

Proposal for:

Fast Track Payment In Lieu of Taxes (PILOT) program

October 16, 2016



TAKE PART
Opportunity Rising



Housing affordability is becoming an increasingly urgent national problem.

The Daily

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Sept. 24, 2024

How the Cost of Housing Became So Crushing

The roots of the property crisis run deep and have proved very hard to fix.

How Soaring Prices for Building Materials Impact Housing

Prices of materials used in residential construction have been flat or even declined in some cases, providing welcome relief to home builders. But overall, prices of building materials are still far above their pre-pandemic levels, and the impact of those elevated prices can be seen in unexpected places.

Housing experts say there just aren't enough homes in the U.S.

APRIL 23, 2024 · 4:04 PM ET
HEARD ON ALL THINGS CONSIDERED
By Mary Louise Kelly, Mia Venkat, Kathryn Fink, William Troop

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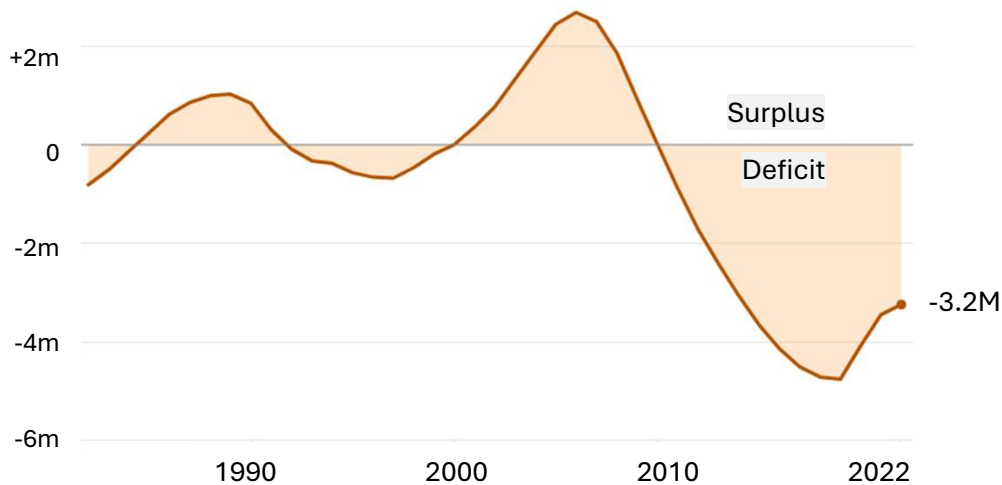


Finding affordable housing for both renters and buyers is feeling impossible lately. Experts point to a shortage of an estimated four to seven million homes.
Joe Raedie/Getty Images

Shortage in supply leads to increased cost burden for renters of all incomes.

Existing housing units relative to population demand in the U.S.

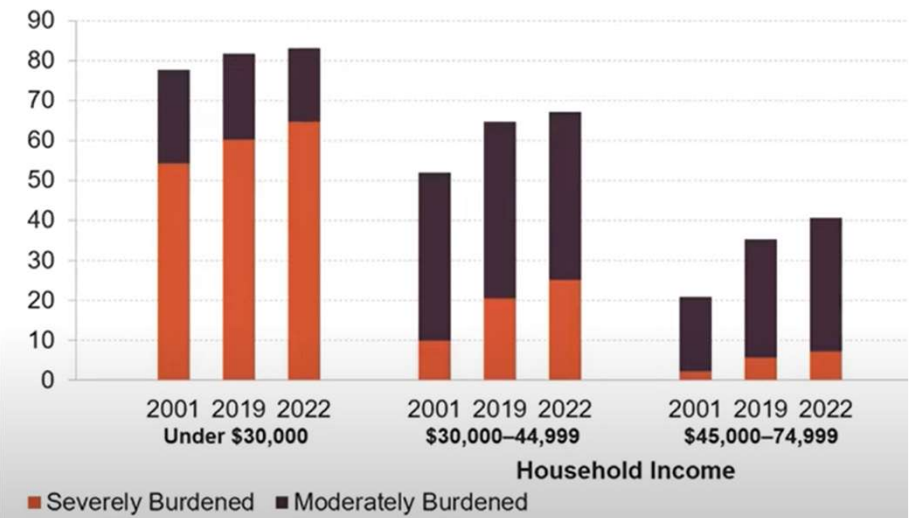
Annually; 1982-2022



Data: Hines analysis of Census Bureau and Moody's data; Note: Population demand is a theoretical housing demand metric based on long-term household formation and homeownership rates by age cohort; Chart: Axios Visuals

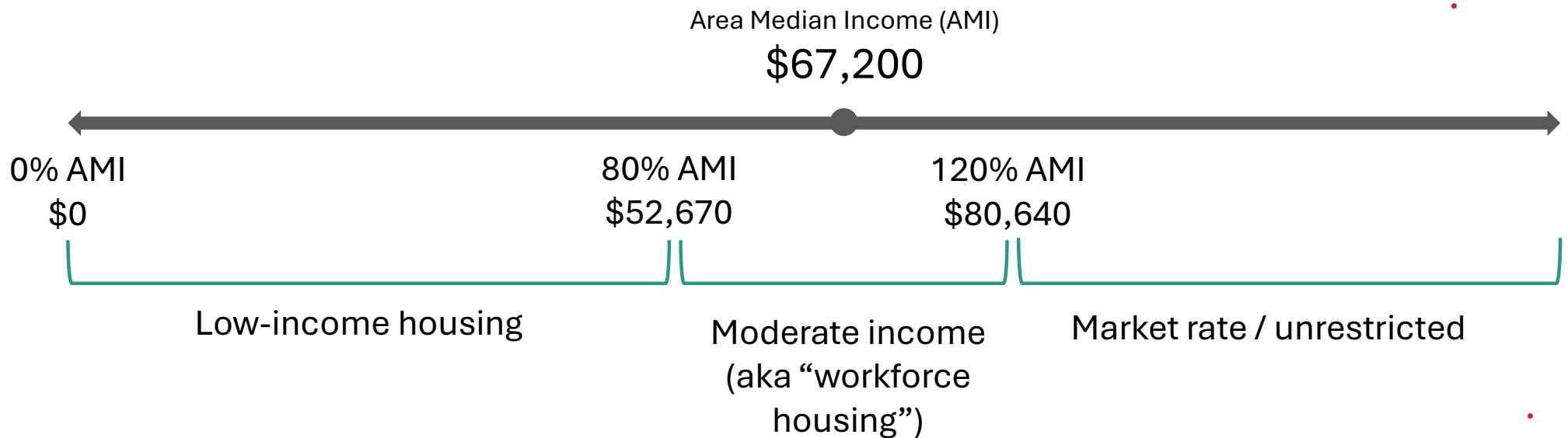
Data Source: Hines + Census Bureau / Moody's data.

Share of Renter Households with Cost Burdens (Percent)



Source: Harvard Joint Center for Housing Studies, 2023

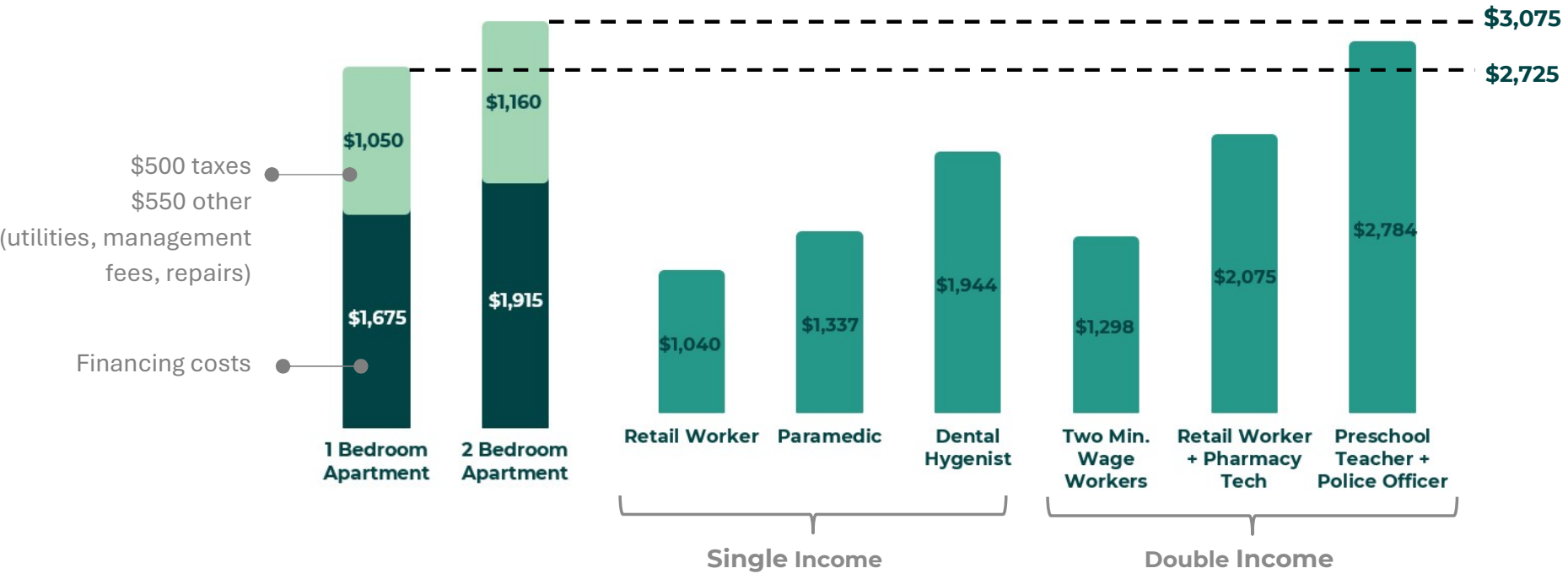
Affordable housing can mean “affordable” for people at any income.



Why is it so hard to make housing affordable?

**New Multifamily Per Unit
Unsubsidized Cost (Monthly)
Development + Operating**

**Maximum Monthly Housing
Budget by Occupation**



Almost all housing development relies on financing tools + tax incentives.



Rev. Jim Holley Residences, Piety Hill

	Financing Tools	Tax Incentives
<p><u>A</u>ffordable housing</p>	<ul style="list-style-type: none"> • Low Income Housing Tax Credits (LIHTC) • HUD funds • Section 8 / Vouchers 	<ul style="list-style-type: none"> • Payment In Lieu of Taxes (PILOT)
<p>Market rate or <u>a</u>ffordable housing</p>	<ul style="list-style-type: none"> • Low-interest loans 	<ul style="list-style-type: none"> • Neighborhood Enterprise Zone (NEZ) • Obsolete Property Rehabilitation Act (OPRA) • Brownfield TIF



The Brooke on Bagley, Corktown

To tackle the affordability problem at scale, Detroit needs a **game changer.**

The **game changer** needs to:

1) Make it **faster and easier** to build housing.

2) Incentivize & enable **affordability**.

What exactly is a PILOT?

A Payment in Lieu of Taxes (PILOT) is a tax incentive that **ties taxes to rental revenue instead of property values.**

- Previously only available to “Affordable” with federal subsidy
- Previously only available to developments under specific type of ownership (LDHAs, co-ops, nonprofits)



The Savannah
Hubbard Farms



Lakewood Manor
Jefferson Chalmers



Pablo Davis Senior Pavilion
Springwells

How does a PILOT work?



7850 E Jefferson Ave, East Riverfront
150 units
4% PILOT

Calculating PILOT	
Average rent	\$750
	X 150 units x 12 months
Annual Rental Income	\$1,350,000
	X 4% PILOT rate
Annual Taxes	\$54,000
Other expenses	\$1,255,000
Balance	\$41,000

Without the PILOT, annual taxes would be **\$304,000** and rents would need to jump to **\$900**.

Without the PILOT or the federal subsidy attached (LIHTC), rents would need to be **\$2,000+** to make the project financeable.

Why update our local PILOT program?

Once only available for “Affordable” housing with federal subsidy, Michigan now allows cities to approve a PILOT for any housing that commits to 15 years of affordability up to 120% AMI.



Detroit's Proposal:

Use PILOTs to make it faster and easier to build affordable housing.

- Any developer in good standing is eligible
- Don't need competitive federal funding
- Lower rents = lower taxes
- Fast track approval option

Very low-income properties

Permanent Supportive Housing

Low-income properties

Moderate income properties

Vacant Rehabs

Income range: 0 to 60% AMI, or below \$40,000

PILOT rate: **1%** of rental income
Ex: \$600/month unit pays \$72/unit/year for taxes

- Benefits:**
- Works **together with other subsidy** to enable very low rents
 - Helps projects compete for funding (like LIHTC)
 - Reduce need for City gap funds
 - **\$3.4M** in savings over 2 years



Xavier Square, Mack & Alter



La Joya Gardens, Mexicantown

Very low-income properties

Permanent Supportive Housing

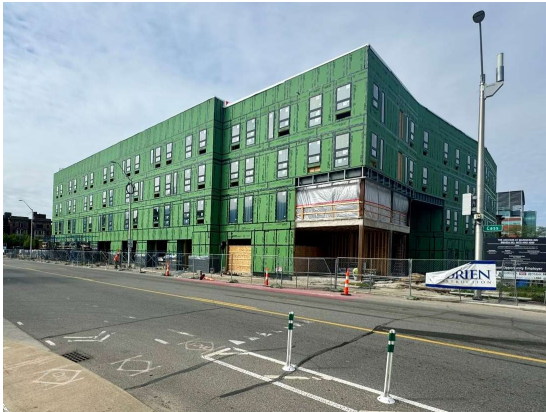
Low-income properties

Moderate income properties

Vacant Rehabs



Ruth Ellis Clairmount Center, Piety Hill



The Anchor at Mariner's Inn, Cass Park

Income range: Formerly homeless or at-risk
0 - 30% AMI, below \$20,000

PILOT rate: **\$1** per unit per year

- Benefits:**
- Works together with other subsidy sources to enable very low rents
 - Helps project retain more funding for supportive services

Very low-income properties

Permanent Supportive Housing

Low-income properties

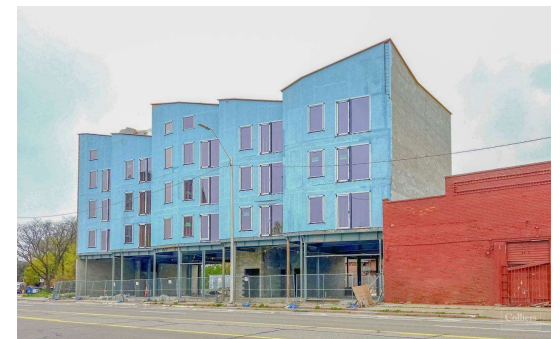
Moderate income properties

Vacant Rehabs

Income range: 61 to 80% AMI, \$40,000 - \$52,000

PILOT rate: 4% of rental income
Ex: \$1,200/month unit pays \$576/unit/year

- Benefits:**
- Save projects time & money AND provides more affordability benefit compared with other tax abatements
 - Help preserve and improve “naturally affordable” occupied buildings
 - Incentivize mixed income averaging 80% AMI



OSI Art Apartments, Woodbridge



Heather Hall, Cass Corridor

Very low-income properties

Permanent Supportive Housing

Low-income properties

Moderate income properties

Vacant Rehabs



The Corner, Corktown



The Auburn, Cass Corridor

Income range: 81-120% AMI, \$53,000 - \$80,000

PILOT rate: Per underwriting & Council approval

- Benefits:**
- Create long-term, reliable and affordable options for Detroiters we might otherwise lose to suburbs over time
 - Prevent “abatement cliff,” preserving 80% AMI units and preventing displacement
 - Prevent bifurcation of market (affordable < > luxury)

Very low-income properties

Permanent Supportive Housing

Low-income properties

Moderate income properties

Vacant Rehabs

1) A 50% PILOT rate reduction

2) Fast track approval up to 120% AMI

	PILOT rate	Annual PILOT payment
Very Low-income 60 % AMI & below	0.5%	\$30 – 55
Low Income 61 – 80% AMI	2%	\$215– 335
Moderate Income 81- 120% AMI	3.5%	\$590 - \$880



Transfiguration School, Campau/Banglatown



The Charlotte, Gateway Community

The new PILOTs would require developers to meet 3 key requirements:



1

Commit to restrict units for affordable and/or workforce housing



2

Invest \$15K per unit or \$6K per unit for renewal



3

Achieve and maintain Rental Certificate of Compliance

Fast Track Approval option

For projects with average rents below 80% AMI and/or vacant rehabs

4 - 8 weeks



for administrative PILOT approval
(not through City Council)

36 – 40 weeks



for a typical tax abatement (ie, NEZ)

Other requirements

- Occupied buildings would need to meet the City's Tenant Retention Standards to prevent dramatic rent increases and displacement
- The Fast Track PILOT does not “cut corners” or exempt projects from standard requirements (such as ADA standards, design review, environmental requirements, fair housing, etc.)
- Developments would still need to go to City Council for funding requests, purchase of City land, re-zonings, etc.



Belnord Apartments, Cultural Center

How does PILOT help create more quality affordable housing?

- Reduces the cost to operate housing through lower taxes
- Allows for larger loans with better terms (less City funds needed)
- Reduces risk to developers through administrative approval
- Helps newer/emerging developers access more capital
- Incentivizes improvements & maintenance of C of C



Van Dyke Village, Islandview

Case Study: Van Dyke Village



- 16 occupied units at risk due to expiring subsidy in 2023, ~\$900 rents
- Kipling Development & Woodborn Development stepped up to work with the City to preserve affordability
- Solution: \$1.5M Detroit Housing for the Future Fund loan
Emergency Tenant Vouchers
Neighborhood Enterprise Zone (NEZ)
\$500K City ARPA funds ← *Added 8 months*



Case Study: Van Dyke Village

	Abatement (current)	PILOT
Rental restriction	2 units @ 50% AMI 6 units @ 60% AMI 8 units @ 120% AMI	2units @ 50% AMI 6 units @ 60% AMI 8 units @ 90% AMI
Actual avg rents:	\$1,200	\$1,200
Max avg rents	\$1,626	\$1,302
Taxes	\$30,000	\$10,000
Loan Size	\$1.5M	\$1.95M

PILOT could have:

- Saved the project \$20K / year in taxes
- Helped developers to take out a bigger loan
- Eliminated the need for City funding, saving the City \$500K
- Saved residents nearly a year of waiting for rehab to start