	(12)	(15)	342	(58)	(59)	261	51	22	105	0	31
\$100000+	152	(14)	(19)	475	(81)	(82)	373	73	31	149	1	43

Source: McKenna Associates

Table 14. Change in Households by Age by Income, East Central Sub Region, 2008 - 2030

Household Income	15-34			35-54			55-74			75+		
	2008	2020	2030	2008	2020	2030	2008	2020	2030	2008	2020	2030
Total	3,112	(296)	(394)	4,917	(835)	(847)	3,626	713	301	1,358	6	393
\$0-\$15000	560	(53)	(71)	616	(105)	(106)	383	75	32	153	1	44
\$15001-\$30000	619	(59)	(78)	827	(140)	(142)	570	112	47	219	1	63
\$30001-\$50000	663	(63)	(84)	993	(169)	(171)	718	141	60	271	1	78
\$50001-\$62500	368	(35)	(47)	623	(106)	(107)	471	93	39	175	1	51
\$62500-\$75000	159	(15)	(20)	312	(53)	(54)	246	48	20	90	0	26
\$75001-\$100000	330	(31)	(42)	647	(110)	(111)	510	100	42	187	1	54
\$100000+	413	(39)	(52)	899	(153)	(155)	728	143	61	264	1	77

Source: McKenna Associates

Table 15. Change in Households by Age by Income, West Central Sub Region, 2008 - 2030

Household Income	15-34			35-54			55-74			75+		
	2008	2020	2030	2008	2020	2030	2008	2020	2030	2008	2020	2030
Total	19,076	(1,813)	(2,413)	6,129	(1,041)	(1,055)	8,015	1,577	666	4,641	20	1,344
\$0-\$15000	3,432	(326)	(434)	767	(130)	(132)	846	167	70	521	2	151
\$15001-\$30000	3,793	(360)	(480)	1,031	(175)	(177)	1,260	248	105	747	3	216
\$30001-\$50000	4,065	(386)	(514)	1,238	(210)	(213)	1,586	312	132	925	4	268
\$50001-\$62500	2,256	(214)	(285)	777	(132)	(134)	1,040	205	86	598	3	173
\$62500-\$75000	976	(93)	(123)	389	(66)	(67)	545	107	45	308	1	89
\$75001-\$100000	2,021	(192)	(256)	806	(137)	(139)	1,128	222	94	638	3	185
\$100000+	2,534	(241)	(321)	1,121	(190)	(193)	1,610	317	134	903	4	262

Source: McKenna Associates

Table 16. Change in Households by Age by Income, Southeast Sub Region, 2008 - 2030

Household Income	15-34			35-54			55-74			75+		
	2008	2020	2030	2008	2020	2030	2008	2020	2030	2008	2020	2030
Total	4,208	(400)	(532)	7,888	(1,340)	(1,358)	5,831	1,147	485	2,525	11	731
\$0-\$15000	757	(72)	(96)	988	(168)	(170)	616	121	51	284	1	82
\$15001-\$30000	837	(79)	(106)	1,327	(225)	(228)	917	180	76	406	2	118
\$30001-\$50000	897	(85)	(113)	1,593	(271)	(274)	1,154	227	96	503	2	146
\$50001-\$62500	498	(47)	(63)	1,000	(170)	(172)	757	149	63	325	1	94
\$62500-\$75000	215	(20)	(27)	501	(85)	(86)	396	78	33	168	1	49
\$75001-\$100000	446	(42)	(56)	1,038	(176)	(179)	821	161	68	347	1	101
\$100000+	559	(53)	(71)	1,443	(245)	(248)	1,171	230	97	491	2	142

Source: McKenna Associates

Table 17. Change in Households by Age by Income, Southwest Sub Region, 2008 - 2030

Household Income	15-34			35-54			55-74			75+		
	2008	2020	2030	2008	2020	2030	2008	2020	2030	2008	2020	2030
Total	696	(66)	(88)	2,106	(358)	(362)	2,089	411	174	893	4	259
\$0-\$15000	125	(12)	(16)	264	(45)	(45)	221	43	18	100	0	29
\$15001-\$30000	138	(13)	(18)	354	(60)	(61)	328	65	27	144	1	42
\$30001-\$50000	148	(14)	(19)	425	(72)	(73)	414	81	34	178	1	52
\$50001-\$62500	82	(8)	(10)	267	(45)	(46)	271	53	23	115	0	33
\$62500-\$75000	36	(3)	(5)	134	(23)	(23)	142	28	12	59	0	17
\$75001-\$100000	74	(7)	(9)	277	(47)	(48)	294	58	24	123	1	36
\$100000+	92	(9)	(12)	385	(65)	(66)	420	83	35	174	1	50

Source: McKenna Associates

Housing Tenure

Housing tenure is largely a function of age and income, as older and higher income households are more likely to own their home while younger and lower income households are more likely to rent. We have translated the number of households for each age and income bracket into a demand for owner occupied and rental housing using cross tabulation rates derived from Census 2000 for Berrien County. The tenure inputs used to derive the demand for owner and renter housing is described in Figure 3 on page 16, while the income bracket inputs are shown in the following Table 18:

Table 18. Tenure by Household Income, Berrien County, 2000

Household Income	Owner Households	Renter Households
\$0 - \$15,000	43.90%	56.10%
\$15,001 - \$30,000	60.20%	39.80%
\$30,001 - \$50,000	68.55%	31.45%
\$50,001 - \$62,500	76.75%	23.25%
\$62,501 - \$75,000	85.47%	14.53%
\$75,001 - \$100,000	85.86%	14.14%
\$100,000+	90.93%	9.07%

Source: US Census Bureau

B. AFFORDABLE HOUSING PAYMENTS

Mortgage debt to income ratios are used by loan underwriters to determine if a borrower can qualify for a mortgage. The purpose of a debt-to-income ratio is to determine if a buyer has the capacity to repay the mortgage. We can borrow this concept and use established mortgage industry standards to determine the maximum housing value or rent that households with different household incomes can afford.

We have used the following assumptions in calculating the affordable housing costs:

For Sale Housing

- Down Payment: 10% of value
- Payment-to-Gross Income Ratio: 25% (includes principle, interest, taxes and insurance)
- Mortgage Rate: 8.0% (based on prevailing market rates as of 12/3/08)
- Mortgage Type: 30 year fixed interest rate

Rental Housing

- Payment to Gross Income Ratio: 30%

The above assumptions are intended to be conservative estimates of house payments. A lot of attention has been paid to the concept of “toxic mortgages” over the past year as the subprime lending crisis has unfolded. The basic concept behind a toxic mortgage is qualifying a borrower for a loan that they cannot possibly repay. This was accomplished by using very low introductory “teaser” interest rates on an adjustable rate mortgage to qualify the buyer for a large mortgage. The borrower would pay a very low interest rate, which typically ranged from 0.9% up to 3.9%, during the introductory period, which could last for anywhere from 6 months to 3 years. Once the introductory period ended, the interest rate would reset to a higher permanent rate, usually 6.5% or higher.

It is useful to illustrate the impact this rate reset can have on a mortgage payment. Consider a household with an annual income of \$50,000. That household can afford to make payments of \$1,166. If we use an introductory rate of 2.9% to qualify the household for a mortgage at 100% of the house’s value, the buyer could afford to make payments on a \$246,000 house at the maximum 28% payment-to-income ratio. However, once the interest rate resets to 6.5%, the monthly payment would rise to \$1,750 a month. This is a payment-to-income ratio of 42%. It is very unlikely that the household will be able to afford the new monthly payment, and will probably default on the mortgage.

The phenomenon of toxic mortgages was at least partially responsible for the large run-up in housing values over the past decade. Mortgage originators would write a mortgage and then immediately sell the mortgage to another party, who would often “securitize” the mortgage by pooling it with numerous other mortgages and creating complex financial instruments known as derivatives. These derivatives were then sold to other financial institutions at a high yield.

Unfortunately, this created an incentive in the system to originate as many mortgages as possible without concern for the long-term viability of the mortgage itself. In the past, mortgage originators often held the mortgage to term, deriving the value through the interest payments over the life of the loan. The lender therefore had a vested interest in ensuring that the loan was viable at the outset.

Once mortgage originators began immediately selling the loans to a third party, the value in the loan was in its sales price. This destroyed the loan originator’s incentive to make sure the loan was viable, instead creating an incentive for the originator to write as many loans as possible regardless of viability.

This convergence of historically low interest rates and looser lending standards led to a flood of easy money for potential borrowers, which in turn began to drive up housing prices. When housing prices were rising quickly, financially distressed owners could simply refinance the mortgage to take advantage of another teaser rate. However, when housing values stopped rising refinancing was no longer an option because the loan to value ratio no longer permitted a refinancing. The result was predictable: loan defaults began to rise.

The results of securitized mortgage defaults are and will continue to wind through the financial system at the date of this study, which has both resulted in staggering losses running into the tens of billions for financial institutions holding the derivative securities, and also in the return of traditional conservative lending standards for mortgages. As there are no longer buyers for mortgage-backed securities, lenders have returned to recouping value from mortgages from the long-term interest payments. The reinstatement of more conservative lending standards is in some part responsible for the deflation in house prices.

And therefore, we have used time-tested, conservative loan underwriting standards to calculate affordable housing payments. The following Table 19 shows the affordable housing price and rental payments for the household income brackets, calculated using the underwriting standards from the previous page:

Table 19. Affordable Housing Costs by Income Bracket

Household Income	Category	Affordable House Prices	Affordable Rental Payment
\$0 - \$15,000	Very Low (<30% AMI)	\$0 - \$37,500	\$0 - \$375
\$15,001 - \$30,000	Low (30%-60% AMI)	\$37,501 - \$87,500	\$375 - \$750
\$30,001 - \$50,000	Moderate (60%-100% AMI)	\$87,501 - \$125,000	\$750 - \$1,250
\$50,001 - \$62,500	Median (100%-130% AMI)	\$125,001 - \$155,000	\$1,250 - \$1,563
\$62,500 - \$75,000	Abv. Med. (130%-160% AMI)	\$155,001 - \$187,500	\$1,563 - \$1,875
\$75,001 - \$100,000	Moderate High (160%-200%)	\$187,501 - \$250,000	\$1,875 - \$2,500
\$100,001 - \$150,000	High (>200% AMI)	\$250,000 - \$375,000	\$2,500 - \$3,750
\$150,001+	Very High	\$375,000 +	\$3,750+

Source: McKenna Associates

C. TOTAL HOUSING DEMAND

Total housing need is driven partly by job creation, and partially by household growth and change. For the purposes of this analysis, we have assumed that there will be no net increase in the number of households due to job creation. This is in part due to the relatively flat employment trends in the County over the previous 30 years. It is likely that job creation in St. Joseph and LaPorte Counties in Indiana will account for more new worker households locating in Berrien County than will new jobs created in Berrien County. The aggregate net impact on housing demand from job creation in Berrien County is likely to be modest over the 20 year time period, however, structural changes in the employment structure from higher paying jobs to lower paying service jobs will likely lead to an increased demand for affordable housing options. We have incorporated this anticipated shift towards lower household incomes into our housing demand model.

The following Table 20 and Table 21 present the results of the housing demand model. We have identified demand statistics for the County and its sub regions for seven price ranges of owner occupied housing, and four price ranges of renter occupied housing. Housing demand estimates are not shown for 2020 and 2030 because, as the County's population is projected to decrease over that time period, we are not projecting new demand for housing created by new households in the County. Please refer to Chapter 6 on page 37 for an analysis of housing surplus/deficit. The demand identified in Table 20 and Table 21 is compared against the results of the housing supply analysis in the next Chapter.

Table 20. Owner Occupied Housing Demand, Berrien County and Sub Regions, 2008

Housing Value	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$0 - \$37,500	5,662	557	1,108	1,697	1,771	526
\$37,501 - \$87,500	8,747	861	1,712	2,622	2,736	812
\$87,501 - \$125,000	11,414	1,124	2,234	3,421	3,570	1,060
\$125,001 - \$155,000	5,370	529	1,051	1,610	1,680	499
\$155,001 - \$187,500	5,370	529	1,051	1,610	1,680	499
\$187,501 - \$250,000	5,484	540	1,073	1,644	1,715	509
\$250,000 - \$375,000	3,368	332	659	1,010	1,053	313
\$375,000 +	1,801	177	352	540	563	167
TOTAL:	47,216	4,649	9,240	14,154	14,768	4,385

Source: McKenna Associates

Table 21. Rental Housing Demand, Berrien County and Sub Regions, 2008

Monthly Rent	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$0 - \$374	6,067	592	1,302	1,726	1,962	483
\$375 - \$875	4,815	470	1,034	1,370	1,557	383
\$875 - \$1,249	3,901	381	837	1,110	1,261	311
\$1,250+	2,797	273	600	796	904	223
TOTAL:	17,580	1,716	3,773	5,002	5,684	1,400

Source: McKenna Associates

Fair Market Rent ¹

Fair Market Rents (FMRs) are primarily used to determine payment standard amounts for the Housing Choice Voucher program, to determine initial renewal rents for some expiring project-based Section 8 contracts, to determine initial rents for housing assistance payment (HAP) contracts in the Moderate Rehabilitation Single Room Occupancy program (Mod Rehab), and to serve as a rent ceiling in the HOME rental assistance program. The U.S. Department of Housing and Urban Development (HUD) annually estimates FMRs for 530 metropolitan areas and 2,045 nonmetropolitan county FMR areas. By law the final FMRs for use in any fiscal year must be published and available for use at the start of that fiscal year, on October 1.

The fair market rent is based on the number of rooms in the rental unit. The final FY2009 Fair Market Rents for Berrien County ² are:

<u>Efficiency</u>	<u>One-Bedroom</u>	<u>Two-Bedroom</u>	<u>Three-Bedroom</u>	<u>Four-Bedroom</u>
\$472	\$529	\$645	\$789	\$1,012

Note that Berrien County is the same as the Niles-Benton Harbor MSA.

Fair Market Rent Standards

FMRs are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to program participants. To accomplish this objective, FMRs must be both high enough to permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

¹ The information in this report regarding Fair Market Rents is based on information published by HUD. For more information on Fair Market Rents see: <http://www.huduser.org/datasets/fmr.html>

² For a detailed explanation of how the FMR for Berrien County is calculated, see: http://www.huduser.org/datasets/fmr/fmrs/fy2009_code/2009summary.odn?INPUTNAME=METRO35660M35660*Berrien+County&county_select=yes&state_name=Michigan&data=2009&statefp=26.0&fmrtype=Final

5. HOUSING SUPPLY ANALYSIS

A. EXISTING HOUSING CONDITIONS

This section provides an overview of existing housing conditions in Berrien County. The tables in this section are derived from Census 2000, and are therefore eight years old at this point. The data in the tables are therefore not suitable for direct inclusion in the housing model, but are sufficiently timely to allow us to identify differences and patterns in housing tenure between the various sub regions.

Table 22. Housing Units, Berrien County and Sub Regions, 2000

	Single Family		Multiple Family		Mobile Home		Total Units
	Units	% of Total	Units	% of Total	Units	% of Total	
Berrien County	54,563	74.3%	14,451	19.7%	4,409	6.0%	73,445
Northeast	6,021	76.5%	1,191	15.0%	655	8.3%	7,868
East Central	10,138	68.7%	3,504	23.8%	1,104	7.5%	14,751
West Central	14,621	73.5%	4,152	20.9%	1,114	5.6%	19,887
Southeast	15,955	73.4%	4,583	21.0%	1,189	5.5%	21,731
Southwest	7,828	85.0%	1,021	11.0%	347	3.8%	9,208

Source: US Census Bureau

Table 22 identifies broad physical characteristics of the housing stock in Berrien County, distinguishing between detached single family units, multiple family structures with 2 or more units, and mobile homes. The table indicates that the physical structure of housing is fairly consistent across the county. Depending upon the sub region, single family dwelling units represent between 68.7% and 85.0% of all housing units. Multiple family housing is more concentrated in the East Central, West Central and Southeast sub regions, which correlates to the location of the cities of Niles and Benton Harbor/St. Joseph.

Table 23 presents ownership data for housing units in the County. Again, housing tenure is similar in the West Central and Southeast sub regions with the highest levels of owner-occupancy. The East Central sub region has the highest proportion of renters of all sub regions. The Northeast and Southwest sub regions display high levels of seasonal housing, presumably due to their proximity to Lake Michigan.

Table 23. Housing Tenure, Berrien County and Sub Regions, 2000

Region	Owner-Occupied		Renters		Seasonal		Total ³	
	Number	Percent of Total	Number	Percent of Total	Number	Percent of Total	Number	Percent
Berrien County	45,938	62.5%	17,631	24.0%	5,259	7.2%	73,445	100%
Northeast	4,964	63.0%	1,479	18.8%	995	12.6%	7,880	100%
East Central	7,548	51.3%	5,572	37.8%	149	1.0%	14,725	100%
West Central	14,284	71.8%	3,998	20.1%	723	3.6%	19,901	100%
Southeast	14,448	66.5%	5,613	25.8%	395	1.8%	31,733	100%
Southwest	4,696	51.0%	969	10.5%	2,997	32.5%	9,208	100%

Source: US Census Bureau

³ Note that the total column includes non-seasonal vacant housing units. The absence of these kinds of units from the table explains why the total column will exceed the sum of the columns in the table.

Seasonal Housing

Berrien County is blessed with abundant natural beauty and charm, and is located less than 2 hours by car from nearly anywhere in the Chicago metropolitan area.

This intersection of natural beauty and proximity to Chicago has created a large demand for temporary or seasonal use homes. The owners of these seasonal use homes are most typically from the Chicago area. An example is Chikaming Township, which in 2007 contained a total of 3,946 residentially assessed parcels. Of that total, 1,947 parcels were owned by Illinois residents. That means that nearly half of all residential parcels in Chikaming Township serve as weekend or vacation homes for Illinois residents.

The presence of large numbers of vacation homes can create both positive and negative impacts for the community at large. Vacation homes will often contribute to a rise in property values, which is a benefit to property owners in the community who were “in” before values started increasing. However, property value increases can create a lack of affordable housing for low to moderate income households. Vacation homes can also impact local school districts when housing units that were formerly owner-occupied units are converted to seasonal use. This decreases the pool of owner-occupants, which leads to enrollment declines for local school districts, which leads to a dislocation in local school funding and facility needs. Large concentrations of vacation homes can also lead to a shift in the local economy away from a locally-based economy to a seasonal economy. This can displace long-time resident workers, replacing them with seasonally-based jobs, typically service jobs.

Table 24 identifies Berrien County communities where more than 10% of housing units were temporary or seasonal use units in 2000.

Table 24. Temporary/Seasonal Use Units as a Percentage of All Housing Units, Select Communities, 2000

County Subdivision	Sub region	Total Housing Units	Temporary Use Units	Temporary Use Units - Percentage of All Units
Chikaming Twp.	Southwest	3,473	1,677	48.3%
New Buffalo Twp.	Southwest	2,148	990	46.1%
New Buffalo City	Southwest	1,417	360	25.4%
Hagar Twp.	Northeast	2,122	360	17.0%
Buchanan Twp.	Southeast	1,520	235	15.5%
Coloma Twp.	Northeast	2,597	356	13.7%
Lake Twp.	West Central	1,338	152	11.4%

Source: US Census Bureau

The map on the following page shows parcels owned by Illinois residents. Illinois residents are the most common non-resident owners of property in Berrien County, and serve as a reasonable proxy for mapping where vacation properties are located in Berrien County. The map reveals a heavy concentration of vacation homes within a mile of the Lake Michigan shore. In particular, Hagar, Chikaming, and New Buffalo Townships and the City of New Buffalo have high concentrations of vacation homes, and the Villages of Grand Beach and Michiana are almost entirely comprised of vacation homes.

The preponderance of vacation homes in the southwest sub region will be an important consideration in interpreting the housing supply or deficit for that area.

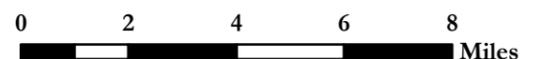


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Vacation / Seasonal Property

Berrien County, Michigan

Data Source: Berrien County 2008, MCGI v7b



Parcels owned by Illinois residents

McKenna
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B. FOR-SALE MARKET TRENDS

In order to gain an understanding of recent trends in the for-sale housing market in Berrien County, we obtained residential closed sales data from the Southwest Michigan Association of Realtors (SWMAR). SWMAR has been publishing closed residential sales data since 2004, which allows us to identify broad trends within the residential market place.

SWMAR reports closed home sales by school district groupings which do not coincide exactly with the sub region boundaries we have used in this report. Nonetheless, the school district boundaries are similar enough to our sub region boundaries to identify broad market trends within Berrien County.

The school district to sub region correlation is as follows:

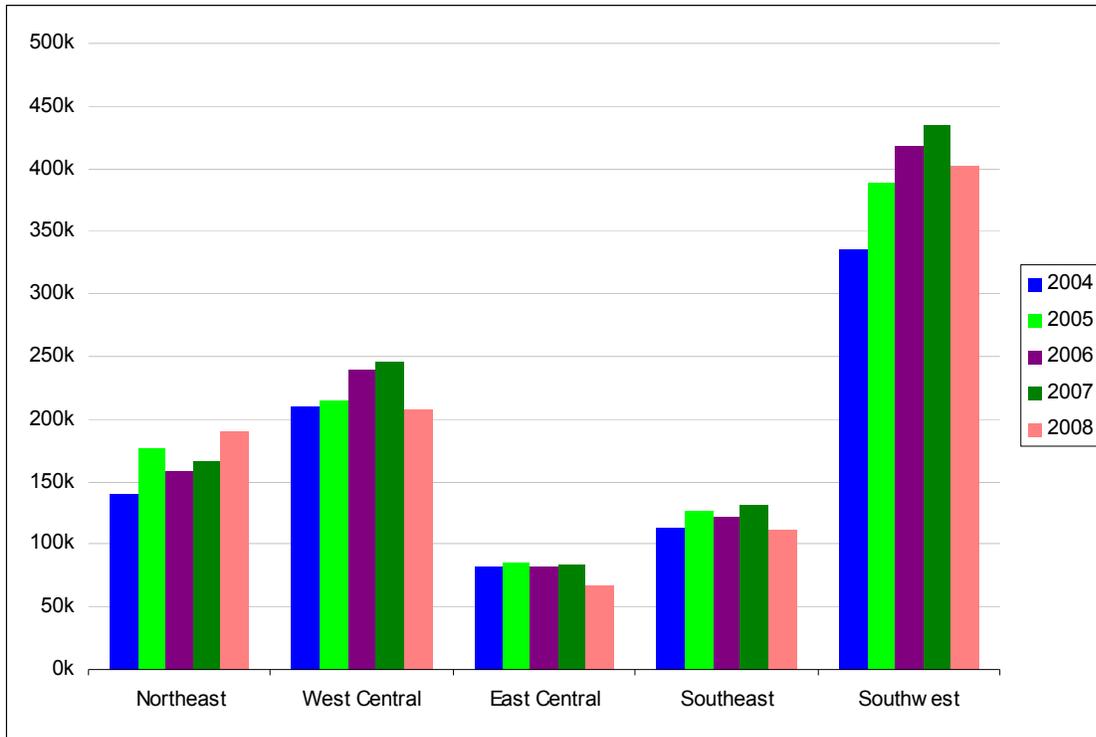
Sub Region	School Districts
Northeast	Coloma Hagar Township SD #6 Watervliet
East Central	Benton Harbor Sodus Township SD #5
West Central	Lakeshore St. Joseph
Southeast	Berrien Springs Brandywine Buchanan Galien Niles
Southwest	Bridgman New Buffalo River Valley

Overall Home Sales Trends

Figure 5 on the following page shows the average owner-occupied unit sales price from 2004 to 2008 for each of the County’s sub regions. The figure shows that average home have modestly increased in the northeast and southwest regions, but have remained steady or slightly declined in the west central, east central and southeast sub regions. This is another indication of the influence of the vacation home market on overall home prices, as the sub regions with the highest percentage of seasonal homes showed price increases while the other sub regions remained steady or decreased.

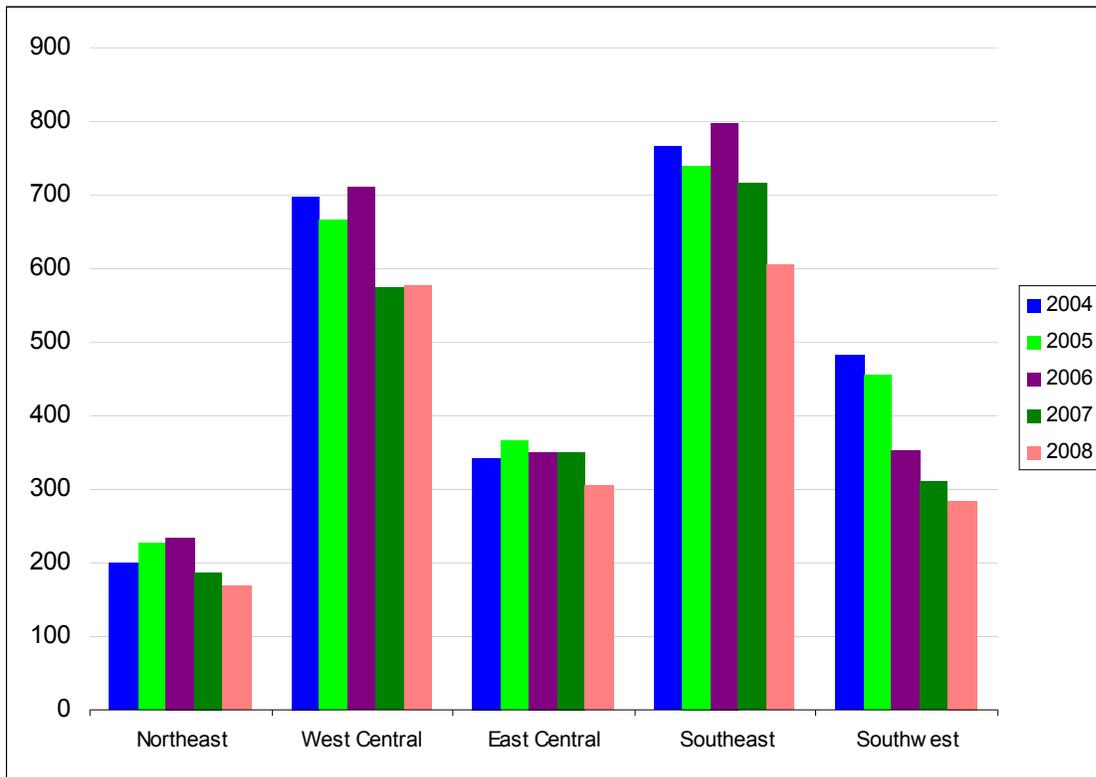
Figure 6 shows annual home sales over the 2004 to 2008 period. Annual home sales in all of the County’s sub regions have declined from 2004 levels.

Figure 5. Average Owner-Occupied Unit Sales Price, Berrien County Sub Regions, 2004-2008



Source: SWMAR

Figure 6. Annual Home Sales, Berrien County Sub Regions, 2004 - 2008



Source: SWMAR

C. HOUSING SUPPLY

The preceding SWMAR data provides an overall snapshot of the housing market in Berrien County over the past 5 years. However, the purpose of this study is to evaluate the housing demand for County residents. Therefore, we will consider only *resident*-occupied housing when calculating housing need. Our concern is assessing the state of the housing market for resident households, while the vacation or seasonal home market is a separate market entirely that primarily caters to non-resident households.

Table 25 lists the supply of owner-occupied housing units in each of the price brackets for Berrien County and its sub regions. Table 26 lists the supply of non-homestead housing units, which are typically either a seasonal/vacation home or a rental property. Table 25 and Table 26 are based on residentially coded parcels from County Equalization data. Housing value was determined by taking the SEV and multiplying it by a factor of 2.05. We also disregarded any equalization record that had a SEV of \$25,000 or lower to account for unimproved parcels, which typically sell for \$50,000 or less in the County.

Table 27 lists the supply of renter occupied housing units in each of the seven price brackets for Berrien County and its sub-regions.

Table 25. Supply of Owner-Occupied (Homestead) Single-Family Housing Units, Berrien County and Sub Regions, 2008

Housing Value	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$50,000 - \$87,500	7,912	1,133	1,550	772	4,108	349
\$87,501 - \$125,000	10,070	1,392	1,420	3,103	3,416	739
\$125,001 - \$155,000	6,546	758	621	2,725	1,948	494
\$155,001 - \$187,500	4,825	411	363	2,202	1,408	441
\$187,501 - \$250,000	5,154	352	350	2,457	1,353	642
\$250,000 - \$375,000	3,577	157	225	1,744	762	689
\$375,000 +	2,438	207	78	984	281	888
TOTAL:	40,522	4,410	4,607	13,987	13,276	4,242

Source: Berrien County Equalization

Table 26. Supply of Non-Homestead Single-Family Housing Units, Berrien County and Sub Regions, 2008

Housing Value	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$50,000 - \$87,500	3,654	546	550	622	1,259	677
\$87,501 - \$125,000	2,440	283	275	838	480	564
\$125,001 - \$155,000	1,513	164	71	584	245	449
\$155,001 - \$187,500	968	139	43	312	148	326
\$187,501 - \$250,000	1,348	167	53	304	181	643
\$250,000 - \$375,000	1,524	198	26	256	107	937
\$375,000 +	2,578	284	25	341	88	1,840
TOTAL:	14,025	1,781	1,043	3,257	2,508	5,436

Source: Berrien County Equalization

Table 27. Supply of Renter-Occupied Housing Units, Berrien County and Sub Regions, 2008

Monthly Rent	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$0 - \$375	3,268	149	1,536	434	1,022	92
\$376 - \$875	13,676	1,215	3,822	2,739	4,265	690
\$876 - \$1,250	552	116	85	862	321	138
\$1,251 - \$1,550	45	2	0	36	4	3
\$1,551 - \$1,875	26	0	0	12	14	0
\$1,876 - \$2,500	16	0	0	13	0	3
\$2,500+	19	0	12	0	0	7
TOTAL:	17,602	1,482	5,455	4,096	5,626	933

Source: ESRI

Table 25, Table 26 and Table 27 confirm many of the observed conclusions about the distribution of housing tenure and value across the County. Specifically:

- **High Value Units.** The Southwest and West Central regions have the highest concentrations of high-value homes as a percentage of all housing units. 75% of owner-occupied housing valued \$375,000 or greater is located in the Southwest and West Central regions.
- **Non-Homestead Units.** Non-homestead units are typically rental or seasonal units. Following are the proportion of non-homestead units as a percentage of total housing units:
 - Berrien County: 30.1%
 - Northeast: 31.9% (non-homestead units are probably seasonal units)
 - East Central: 31.5% (non-homestead units are probably rental units)
 - West Central: 22.2%
 - Southeast: 19.9% (low percentage of non-homestead)
 - Southwest: 58.7% (non-homestead units are probably seasonal units)
- **Affordable Units.** The Southeast and East Central regions contain over 70% of the County's supply of owner-occupied housing with a value of \$87,500 or less.
- **Fair-Share Housing.** The West Central and Southwest sub regions contain less than their fair share and the East Central and Southeast sub regions contain more than their fair share of owner-occupied housing valued less than \$87,500.
- **Rental Units.** Over 90% of rental units have a monthly rent of less than \$875. Over 99% of rental units have a monthly rent of less than \$1,250. Because the 2008 rents in Table 27 are estimates based on Census 2000 data it is likely that the values may have compressed at the bottom end, but without updated Census data or a comprehensive survey of housing for the County, it is impossible to make any educated adjustment to the reported data.
- **Location of Rental Units.** The East Central and Southeast regions have high percentages of rental units. 42.2% of all housing units in the East Central region are rental units, and 27.2% of all units in the Southeast region are rental units. Together, the West Central, East Central and Southeast regions contain 86.3% of all County rental units. This is not unexpected given that these regions contain the County's largest Cities – St. Joseph/Benton Harbor and Niles.
- **Low-Rent Units.** The East Central and Southeast region also have the highest concentration of lower-rent units.
- **High-Rent Units.** The West Central region contains the largest proportion of rental units with a monthly rent between \$750 and \$1,250. 21% of West Central rental units fall into that rent bracket, and 57.5% of all County rental units valued between \$750 and \$1,250 are located in the West Central region.

6. PROJECTED HOUSING DEFICIT/SURPLUS

The projected housing deficit or surplus is derived by comparing the number of households expected to demand housing in a particular value or rent range against the supply of housing in that value or rent range. If there are a larger number of housing units of a particular value than households in that income bracket, there is a surplus of housing at that value. On the other hand, if there are a larger number of households in an income bracket than appropriately priced housing units, there is a deficit of housing at that value.

Methodology and Considerations

It is important to note that this type of analysis does not take into account household choice for housing, as individual households may choose to live in housing that is less expensive than they could otherwise afford. The inability to account for individual household choice is a limitation of a study of this kind, however, the size of the study will minimize the impact of individual household choice and the overall supply/demand balance conclusions remain valid.

The housing supply data in the following tables and in Table 25 and Table 26 are based on County Equalization data. The supply data is based on residentially coded parcels from County Equalization data. Housing value was determined by taking the SEV and multiplying it by a factor of 2.05. We also disregarded any equalization record that had a SEV of \$25,000 or lower to account for unimproved parcels.

The household demand is listed in Table 20 and Table 21 on page 28. The housing supply is listed in Table 25 and Table 26 on page 36.

The following Table 28 and Table 30 list the deficit or surplus for owner-occupied and rental housing at various values in the County and its sub regions. Note that figures in black represent a housing surplus, while figures in (red) represent a housing deficit. In other words, numbers in red identify price ranges where a demand for new housing in that price range exists.

A. OWNER OCCUPIED HOUSING DEFICIT/SURPLUS

Table 28. Deficit/Surplus of Owner-Occupied Housing, Berrien County and Sub Regions, 2008

Housing Value ⁴	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$50,000 - \$87,500	(6,496)	(285)	(1,270)	(3,547)	(399)	(989)
\$87,501 - \$125,000	(1,344)	268	(814)	(318)	(154)	(321)
\$125,001 - \$155,000	1,176	229	(430)	1,115	268	(5)
\$155,001 - \$187,500	(545)	(118)	(688)	592	(272)	(58)
\$187,501 - \$250,000	(330)	(188)	(723)	813	(362)	133
\$250,000 - \$375,000	209	(175)	(434)	734	(291)	376
\$375,000 +	637	30	(274)	444	(282)	721
TOTAL:	(6,693)	(239)	(4,633)	(167)	(1,492)	(143)

Red numbers = undersupply/deficit

Black numbers = oversupply/surplus

Source: McKenna Associates

⁴ Note that we have eliminated all housing units valued \$50,000 or lower. For the purposes of this analysis we have set \$50,000 as the lowest likely price for a tenable housing unit in the County and aggregated demand for housing units from \$0-\$87,500 and compared it against the supply of housing units between \$50,000 and \$87,500. Most of the housing demand in the County will be for replacement units for obsolete existing housing units.

Housing Deficit/Surplus

Overall Demand

The preceding Table 28 indicates that, County-wide, there is unmet demand for owner-occupied housing in the County in the \$50,000 - \$125,000 and \$155,000 - \$250,000 price ranges, while there is a modest surplus of housing valued between \$125,000 and \$155,000 and above \$250,000.

Seasonal Housing Impact

The Southwest sub-region contains the highest proportion of seasonal housing, which is supported by the indicated over-supply of very high value housing (above \$375,000). However, high housing values in the Southwest sub-region have led to a deficit in affordable workforce housing. Lack of affordable housing for working households in the Southwest sub-region will drive those households to seek housing in other sub-regions or in locations outside of the County.

West Central Sub-Region

The West Central sub-region has a striking deficit of housing valued below \$87,500. Seasonal housing is not a significant issue in the West Central sub-region, but its location along Lake Michigan likely increases housing values beyond the affordable range of many County residents.

Demand for Low-Value Housing Units

Table 28 indicates a large demand for housing valued between \$50,000 and \$87,500. However, as we noted in the footnote, we compared the total demand for housing of units valued from \$37,500-\$87,500 against the supply of houses valued between \$50,000 and \$87,500 for the following reasons:

- Supply. It is likely that housing units valued less than \$50,000 will be older or poorly maintained units that will require significant investment to return to a liveable, code-compliant state. For this reason, we have assumed that housing units valued less than \$50,000 should be disregarded for the purposes of this study.
- Demand. A significant amount of the demand included here are for units valued at less than \$37,500 (see Table 20). These households may not be good candidates for home-ownership because 1) households making less than \$15,000 are ill-equipped to support the maintenance and repairs necessary on a home of this value, 2) there are likely a significant number of elderly households have low incomes but who already own their home, and 3) it is very difficult to find a unit valued less than \$37,500.

For the purposes of determining demand for owner-occupied housing units, we can assume that any household that can only qualify for housing valued less than \$37,500 will not be a candidate for owner-occupancy, and will have to rent or seek other living arrangements.

Condition of Low-Value Housing Units

The housing demand model is based on an all-things-equal assumption because there is not reliable quantitative data available regarding the condition of lower-value housing in the County.

Qualitatively, there is consensus that many lower-value housing units in the County have significant quality issues and do not meet current minimum building code or property maintenance standards. These units do not meet current building codes, require major maintenance and upgrade costs to be competitive in today's market, or are simply no longer tenable housing units in a competitive marketplace. Therefore, there will be demand for units to replace existing units valued less than \$87,500. **Housing policy must be adjusted accordingly, as either rehab/improvement of existing substandard units or the construction of new affordably priced units to replace outdated units is required.**

B. OVERALL DEFICIT/SURPLUS

Berrien County has historically contained a large number of seasonal housing units, which distorts the housing market in certain areas of the County where seasonal housing constitutes a large proportion of all housing. Seasonal housing markets by definition are driven by purchasers from outside of the region, and seasonal homes are a luxury. During down markets, seasonal markets will suffer disproportionately if that supply of out-of-region buyers dries up and seasonal homes, which are often priced at the higher end of the market, will lose value. If a supply glut occurs, it will reduce demand and value for owner-occupied housing in the area.

If all housing units (i.e. homestead plus non-homestead parcels) are included in the owner-occupied demand/supply calculations, the deficit/surplus for housing is:

Table 29. Deficit/Surplus of All Housing, Berrien County and Sub Regions, 2008

Housing Value ⁵	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$50,000 - \$87,500	(2,842)	261	(720)	(2,925)	860	(312)
\$87,501 - \$125,000	1,096	551	(539)	520	326	243
\$125,001 - \$155,000	2,689	393	(359)	1,699	513	444
\$155,001 - \$187,500	423	21	(645)	904	(124)	268
\$187,501 - \$250,000	1,018	(21)	(670)	1,117	(181)	776
\$250,000 - \$375,000	1,733	23	(408)	990	(184)	1,313
\$375,000 +	3,215	314	(249)	785	(194)	2,561
TOTAL:	7,332	1,542	(3,590)	3,090	1,016	5,293

Red numbers = undersupply/deficit

Black numbers = oversupply/surplus

Source: McKenna Associates

Overall Demand

The above Table 29 indicates that there is a surplus of housing in all sub-regions save the East Central region. The surplus is very large in the seasonal home regions (Northeast, West Central, and Southwest), while the surplus is more reasonable in the Southeast region where the seasonal home market distorts the resident-occupied market to a lesser extent.

This overall housing surplus means that without continued support for the housing market from seasonal homebuyers, housing values will be under pressure. In today's market conditions, Table 29 is likely a more accurate gauge of the housing supply/balance in the County as any resident household looking to purchase a home in the County will have the entire pool of houses to choose from, not just owner-occupied housing. With ample supply of many equivalent units, price will become a determining factor in which for-sale units sell and which do not. Highly-priced units will likely not sell very quickly in the near-term future unless the parcel of land offers unique value, such as lakefront lots.

There is little demand for new housing in the County except for the two sub-regions where seasonal housing is least prevalent (East Central and Southeast). **There may be local opportunities for new owner-occupied housing in the County, but on the whole, providing new housing above the \$125,000 should not be a priority. Replacement of existing and substandard low-cost units and providing housing for lower income households should be the priority in the County.**

⁵ Note that we have eliminated all housing units valued \$50,000 or lower. For the purposes of this analysis we have set \$50,000 as the lowest likely price for a tenable housing unit in the County and aggregated demand for housing units from \$0-\$87,500 and compared it against the supply of housing units between \$50,000 and \$87,500.

C. RENTER OCCUPIED HOUSING DEMAND

Table 30. Deficit/Surplus of Renter-Occupied Housing, Berrien County and Sub Regions, 2008

Monthly Rent	Berrien County	Northeast	East Central	West Central	Southeast	Southwest
\$0 - \$375	(2,798)	(443)	234	(1,292)	(939)	(391)
\$376 - \$875	8,860	745	2,788	1,370	2,708	307
\$876 - \$1,250	(3,348)	(265)	(752)	(248)	(940)	(173)
\$1,251 - \$1,550	(840)	(84)	(190)	(216)	(282)	(67)
\$1,551 - \$1,875	(859)	(86)	(190)	(240)	(272)	(70)
\$1,876 - \$2,500	(484)	(49)	(107)	(129)	(162)	(36)
\$2,500+	(337)	(35)	(64)	(101)	(115)	(22)
TOTAL:	194	(217)	1,719	(856)	(2)	(452)

Red numbers = undersupply/deficit

Black numbers = oversupply/surplus

Source: McKenna Associates

The following conclusions about the demand for rental housing can be drawn from Table 30:

- Overall Demand.** The rental market in the County is in overall balance, with a calculated oversupply of 194 units. This oversupply is modest, and accounts for a reasonable vacancy rate in rental units.
- Distribution of Demand.** While the County as a whole is in balance, the distribution of rental units across sub-regions is not in balance. The more urban sub-regions contain more than their fair-share of rental units, while the rural Northeast subregion and the more affluent West Central and Southwest sub-regions contain less than their fair-share of rental units. This pattern responds to local conditions and economic realities and is unlikely to change, so there is little policy implication in this observation.
- Garden Apartments.** The majority of rental housing units in the County have a monthly rent between \$376 and \$875. This is consistent with the standardized garden apartment real estate class. There is likely little demand for additional units in this price range.
- Apparent Oversupply of \$376-\$875 Monthly Rent Units.** The large oversupply of units in the \$376 - \$875 price range is likely due to the standardized nature of market rate rental housing complexes and pricing. Garden apartments are almost universally priced in this range, so units in this price range are meeting the demand for rental units in the \$0-\$375 and \$876 and above price ranges.
- New Rental Units.** Additional rental units should “fill-in” the County’s portfolio of rental options rather than providing more units that are similar to those already present in the County. New rental units should be targeted toward niche markets, including senior households and higher income households without children.
- Demand for Low-Rent Units.** There is a demand for rental units with low monthly rents (below \$375) in all sub regions except the East Central region. The reason that there is large demand for these units is because our rental demand model assumes a maximum 30% rent to income ratio. Households in the lowest income bracket are therefore either spending more than 30% of their income on rent payments, or are receiving some sort of public housing assistance. If the former is true and low-income households are spending a disproportionate amount of their

income on rent, this precludes them from building any kind of household wealth. Housing policy should be calibrated to address the needs of these very low-income households to ensure they are not spending a disproportionate amount of their income on housing.

D. CONCLUSIONS

No population growth and little wage growth is forecast for the County, so existing housing supply and demand is the best metric by which to gauge housing deficit/surplus in the County.

- **Overall Demand.** The existing housing market in the County is well supplied, and there will be little demand for additional resident-occupied housing units (see Table 29 on page 39)
- **Workforce Housing.** Providing workforce housing is an important policy goal in areas of high seasonal housing. Table 28 on page 37 indicates that there is a deficit of 1,344 housing units in the \$87,500 - \$125,000 price range in the County when resident demand is compared against homestead properties. This price range corresponds to households earning between \$35,000 and \$50,000 a year, a typical household income for working families.

The County should pursue policies to provide workforce housing in the West Central and Southwest sub-regions where there is a large deficit of moderate-value housing priced below \$125,000.

- **Impact of Wage Projections.** If current trends in the economic structure in the County continue, there will be a continuing shift away from higher-paying manufacturing and professional jobs towards service jobs. This will reduce household incomes, which will continue to impair demand for higher-value housing and increase demand for lower-value housing. This issue will be at least partially offset by the revaluation of the County's existing housing stock. However, continuing maintenance of an aging housing stock will be difficult for households with fewer available resources.
- **Medium to High Value Housing.** The market for medium to high value housing is well supplied, and will continue to be well supplied by the private sector. This area of the market is currently experiencing compression as demand for high value housing units (those units above \$250,000) is declining, and price declines in the high-value brackets are putting downward pressure on medium value housing units (units between \$155,000 and \$250,000).
- **Rental Housing.** In general, there is no great demand for new rental units. Table 30 on page 40 indicates that, overall, the rental housing market is well balanced in the County. There are some regional variations, with the East Central region having more units than the pure population analysis indicates are necessary and the West Central and Southwest regions having fewer rental units than the population analysis indicates are necessary. However, it is unlikely that large shifts in housing preference or local acceptance of rental units will occur, so the County's energy will likely be better applied to other housing issues than rectifying a perceived misbalance in the location of rental units.
- **Seasonal Housing.** The seasonal housing market accounts for the large overall oversupply of housing units in the County. Any new demand for housing valued above \$155,000 will likely be generated by a demand for additional seasonal housing in the County. See Table 29 on page 39.
- **Local Impact of Seasonal Housing.** Seasonal housing can have localized impacts that distort local market conditions. In areas where seasonal housing is in high demand home values will often increase and older existing housing will correspondingly increase in value. Long-time residents who sell their house in these areas may have a hard time finding a new house due to the inflated market values, even though they presumably benefited from increased equity in their house due to the market prices increasing. County housing policy should monitor these areas of to ensure that balanced housing is available for resident households.

Housing Deficit/Surplus

- **Replacement of Substandard Units.** Many existing housing units are substandard, so housing policy should emphasize the replacement of existing units over the creation of new housing units. Promoting new housing development will further over-saturate the market, which will further depress demand and value of existing units.
- **Affordable Housing.** Housing to serve low-income households is and will likely continue to be in demand. We calculate a deficit of housing for low-income households due to the affordability parameters in our model, but in reality, low-income households are likely spending a proportion of their income that is higher than our demand model, placing further stress on low-income households' already limited resources. See our discussion of affordable housing payments beginning on page 25.

7. POLICY RECOMMENDATIONS

A. INTRODUCTION and BASIC ASSUMPTIONS

The following recommendations are designed to assist the County, local governments, non profit organizations, and any other individual or group involved in housing development to fulfill current and future affordable and workforce housing needs identified in this study. Before presenting our recommendations, it is important to identify certain assumptions that inform the recommendations.

Our assumptions consider current political and financial changes underway as of June 1, 2009 due to federal economic recovery activities which may, or may not, remain active in the future, but clearly will influence the supply and demand of housing within Berrien County during the near term.

Our principal assumptions include:

- **Mortgage financing for home purchases is now available at the most favorable terms in over twenty years.** Due to the federal economic recovery actions the annual mortgage financing interest on a conventional 30-year, 80% loan to value, mortgage is below 5% for credit worthy applicants. Also, the FHA (Federal Housing Administration) is offering annual interest on a conventional 30-year, 97% loan to value, mortgage of 5.5% to credit worthy applicants.

The effect of these lower rates results in a substantial reduction in the total monthly housing payment. This reduction means more households can now afford to purchase homes provided they can meet down payment and employment tenure requirements.

- **Housing price reductions have occurred and prices may continue to erode in the near term due to the recessionary economy, especially job losses resulting in continued high unemployment in Berrien County.** Anecdotal information indicates that home prices have eroded as much as 25 to 35% in some parts of Berrien County. This price reduction means that more homes, both new and pre-owned, are available to a larger spectrum of household incomes resulting in a greater number of housing units being available for purchase by more households.

The effect of price reductions means the supply of housing at “affordable prices” is greater than before and may potentially fulfill the total affordable and workforce purchase housing demand expressed in this report.

- **Until the banking and financial economic recovery is well established, conventional financing for new residential development and home construction, both purchase and rental, will remain virtually unavailable and as a result will almost eliminate any speculative new construction, regardless of the housing type, rental rates, or purchase prices.** Historically, a majority of land development and home building has been financed principally through local lenders familiar with Berrien County. The demand for new residential development, both single and multi-family, is likely too small to attract large, mid-west regional or national home builders with access to publicly traded capital market financing. This will limit their entry into the market. An exception may be waterfront development targeted to nonresident recreational and seasonal home ownership.

This will likely result in the need for greater cash equity and higher development loan costs for local developers for projects designed to fulfill projected market demand. This will increase the cost burden on local developers and will likely inhibit new construction of affordable and workforce rental or purchase housing.

Policy Recommendations

- **Affordable and workforce housing, in the near term, will be met by the existing for-purchase and rental housing supply.** Data provided by the Southwestern Michigan Association of Realtors indicates that 964 homes priced between \$50,000 and \$150,000, a price range providing affordable and workforce housing opportunities, were purchased in 2007 and 741 in 2008. Currently there are 600 housing units available “on the market” in this price range.

It can be concluded that while this supply lasts, this inventory will generally meet the projected demand for approximately 650 affordable and workforce housing units (see table 28 on page 33). Any additional price declines in the market will increase the supply of available houses in this price range. Therefore, no new construction will be contemplated until the market stabilizes and the supply of existing homes in the stabilized \$50,000 - \$150,000 price range is exhausted.

- **Job creation and employment is critical to increasing household income necessary for household housing payments.** While the population and employment projections for Berrien County do not show substantive population growth or new job creation within Berrien County, reversal of these trends would stimulate new housing demand.

Future Indiana job creation is of benefit to Berrien County housing by providing employment opportunities for existing and future Berrien County residents. It has been documented that almost 16% of Berrien County residents commute to Indiana for employment opportunities.

It can be concluded that without reversal of projected future shift in Berrien County employment and continued decrease of employment and income, internally generated housing demand will remain anemic and greater reliance on non-Berrien County employment opportunities will be required to stimulate housing demand.

B. RECOMMENDATIONS

Beginning with the assumption and belief that a near-term economic recovery will form the basis for a stronger housing economy in Berrien County, we offer the following recommendations:

1. **Establish a Countywide Affordable & Workforce Housing Advisory Committee.** We recommend the County Board of Commissioners establish a permanent committee to study and advise on the needs for affordable and workforce housing opportunities in Berrien County. This committee should be charged with:
 - Evaluation of impediments to the provision of affordable and workforce housing opportunities including barriers found in local master plans and zoning ordinances (including subdivision development standards) that do the following: 1) increase development costs, 2) decrease the certainty of approval of affordable and workforce housing development projects, 3) lengthen the development approval process, or 4) otherwise discourage affordable and workforce housing development.
 - Preparation of an Affordable and Workforce Housing Assistance Plan detailing, by subareas denoted in this Housing Study, the number and type of affordable and workforce housing units required to accommodate projected needs through a cooperative partnership with private sector interests in combination with state, county and local government resources. In certain states (for example Illinois, but not in Michigan) all governments are required to include as part of their master planning process an element addressing how the local government intends to provide affordable and workforce housing opportunities.
2. **Affordable and Workforce Housing Assistance County Master Plan Element.** We recommend the Berrien County Planning Commission incorporate the plan prepared in accord with

recommendation 1.B as one of the Planning Commission’s physical development recommendations within the Berrien County Master Plan. This element would guide the County Planning Commission when executing its review of all master plans prepared by local governments, as required by Section 41 of the Michigan Planning Enabling Act, P.A. 33 of 2008, as amended.

- 3. Educate the Populous about Residential Density and Smart Growth Principles.** Traditional residential land development incorporates certain development cost factors into the price of a home. Normally, 20% of the cost of a single-family home in a traditional residential development is based on the cost of raw land and the infrastructure costs such as water, sewer, storm drainage, streets, sidewalks and the like. It is easy to comprehend that lower densities and wider street frontages for residential lots will result in higher land and infrastructure costs per house because these costs are being distributed over a smaller number of units. On the other hand, higher densities spread land and infrastructure costs over a higher number of units, reducing the per-unit cost. Accordingly, higher density development is more affordable because land and infrastructure costs are minimized.

The Michigan Land Use Leadership Council in 2003 encouraged the incorporation of certain Smart Growth principles in the regulations of new residential development designed to reduce land and infrastructure costs including:

- Creating a range of housing opportunities and choices.
- Creating walkable communities.
- Preserving open spaces, farmland, natural beauty and environmental areas.
- Taking advantage of compact design.

We recommend the Berrien County Planning Commission in association with the Affordable & Workforce Housing Advisory Committee develop and carry-out a countywide education program addressing innovative residential development techniques that reduce land consumption and infrastructure costs. These techniques include neo-traditional design, residential conservation design, and other design methods that use compact development styles to increase density in developed areas while resulting in greater open space preservation. These techniques can include mixed-uses, such as a blend of commercial and residential development.

- 4. Educate Developers and Landlords about Financial Incentive Programs.** In Michigan, the Michigan State Housing Development Authority (MSHDA) offers a number of housing assistance programs either directly to the developer of certain housing units or subsidies given to purchasers or renters of housing units.

We recommend the Affordable & Workforce Housing Advisory Committee sponsor three education programs throughout Berrien County:

- Programs for Home Purchasers. The program would be designed to educate potential home purchasers about home ownership, the process to purchase a home, and available financial assistance programs.
- Programs for Renters. This program would be designed to educate persons about market rate and assisted rental housing opportunities, including income assistance, homeless shelters, senior citizen housing, and other special needs housing opportunities within Berrien County.
- Programs for Developers. This program would be targeted to landlords and developers and designed to acquaint these groups with funding assistance programs to expand the supply of affordable workforce housing and special needs housing opportunities.

- 5. Housing Maintenance Code Enforcement.** The long-term objective of all local governments is to encourage continued upkeep and maintenance of its housing stock not only to protect housing values, but also to prolong the life span of housing units. A well-maintained housing stock creates multi-generational housing opportunities that support a healthy community life-cycle where there is a continual influx of young families to occupy housing units that older families no longer need. A healthy community life-cycle will also help support local school systems by maintaining consistent or growing enrollment figures.

Inter-generational housing transfer is inhibited when the housing stock is not maintained because new families will not be attracted to areas that have fallen into disrepair. The Michigan Residential Building Code incorporates housing maintenance requirements to be enforced by local governments that administer the Michigan Residential Building Code. Traditionally, the effectiveness of housing maintenance code enforcement differs from community to community.

We recommend the Affordable & Workforce Housing Advisory Committee work to bring together local governments to discuss uniform administration of the housing maintenance code possibly through assignment of code responsibilities to a specialized enforcement function to assure prompt and uniform administration.

- 6. Establish a Residential Infrastructure Revolving Loan Fund.** In traditional residential housing development, the developer is required to install on-site and sometimes off-site utilities including water, sewer, storm drainage, lighting, and sidewalks. The ownership of these utilities, upon their completion, is sometimes transferred to the local government or, in some instances such as Township roads, to the County. In the case of “for purchase” affordable and workforce housing, the cost of these improvements can be as much as 25 to 50% of the cost of the lot upon which housing unit is constructed.

In other states such as Indiana, Community Development Block Grants are available to defer infrastructure financing costs and, in some cases, a portion of the costs incurred by the developer.

We recommend that a county revolving loan fund be established to assist funding infrastructure costs born by the developer for development of affordable and workforce housing opportunities. It is recommended that loans be granted to the municipality who ultimately assumes ownership of the infrastructure with repayment being negotiated based on the amount of additional new tax valuation created by the infrastructure investment. (This repayment plan is similar to Michigan’s current tax increment financing policy).

- 7. Establish Home Buyer Down Payment Assistance Program.** Anecdotal information provided by mortgage lenders and various community development agencies serving Berrien County indicate that a major impediment to affordable and workforce housing is the inability of the householder to purchase a home due to the lack of funds for a down payment. While there are selected state and federal programs that can assist these applicants, the applicant must be identified prior to submission of an application for such funding. Due to the length of time this process takes, many applicants get discouraged and abandon their attempt to purchase a home.

There is strong evidence from communities throughout the United States that community based home purchase assistance programs have resulted in redevelopment of neighborhoods while providing housing opportunities for persons employed locally, especially in jobs related to service and tourist related businesses.

We believe a countywide home purchase down payment assistance program is necessary and will offer employees of current service and tourism related jobs, and those projected in the future, to seek housing within proximity of their place of employment. Such a program can be

an extension of current programs offered by existing community development corporations specializing in housing assistance or organized under the Berrien County Community Development Department.

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