

HR&A

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# City of Detroit Housing Market Study

## Market Study Report

April 2024

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# Market Assessment Methodology

## MARKET ASSESSMENT OVERVIEW

The demographics and housing trends analysis is the first step in assessing Detroit's housing market dynamics and housing needs.



**Task 1:** Demographic and Housing Trends – how is Detroit's housing market serving the city's population, whose needs are not being met, how are market conditions changing?

- Demographic Trends
- Housing Demand
- Housing Supply
- Housing Gaps



**Task 2:** Affordable Housing Market and Financial Analysis– what are the development/preservation trends and financial realities that influence affordable housing development in Detroit?

- Development Trends
- Preservation Trends
- Prototypical Development Pro Formas

## TASK 1 METHODOLOGY & DATA SOURCES

HR&A leveraged City data and other third-party data sources to understand demand based on demographics, and trends in supply.



### **Demographics and Housing Demand:**

- US Census and City data to reveal population shifts in Detroit since the COVID-19 pandemic
  - General population trends (growth, geographic patterns, etc.)
  - Household income, race/ethnicity, housing tenure, age, education attainment
  - Attainable rents/mortgages



### **Housing Supply:**

- US Census, City data, CoStar, Multiple Listing Services (MLS), Zillow data, supplemented by market sounding interviews to examine existing housing stock and what has been delivered in Detroit in the past five years
  - Development/preservation patterns
  - Trends in housing prices, ownership status, vacancy, absorption

## TASK 1 METHODOLOGY & DATA SOURCES

HR&A is aware of potential undercounting by the Census Bureau of Detroit residents during the 2020 US Census and 2021 Census estimates.

- In September 2022, the City of Detroit filed a lawsuit in US District Court **claiming the US Census Bureau's 2021 population estimate undercounted the city's population by tens of thousands of residents** and register population losses
- Data sources such as the U.S. Postal Service delivery records, DTE Energy residential account data, and Detroit Land Bank Authority occupancy data show that **the city gained tens of thousands of residents between the 2020 Census and 2021 estimates.**
- The US Census Bureau has publicly acknowledged that the 2020 Census undercounted the nation's Black population by over 3% and the Hispanic population by nearly 5%.
- In Detroit, with a combined Black and Hispanic population of over 84%, **that amounts to an undercount of over 20,000 Detroiters.**
- While this market study relies on data from US Census, HR&A will continue to work with the City to incorporate alternative data sources (including CoStar, MLS, City data, etc.) to best capture Detroit's local conditions.



## TASK 1 METHODOLOGY & DATA SOURCES

HR&A quantified the difference between demand and supply at specific rents to assess alignment of the housing stock with Detroiters' needs.

### **Level of Demand: These factors influence the total demand at each income band**

- Household growth rate
- Change in household income distribution

### **Characteristics of Demand: These factors influence the unit size composition of demand at each income band**

- Household size
- Bedroom occupancy

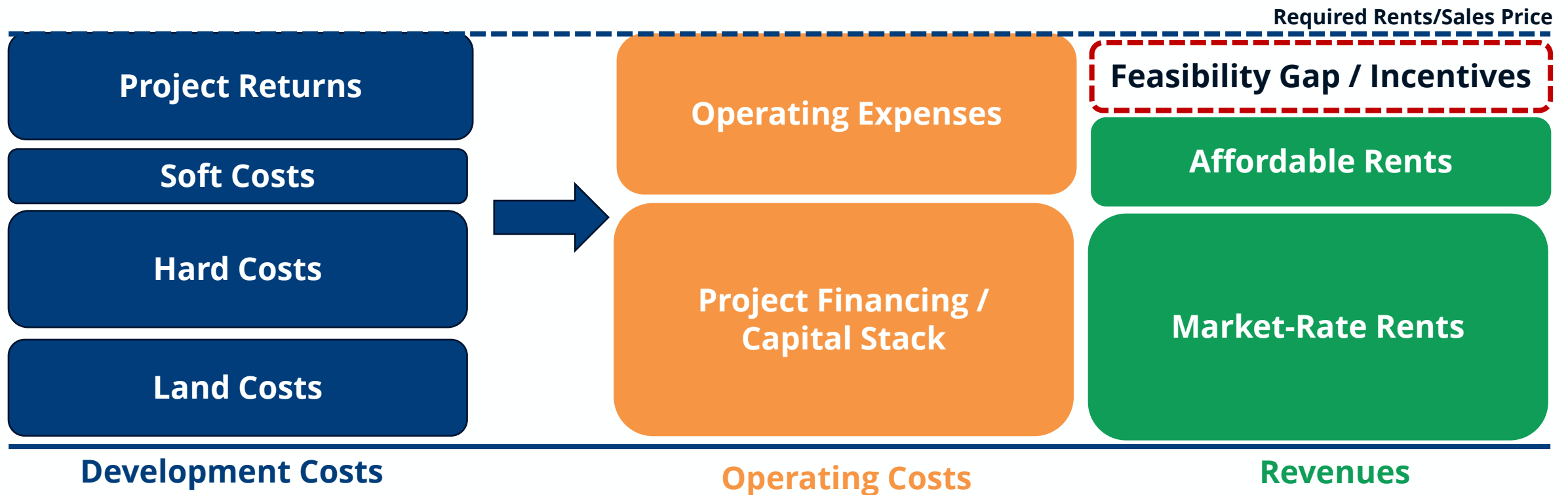
### **Housing Supply: These factors influence the total number of units supplied to the market at each income band**

- Units delivered / demolished
- Price distribution
- Unit cost filtering
- Subsidized unit production


## TASK 2 METHODOLOGY

Building upon the findings of Task 1, HR&A analyzed housing development and preservation trends and conducted financial feasibility analysis by using prototypical pro forma models for prevalent housing typologies and market conditions in Detroit.

### Economics of Housing Development







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# Demographic Trends

## SECTION OVERVIEW

HR&A's analysis of Detroit's demographic and housing demand trends includes three components, comparing across city and regional scales and across time periods.

### Demographic Trends\*

Population Growth

Socioeconomic  
Characteristics  
(Race/ethnicity, Income, Renter /  
Owner, etc.)

Geographic Trends

### Housing & Market Conditions

Housing Stock & Typology

Developments &  
Demolitions

Rents & Home Values

### Preliminary Gap Analysis

Unit Gaps

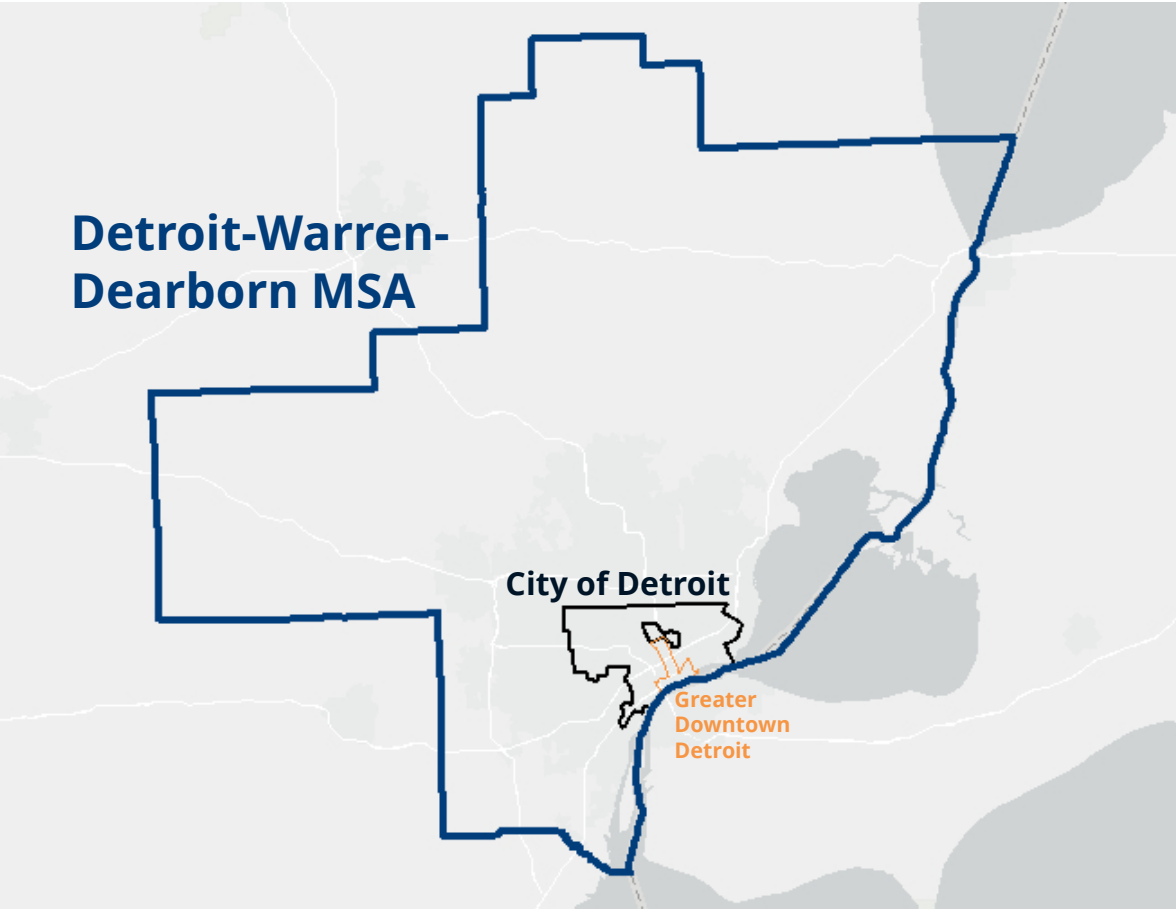
Affordability Gaps

\* Comparisons across time periods rely on ACS 1-year estimates from 2010, 2019, and 2021.

# STUDY AREAS

The analysis explores demographic shifts, development trends, and preservation activities across local, citywide, and regional geographies.

## Study Area Geographies



	Detroit MSA	City of Detroit	Greater Downtown Detroit
Population	4,365,205	632,589	56,380
Households	1,759,573	251,729	31,222
Median Household Income	\$67,153	\$36,140	\$39,460

Sources: ACS 1-Year Estimates 2021; Esri, US Census Bureau, HR&A Advisors

## FINDINGS AT-A-GLANCE | DEMOGRAPHIC & DEMAND FINDINGS

- Detroit's demographic and socioeconomic composition is changing, marked by a decline in Black and lower income Detroiters and an increase in higher income and highly educated residents.
- This changing profile of Detroiters and corresponding market response suggest a widening housing affordability gap for those most in need (30% AMI or less).
- Detroit experienced a notable increase in renters over the past decade, though that gain was offset by a significant decrease in renting households since COVID. <sup>[1]</sup>
- Detroit's lower housing costs relative to the region, paired with decreases in family households/ children in Detroit, suggests lagging desirability of Detroit for families. <sup>[2]</sup>
- While Detroit has added significant multifamily stock, single-family housing continues to be the backbone of Detroit's housing supply for both renters and owners.
- Modest increases in rents and home values suggest a relatively steady market demand despite population loss. At the same time, rising housing costs also increased housing costs burdens and challenged homeownership opportunities, especially for lower- and moderate-income households.

<sup>[1]</sup> Additional analysis is needed to understand how this relates to housing preferences and availability to housing product types.

<sup>[2]</sup> Additional analysis is needed to understand whether this relates to a lack of high-quality family-sized homes.



An aerial photograph of the Detroit, Michigan city skyline at dusk. The image shows a dense urban landscape with numerous buildings, including several prominent skyscrapers in the distance. The sky is a deep blue, and the city lights are beginning to glow. The title "Demographic Trends" is overlaid in the center in a large, white, sans-serif font.

# Demographic Trends

## DEMOGRAPHIC TRENDS | SUMMARY

Over the past decade, Detroit's population decline showed signs of a slowdown. However, the city's population saw a dramatic drop since the COVID pandemic.

**-6%**

**Total population decline  
since COVID**

The city's Black population – who also tend to have lower incomes – saw a substantial decrease over the past decade (sharper decrease since COVID), while other racial and ethnic groups saw marginal increases.

**-7%**

**Total decrease in Black population  
since COVID**

Pre-COVID, the City saw significant growth in renters and became a renter-dominant housing market in 2019. Since COVID, the number of renter households decreased significantly.

**-16,000**

**Decrease in renter households  
since COVID**

While households earning less than \$35k (30% AMI) still make up most of the city households, their number has declined the most over the last decade and more dramatically since COVID.

**-34,900**

**Decrease in households earning less  
than 30% AMI over the last decade**

Overall, the City has seen a shift in socioeconomic composition in its residents: an increase in renters, non-family households, higher income earners, and those more highly educated. Major trends generally continued during COVID.

**25,100**

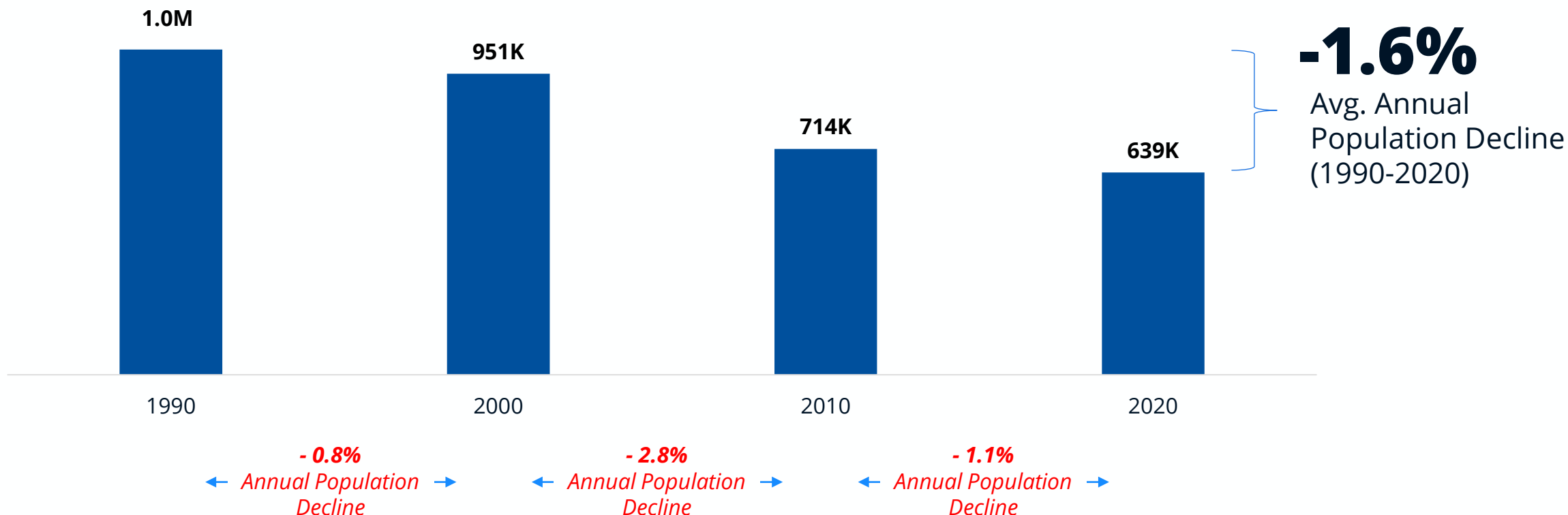
**Increase in households earning over  
80% AMI over the last decade**

Note: This summary captures demographic changes during the COVID pandemic (2020-21). It does not account for subsequent population changes

## POPULATION TRENDS | CITY OF DETROIT

Detroit's population has declined by an average of over **1.6%** annually since 1990, though the rate of decline has slowed over the last decade.

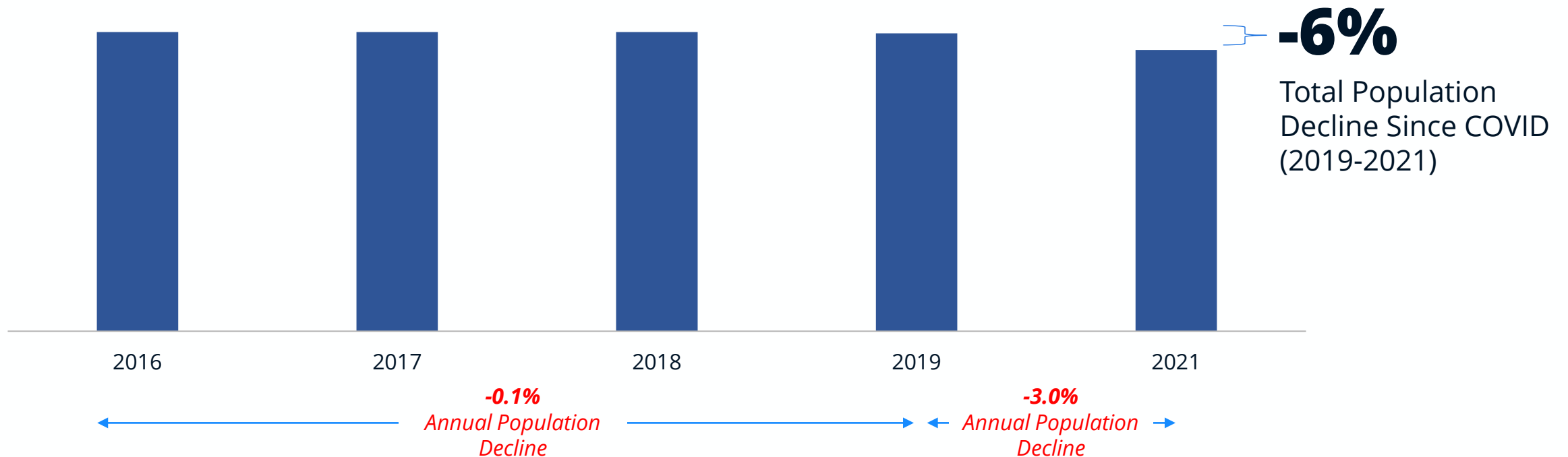
**Detroit Population Growth (1990-2020)**



## POPULATION TRENDS | CITY OF DETROIT

Although Detroit's population has been decreasing at a slower rate, the City experienced a significant total population loss **(-6%)** post COVID.

### Detroit Population Growth (2016-2021)



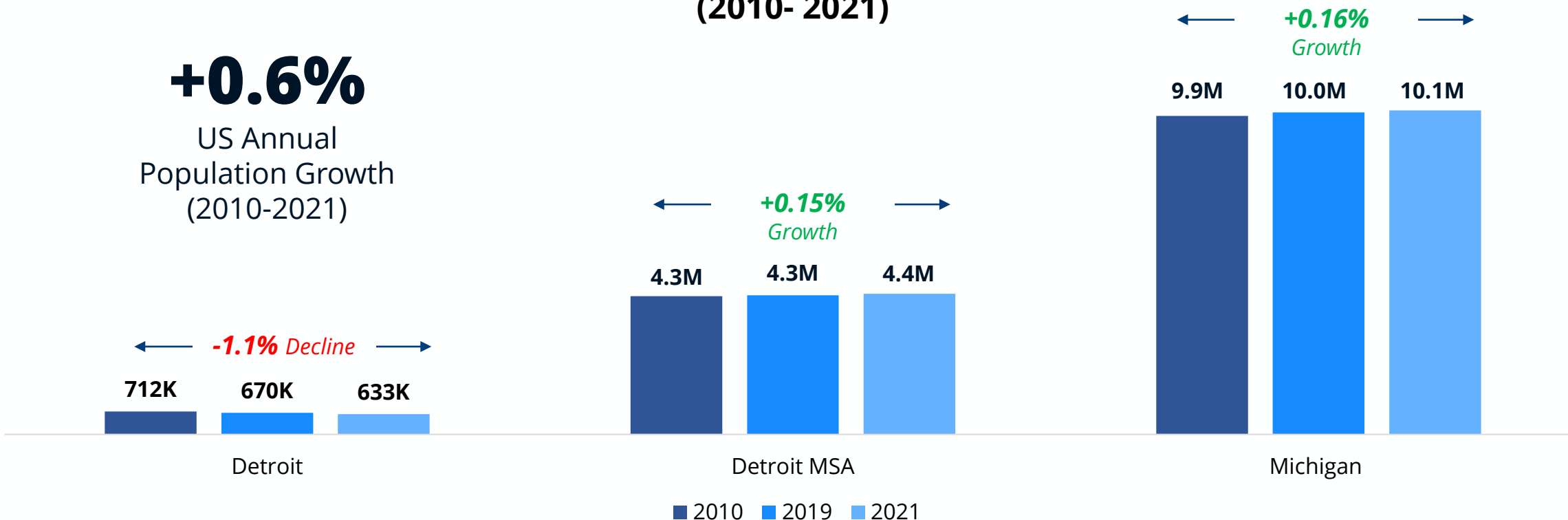


## POPULATION TRENDS | CITY VS. THE REGION

While the City's population has declined, the metro area and state have experienced modest population growth.

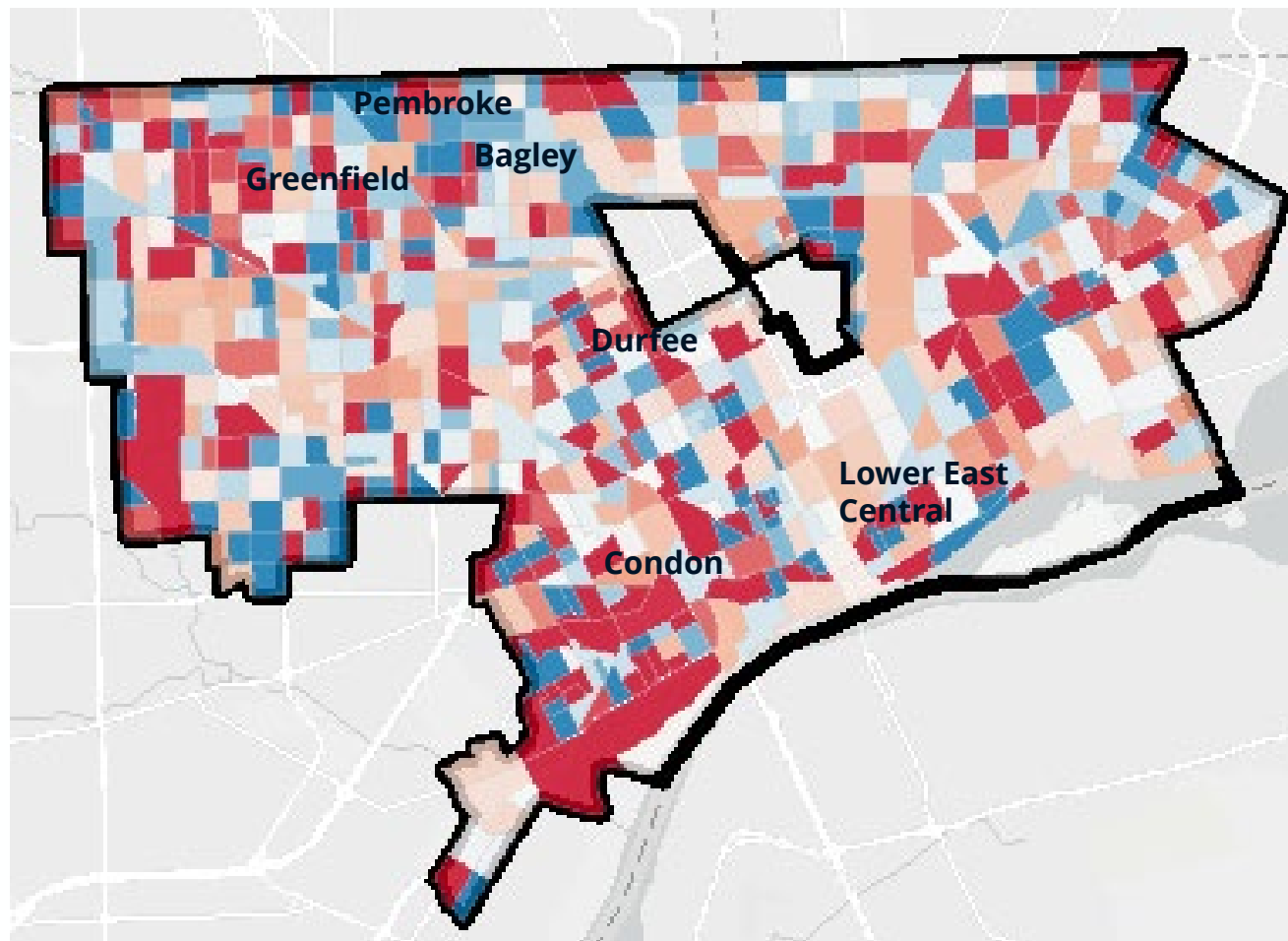
### Annual Population Change in Detroit, Detroit Metro Region, and Michigan (2010- 2021)

**+0.6%**  
US Annual  
Population Growth  
(2010-2021)



## POPULATION TRENDS | POPULATION BY BLOCK GROUP

Although there are a few areas of growth, population loss remains present throughout the City, though this could be attributed to undercounting during the Census collection.



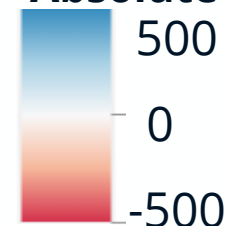
**Significant population growth from 2016 to 2021 has been observed in:**

- Pembroke
- Lower East Central
- Bagley

**Significant population decline from 2016 to 2021 has been observed in:**

- Greenfield
- Condon
- Durfee

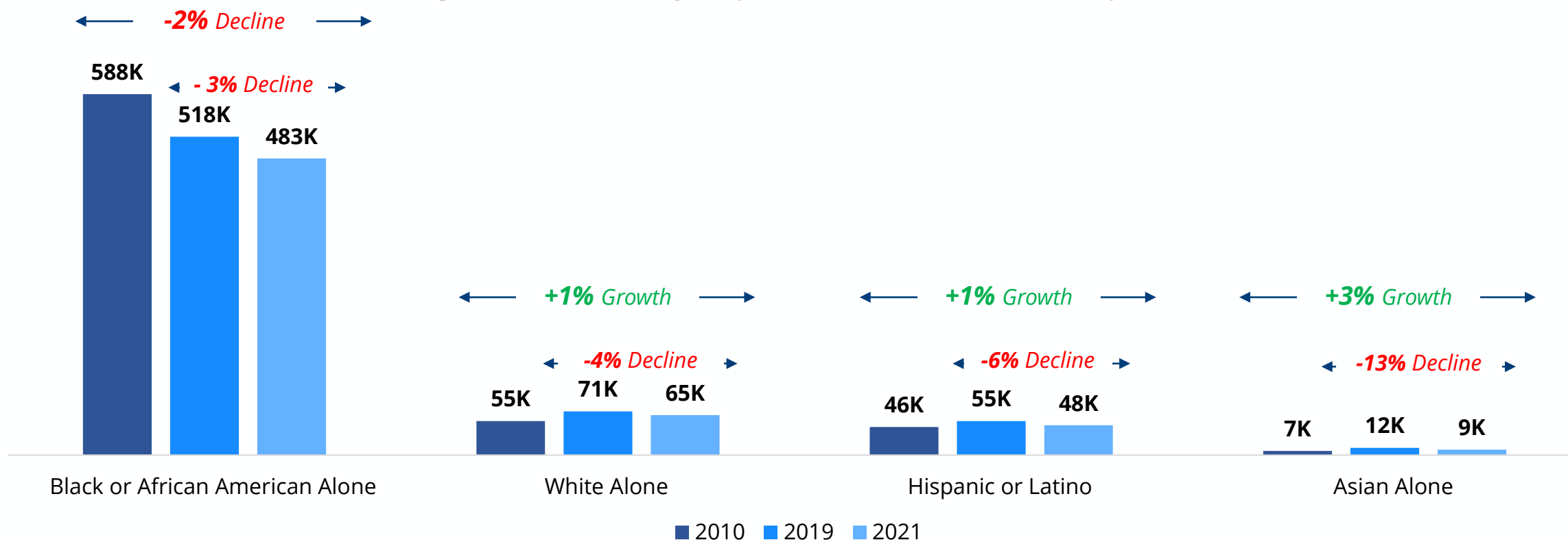
**Absolute Population Change**



## POPULATION TRENDS | POPULATION BY RACE

Over the past decade, the City's Black population has experienced an annual **2%** population decline while all other racial and ethnic groups have experienced marginal growth. However, other racial and ethnic groups were more likely to leave the city following the pandemic.

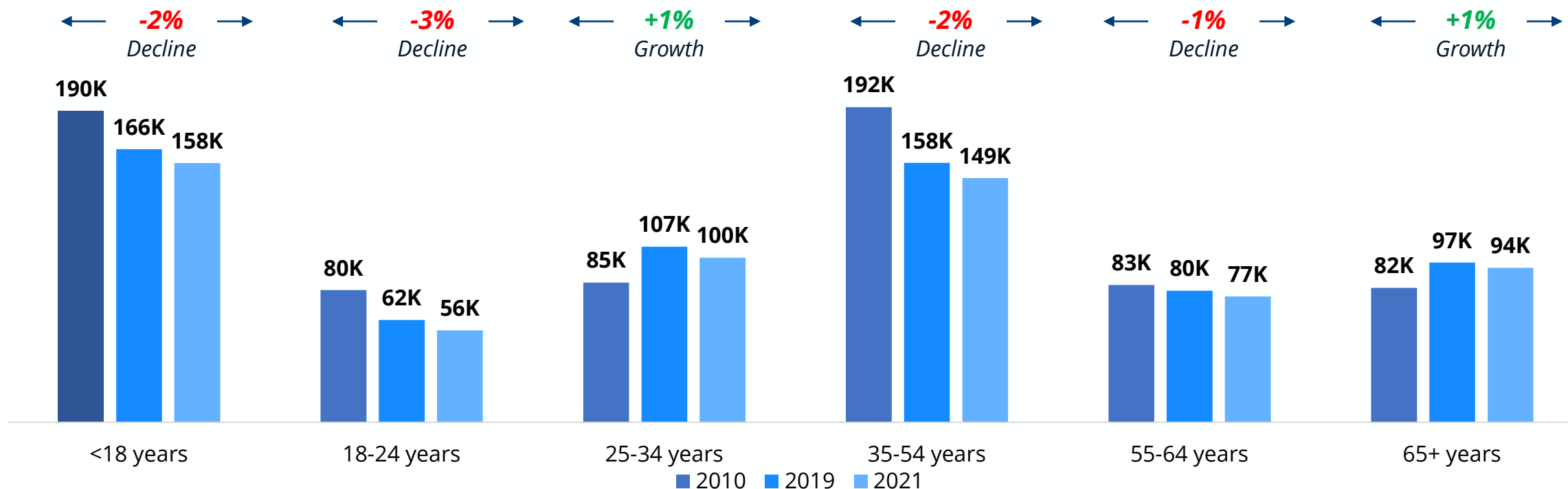
**Annual Population Change by Detroit Race/Ethnicity (2010-2021)**



## POPULATION TRENDS | POPULATION BY AGE

Among various age cohorts, children (<18), young adults (18-24), and middle-aged adults (35-54) have seen the greatest decline.

### Annual Change in Population by Age (2010-2021)

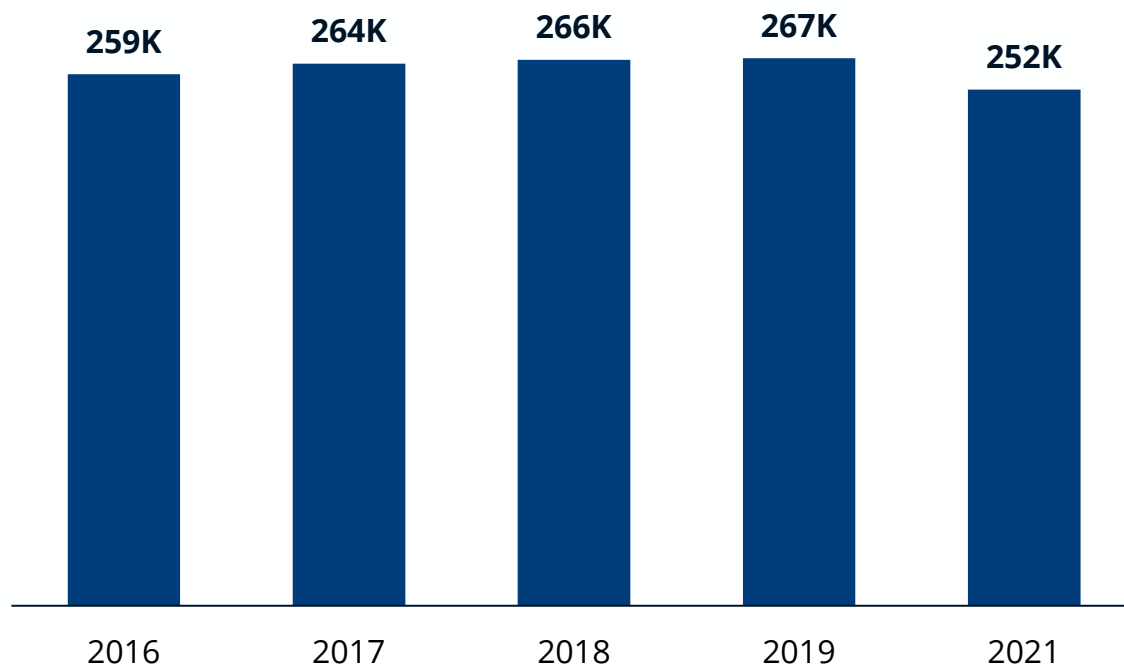




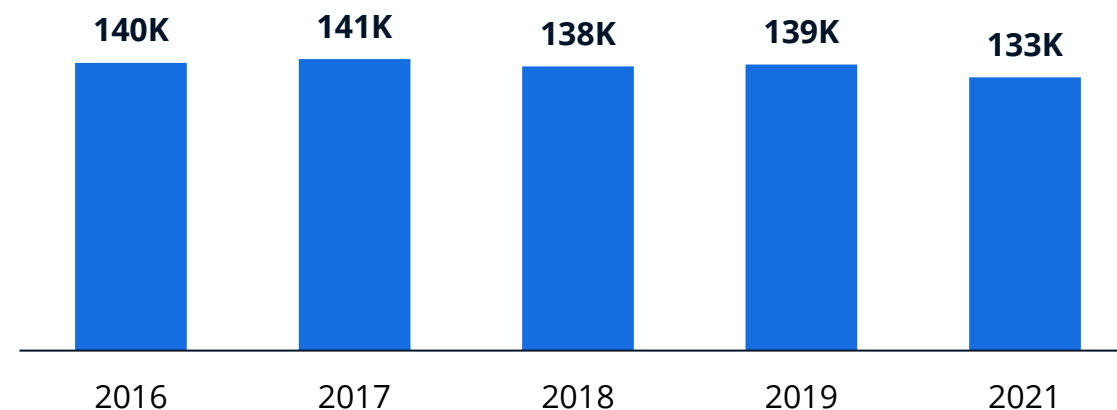
## SOCIOECONOMIC CHARACTERISTICS | HOUSEHOLDS AND FAMILIES

The number of family households in Detroit stagnated prior to the COVID pandemic while overall households increased modestly from 2016 to 2019.

### Detroit Household Growth (2016-2021)



### Detroit Family Growth (2016-2021)



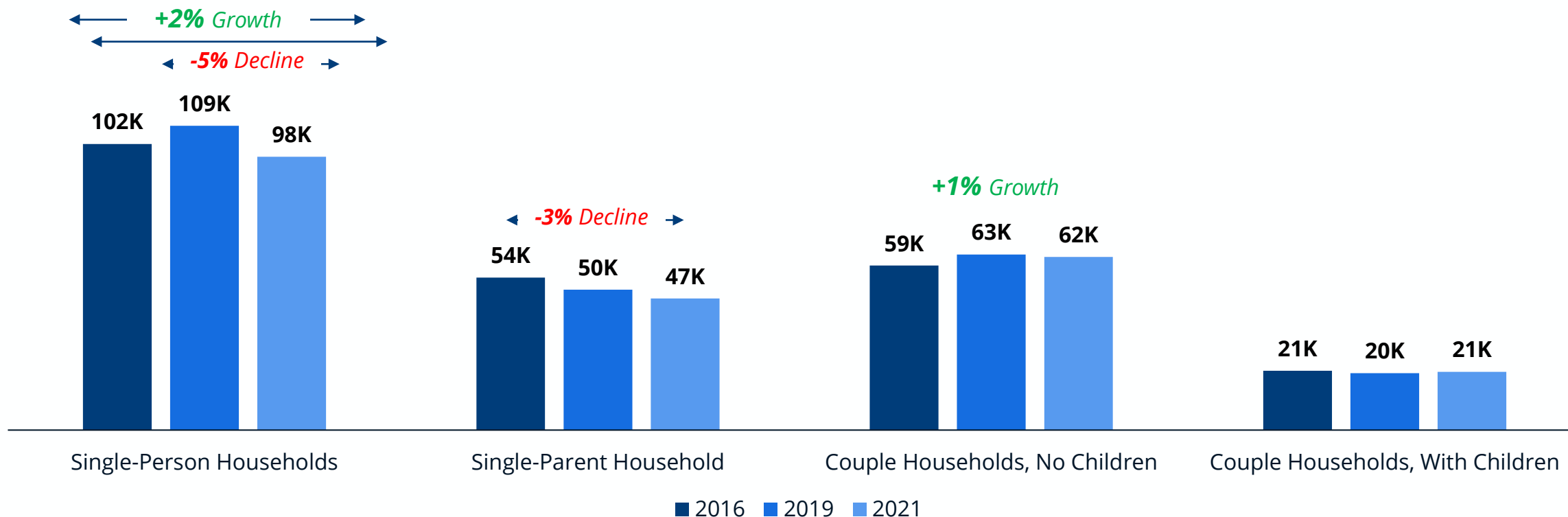
[1] A family group is any two or more people (not necessarily including a householder) residing together, and related by birth, marriage, or adoption. A household may be composed of one such group, more than one, or none at all

Sources: ACS 1-Year Data; HR&A Advisors

## SOCIOECONOMIC CHARACTERISTICS | FAMILY STRUCTURES

Single-person households were increasing prior to the pandemic, but decreased since then. Single-parent households continued their pre-pandemic decline, while couple households with no children increased slightly and couple households with children stayed flat.

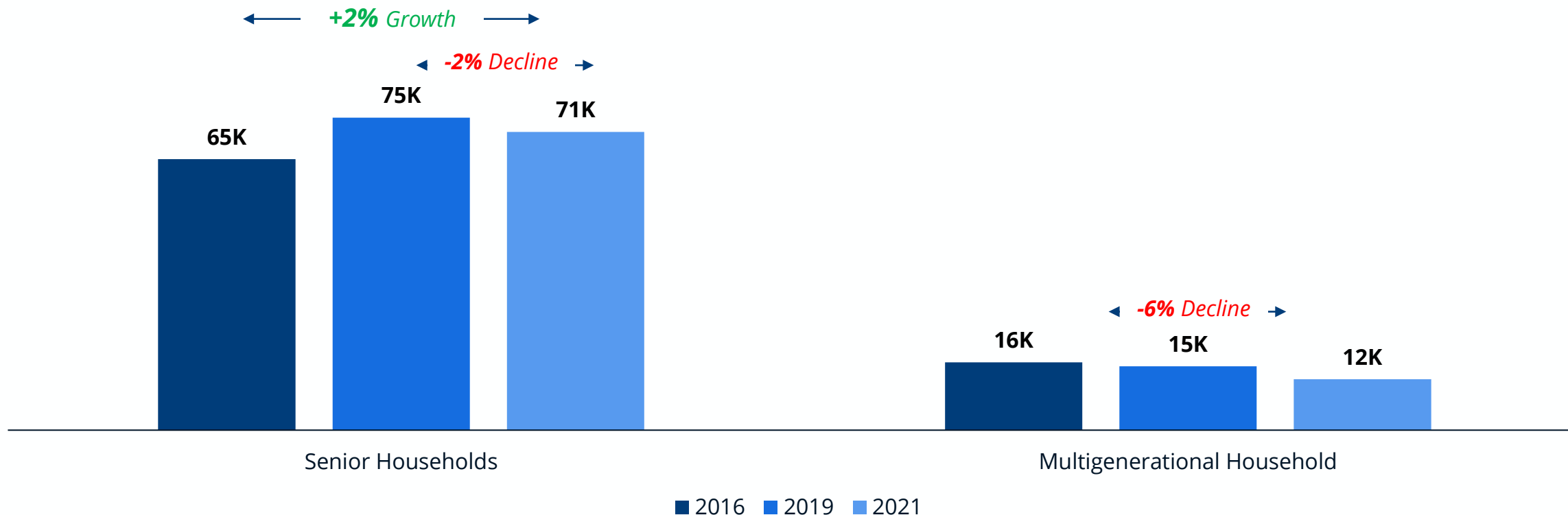
### Annual Change in Household and Family Structure (2016-2021)



## SOCIOECONOMIC CHARACTERISTICS | FAMILY STRUCTURES

The number of senior households experienced growth prior to the COVID pandemic, but decreased since the pandemic. Multigenerational households decreased during this period.

### Annual Change in Senior Household and Family Structure (2016-2021)



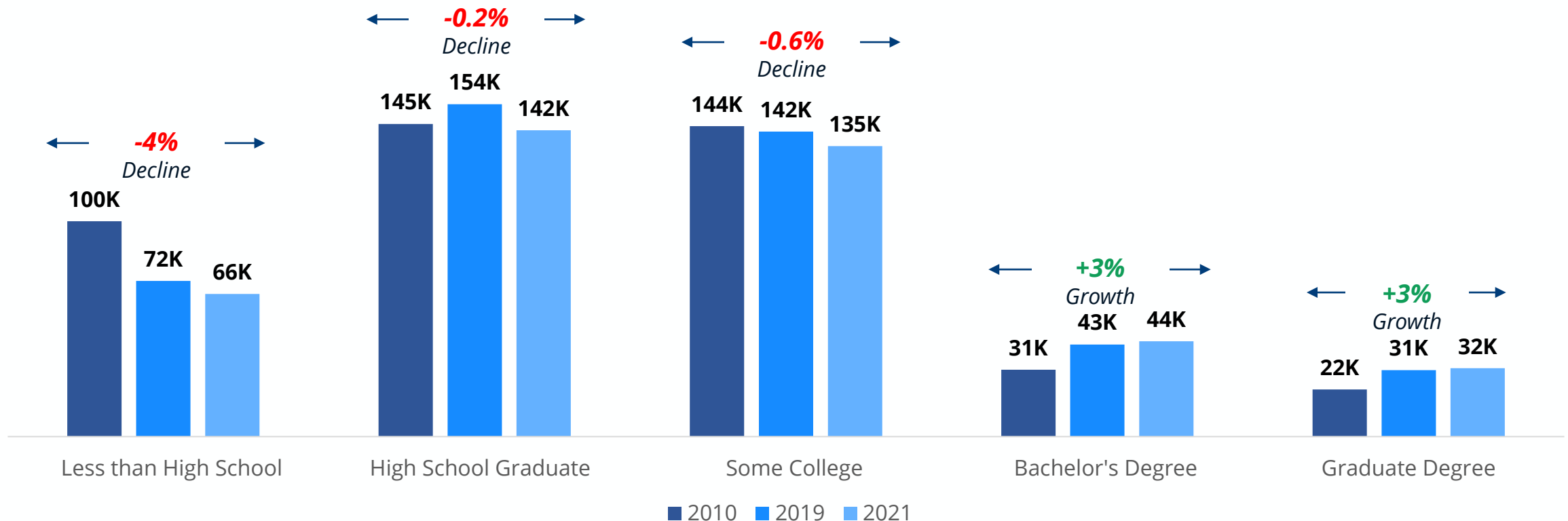
Sources: PUMS 2016, 2019, & 2021; HR&A Advisors

Note: Multigenerational household is one that contains three or more generations.

## SOCIOECONOMIC CHARACTERISTICS | POPULATION BY EDUCATIONAL ATTAINMENT

The number of residents with higher education degrees increased while the number with high school degrees or less decreased.

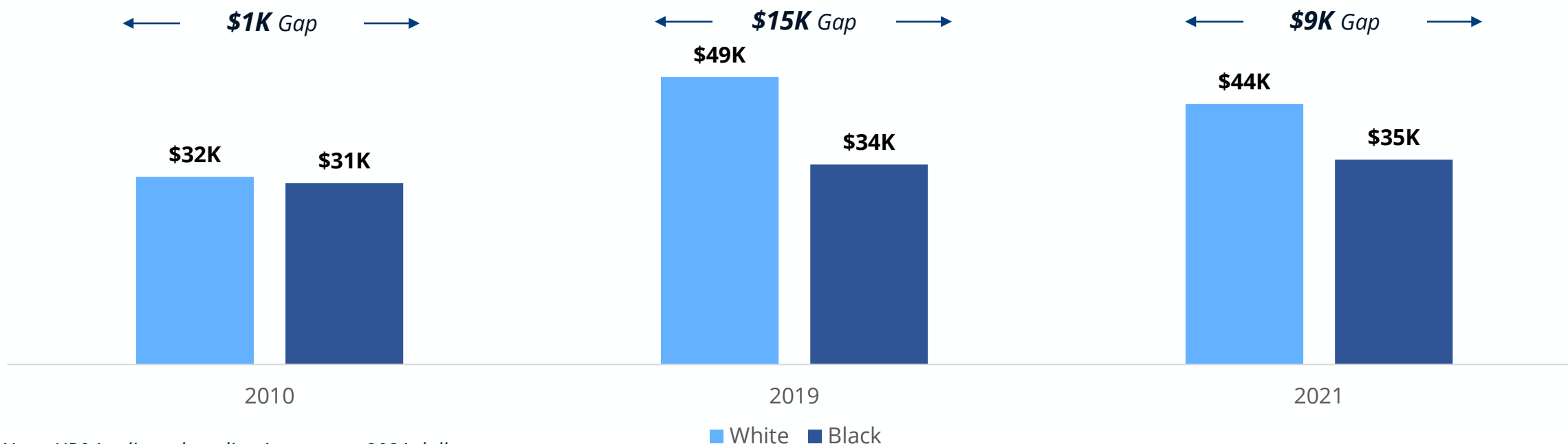
### Annual Change of Detroit Educational Attainment (2010-2021)



## SOCIOECONOMIC CHARACTERISTICS | MEDIAN INCOME BY RACE

In 2010, Black and white households had comparable household incomes. However, the income gap between Black and white households increased to **\$9K in the past decade**.

### Median Income of Black and White Households (2010-2021)



Note: HR&A adjusted median incomes to 2021 dollars.

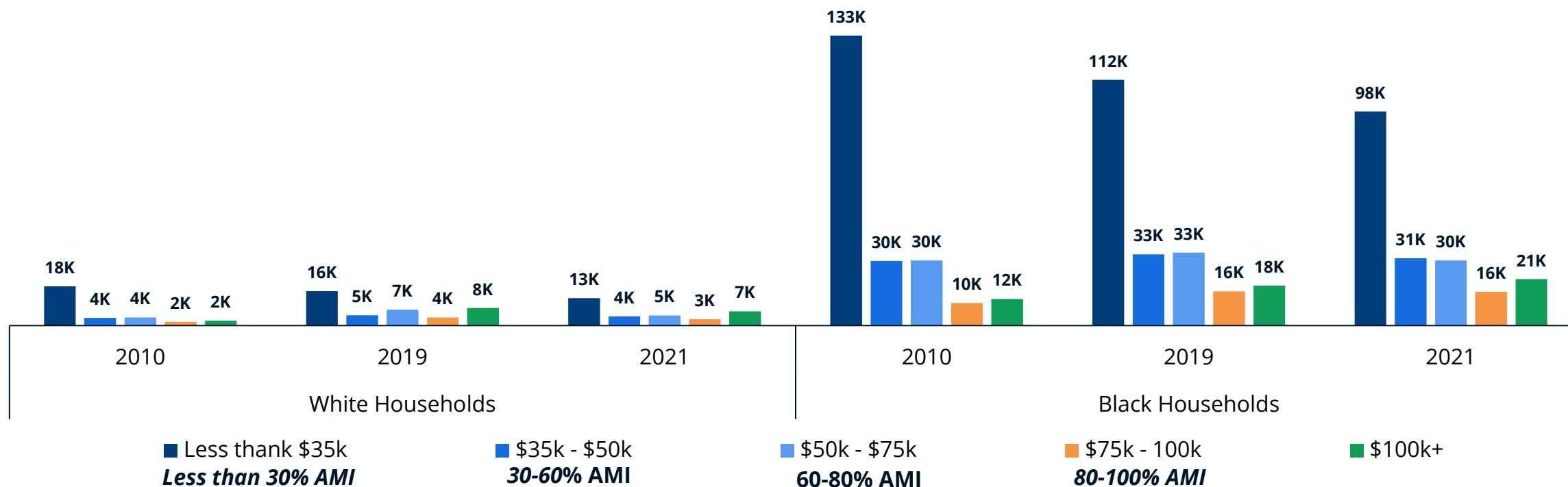
Sources: ACS 1-Year Data; HR&A Advisors



## SOCIOECONOMIC CHARACTERISTICS | INCOME BRACKETS BY RACE

Between 2010 and 2021, the number of Black households earning more than \$100,000 nearly doubled. However, over 50% of Black households still earn less than \$35,000.

**Household Income of Black and White Households  
(2010 - 2021)**



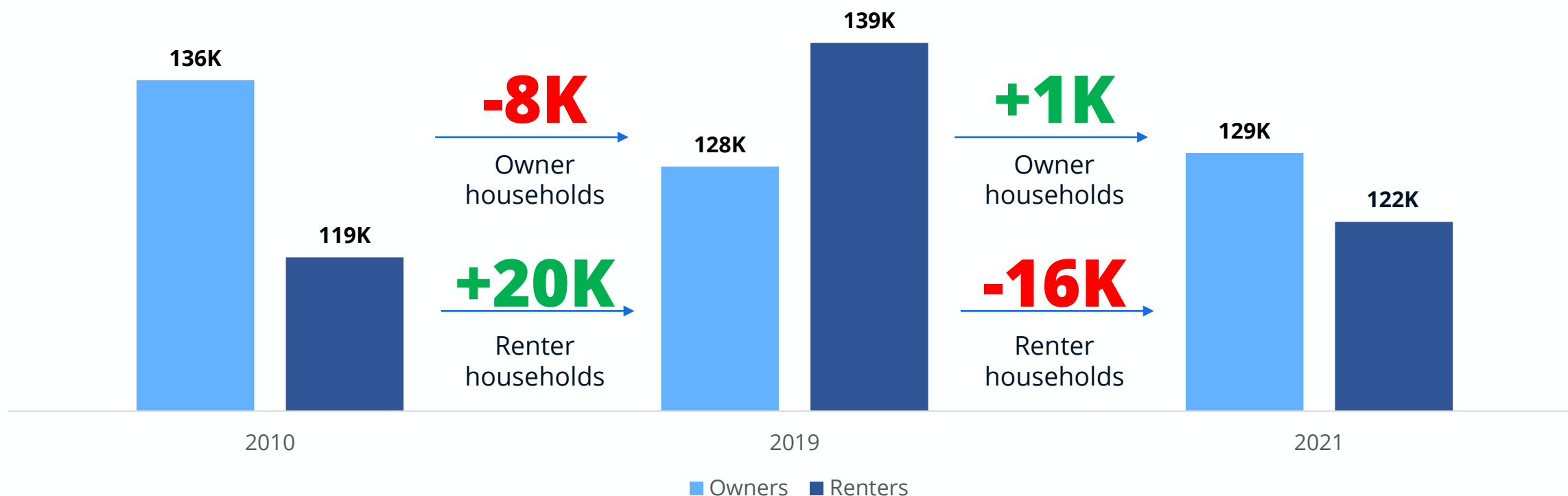
Note: Incomes adjusted to 2022 dollars.

Sources: ACS 1-Year Data; HR&A Advisors

## SOCIOECONOMIC CHARACTERISTICS | TENURE

Pre-COVID, the City's renter households exceeded its owner households in number, though renter households declined at a greater rate, a loss of roughly **16,000** households, during the pandemic.

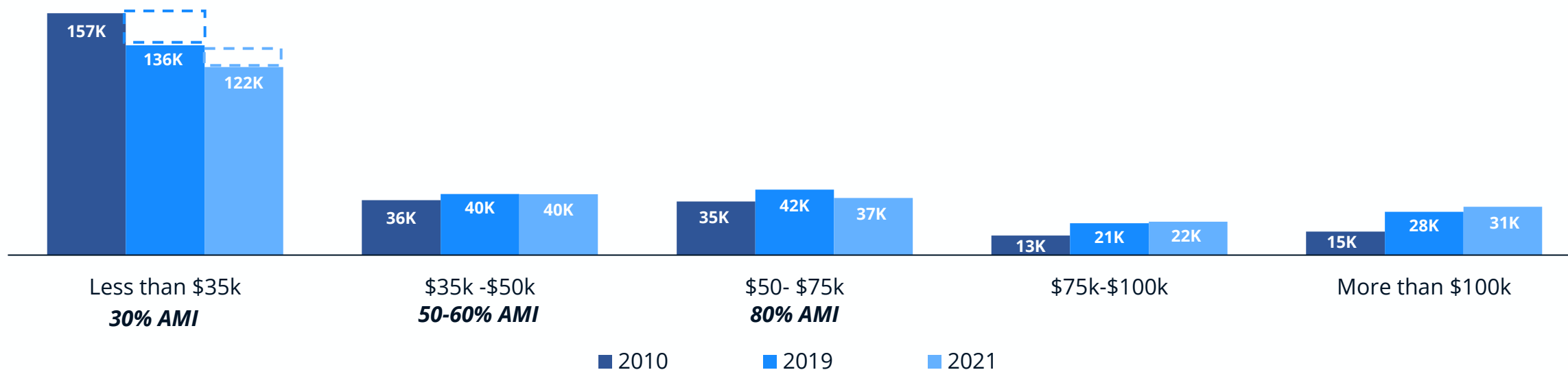
### Detroit Tenure Distribution (2010-2021)



## SOCIOECONOMIC CHARACTERISTICS | INCOME DISTRIBUTION

The number of households earning less than \$35,000 decreased by 34,900, including 14,100 households during COVID alone. Households earning above \$35,000 increased by approximately 31,000.

### Change in Total Households by Income (2010 - 2021)



Note: HR&A adjusted incomes to 2021 dollars.

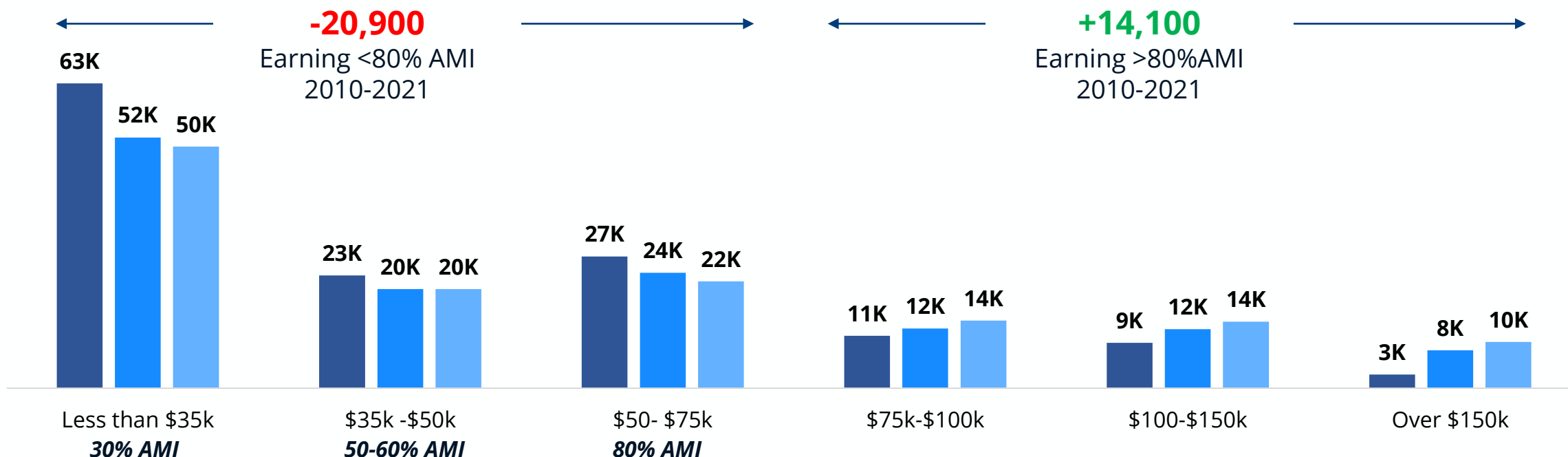
Sources: ACS 1-Year Data; HR&A Advisors

## SOCIOECONOMIC CHARACTERISTICS | INCOME DISTRIBUTION BY TENURE – OWNER HOUSEHOLDS

The City lost owner households earning less than 80% AMI over the last decade, particularly households earning less than \$35,000.

### Owner Household Distribution and Change (2010-2021)

■ 2010 ■ 2019 ■ 2021



Note: HR&A adjusted incomes to 2021 dollars.  
Sources: ACS 1-Year Data; HR&A Advisors

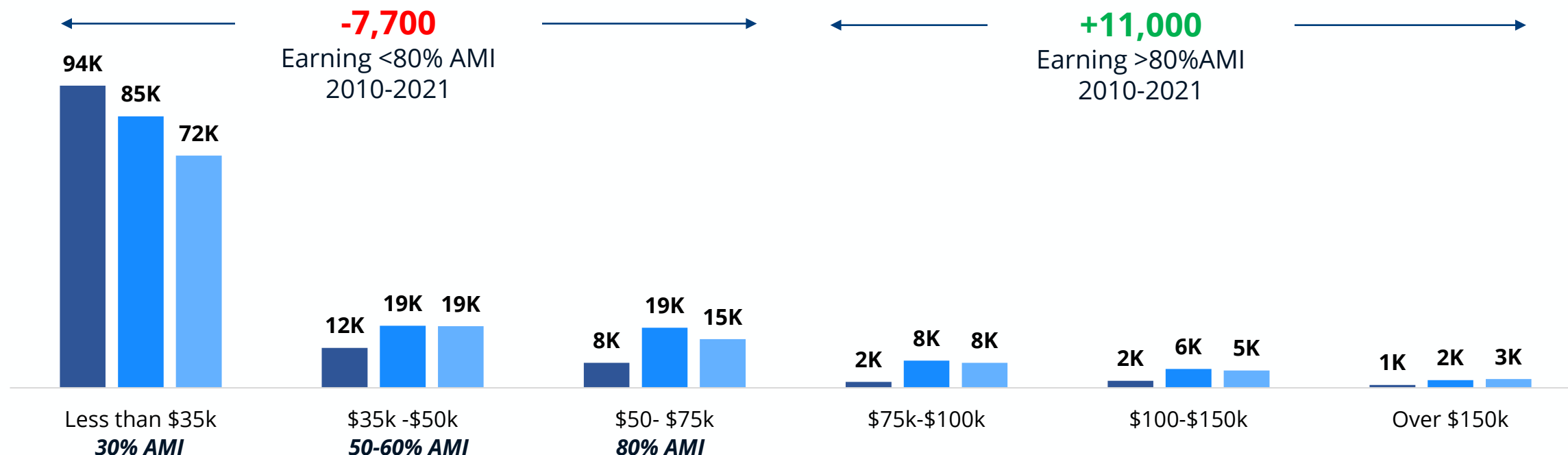


## SOCIOECONOMIC CHARACTERISTICS | INCOME DISTRIBUTION BY TENURE – RENTER HOUSEHOLDS

Conversely, the City lost less renter households earning less than 80% AMI over the past decade. Renters earning less than \$35,000 decreased the most during COVID. However, the City has also seen growth in renters earning above this income threshold.

### Renter Household Distribution and Change (2010-2021)

■ 2010 ■ 2019 ■ 2021



Note: HR&A adjusted incomes to 2021 dollars.

Sources: ACS 1-Year Data; HR&A Advisors

## OWNER COMPOSITION

Many single-family homeowners are long-term residents and/or have below-median household incomes, and may be challenged by rising maintenance costs associated with aging housing stock.

### Owner Profile – Single Family Detached Housing

	Owner HH (% of Total)	Household Type					Duration of Residence			
		Single	Couple, No Children	Couple, With Children	Other Families	Roommates	Under 2 Years	2 – 4 Years	5 – 9 Years	10+ Years
UNDER \$35K	43,994 (42%)	<b>23,523</b> (23%)	4,578 (4%)	3,432 (3%)	<b>11,342</b> (11%)	1,119 (1%)	2,615 (3%)	6,118 (6%)	7,384 (7%)	<b>27,877</b> (27%)
\$35K TO \$75K	35,470 (34%)	10,524 (10%)	9,359 (9%)	4,299 (4%)	10,254 (10%)	1,034 (<1%)	2,022 (2%)	4,209 (4%)	5,171 (5%)	<b>24,068</b> (23%)
OVER \$75K	24,474 (24%)	2,442 (2%)	<b>11,384</b> (11%)	3,774 (4%)	6,423 (6%)	451 (<1%)	1,879 (6%)	2,239 (2%)	3,478 (3%)	<b>16,878</b> (16%)
	<b>103,938</b>	<b>36,489</b> (35%)	<b>25,321</b> (24%)	<b>11,505</b> (11%)	<b>28,019</b> (27%)	<b>2,604</b> (2%)	<b>6,516</b> (7%)	<b>12,566</b> (12%)	<b>16,033</b> (15%)	<b>68,823</b> (66%)

Sources: PUMS 2021

Note: "Other Families" include households with children and single householder.

## RENTER COMPOSITION

Over half of renters in single-family detached housing recently occupied their housing and are households with children and no spouse.

### Renter Profile – Single Family Detached Housing

	Renter HH (% of Total)	Household Type					Duration of Residence			
		Single	Couple, No Children	Couple, With Children	Other Families	Roommates	Under 2 Years	2 – 4 Years	5 – 9 Years	10+ Years
UNDER \$35K	27,572 (52%)	10,177 (19%)	877 (2%)	2,155 (4%)	13,210 (25%)	1,213 (2%)	4,478 (8%)	10,321 (19%)	7,166 (13%)	5,607 (11%)
\$35K TO \$75K	19,374 (36%)	3,839 (7%)	178 (<1%)	2,651 (5%)	11,452 (21%)	1,254 (2%)	3,104 (6%)	9,870 (19%)	3,719 (7%)	2,681 (5%)
OVER \$75K	6,375 (12%)	491 (1%)	1,107 (2%)	658 (1%)	3,388 (6%)	731 (1%)	892 (2%)	2,336 (4%)	1,806 (3%)	1,341 (3%)
	53,321	14,447 (27%)	2,162 (4%)	5,464 (10%)	28,050 (53%)	3,198 (6%)	6,516 (16%)	22,527 (42%)	12,691 (24%)	9,629 (18%)

## RENTER COMPOSITION

Over half of multifamily renters are single tenants who make less than \$35,000 annually, and 20% are comprised of households with children and no spouse.

### Renter Profile – Multifamily Housing

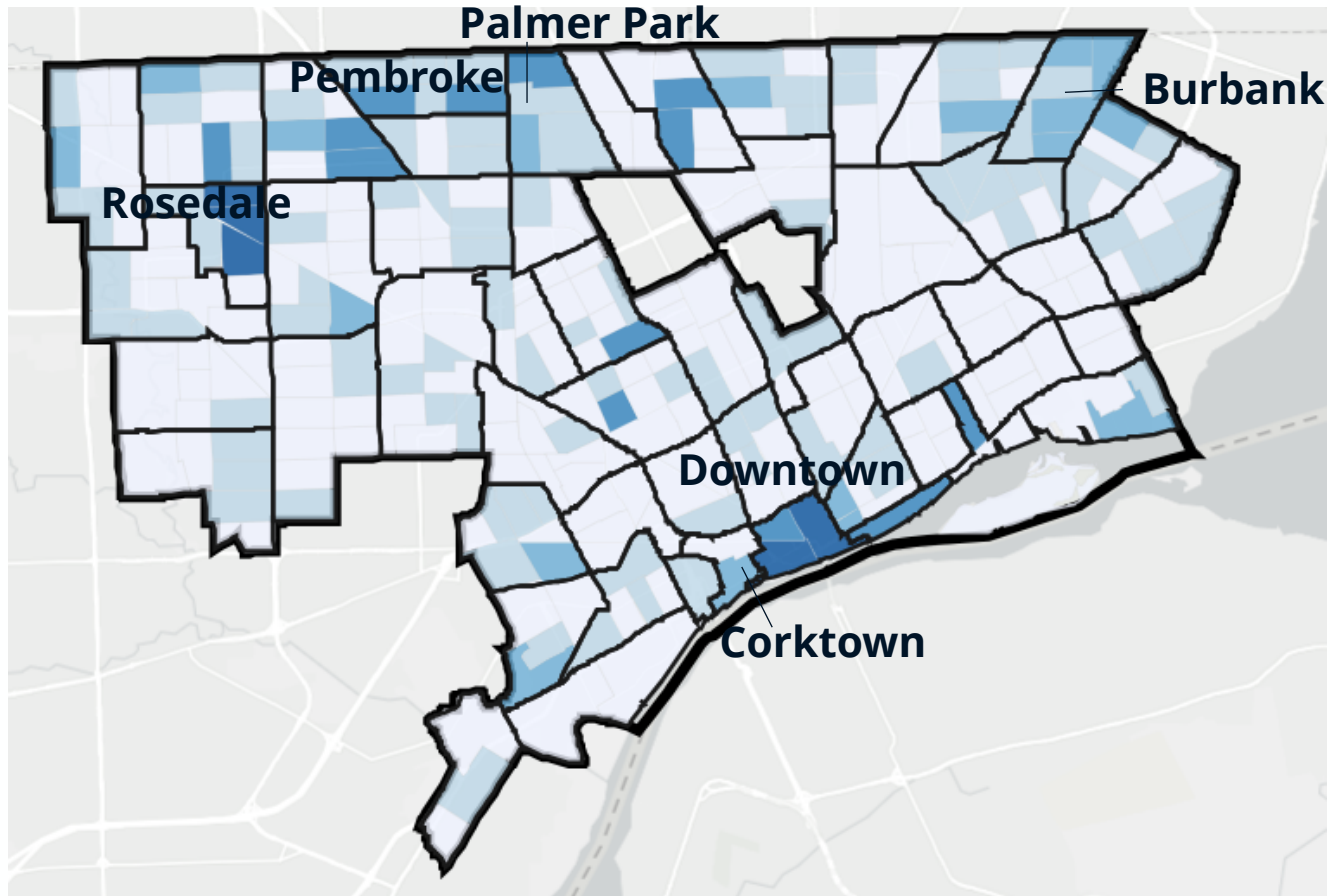
	Renter HH (% of Total)	Household Type					Duration of Residence			
		Single	Couple, No Children	Couple, With Children	Other Families	Roommates	Under 2 Years	2 – 4 Years	5 – 9 Years	10+ Years
UNDER \$35K	28,661 (70%)	21,255 (52%)	51 (<1%)	413 (1%)	<b>5,279</b> (13%)	1,663 (4%)	7,400 (18%)	8,911 (22%)	6,882 (17%)	5,468 (11%)
\$35K TO \$75K	7,496 (18%)	5,064 (12%)	335 (1%)	188 (<1%)	1,315 (3%)	594 (1%)	3,225 (8%)	1,771 (4%)	1,383 (3%)	1,117 (3%)
OVER \$75K	4,628 (11%)	1,776 (4%)	379 (1%)	374 (1%)	1,368 (3%)	731 (2%)	1,871 (5%)	1,417 (3%)	946 (2%)	394 (1%)
	<b>40,785</b>	<b>28,095</b> (69%)	<b>765</b> (2%)	<b>975</b> (2%)	<b>7,962</b> (20%)	<b>2,988</b> (7%)	<b>6,516</b> (31%)	<b>22,527</b> (30%)	12,691 (23%)	9,629 (17%)



## SOCIOECONOMIC CHARACTERISTICS | MEDIAN HOUSEHOLD INCOME DISTRIBUTION BY TENURE - RENTER

High-earning renters appear to be concentrated near the downtown and upper western regions of the city.

**Distribution of Renter Median HH Income (2021)**



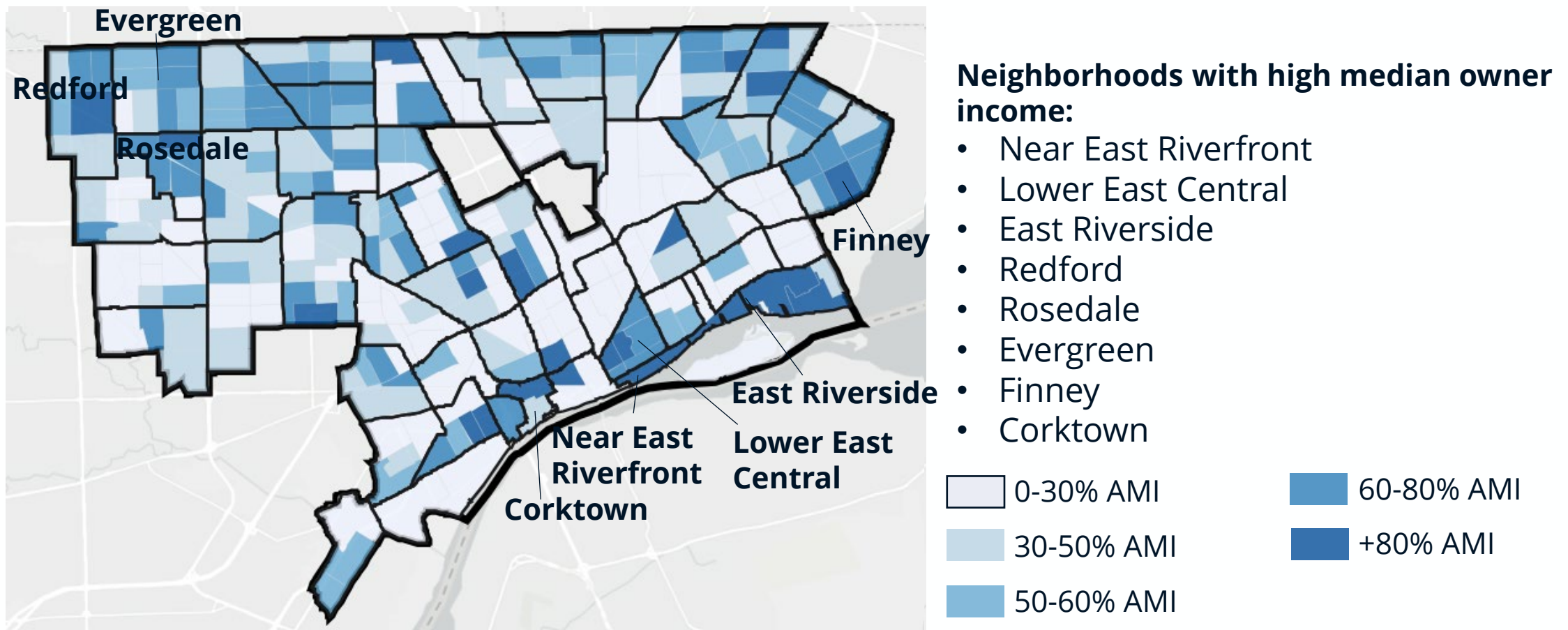
### **Neighborhoods with high median renter income:**

- Rosedale
- Downtown
- Pembroke
- Palmer Park
- Corktown
- Burbank

## SOCIOECONOMIC CHARACTERISTICS | MEDIAN HOUSEHOLD INCOME DISTRIBUTION BY TENURE - OWNER

Homeowners of various income levels appear to be evenly distributed throughout the City, but there are areas with a higher concentration of higher-earning owners.

**Distribution of Owner Median HH Income (2021)**



Sources: ACS 5-Year Data; HR&A Advisors





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# Housing Supply



An aerial photograph of the Detroit, Michigan city skyline at dusk or dawn. The image shows a dense urban landscape with numerous buildings, including several prominent skyscrapers in the background. The foreground and middle ground are filled with a variety of residential and commercial structures. The text "Existing Housing Supply" is overlaid in a large, white, sans-serif font in the center-right portion of the image.

# Existing Housing Supply



## HOUSING STOCK OVERVIEW & MARKET DEMAND | SUMMARY

The City has undertaken efforts to remove aging and blighted homes in the past decade. Changing housing stock coupled with rising rents and home values could impact the ability of lower-income households to find affordable housing options.

Detroit has an aging housing stock. Without adequate investments, long-term and prospective renters and owners may be susceptible to rising maintenance costs and/or unsafe housing conditions.

**95%**  
**of the City's single-family housing  
stock (detached and attached)  
was built before 1980**

The City has invested substantially in demolishing its dilapidated housing stock over the past decade, resulting in a net decrease in housing stock.

**11,000**  
**Residential demolitions  
completed since 2019**

While median rents and home values within the city have historically trailed the regional average, the city has experienced consistent growth over the past five years and since COVID, keeping pace with regional growth.

**4.5%**  
**Average annual rent growth  
since 2019**

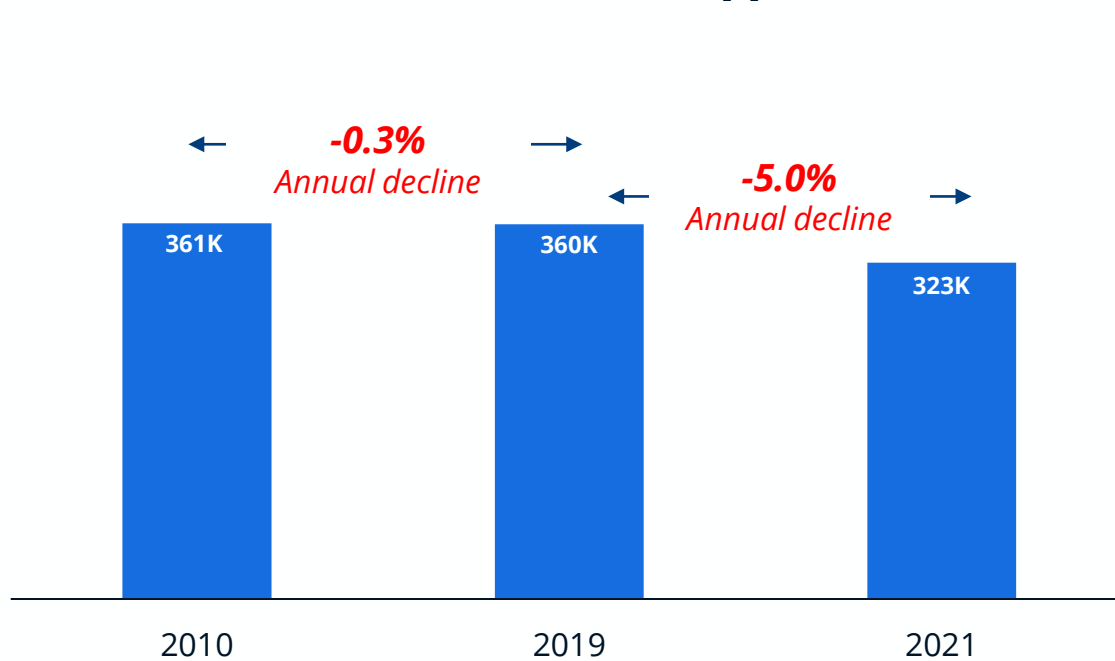
Detroit offers a diversity of housing products, including “missing-middle” housing and higher-density multifamily homes. However, most Detroiters reside in single-family detached homes.

**67%**  
**of Detroit households reside in  
single-family detached homes**

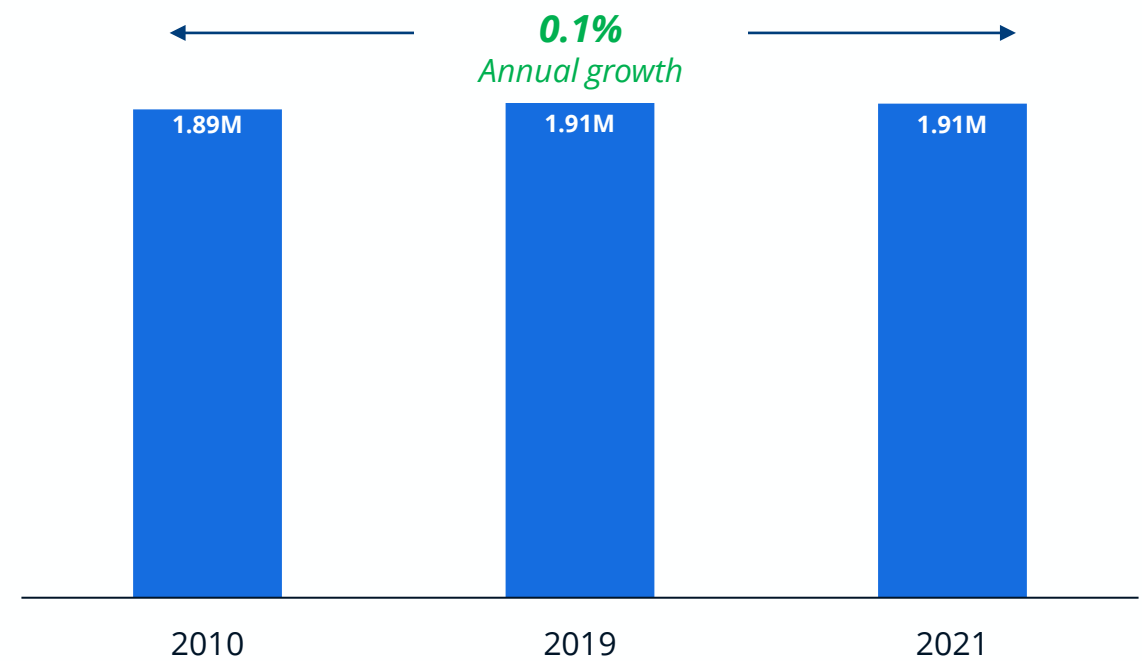
## TOTAL HOUSING UNITS

Census data shows Detroit's housing stock saw a sharp decline since 2019 while the region's total housing stock experienced nominal change.

**Total Housing Units  
City of Detroit<sup>[1]</sup>**



**Total Housing Units  
Detroit MSA**



[1] Data presented may include undercounting of housing units during COVID-19 pandemic  
Sources: ACS 1-Year Estimates 2010-2021

## HOUSING COMPOSITION

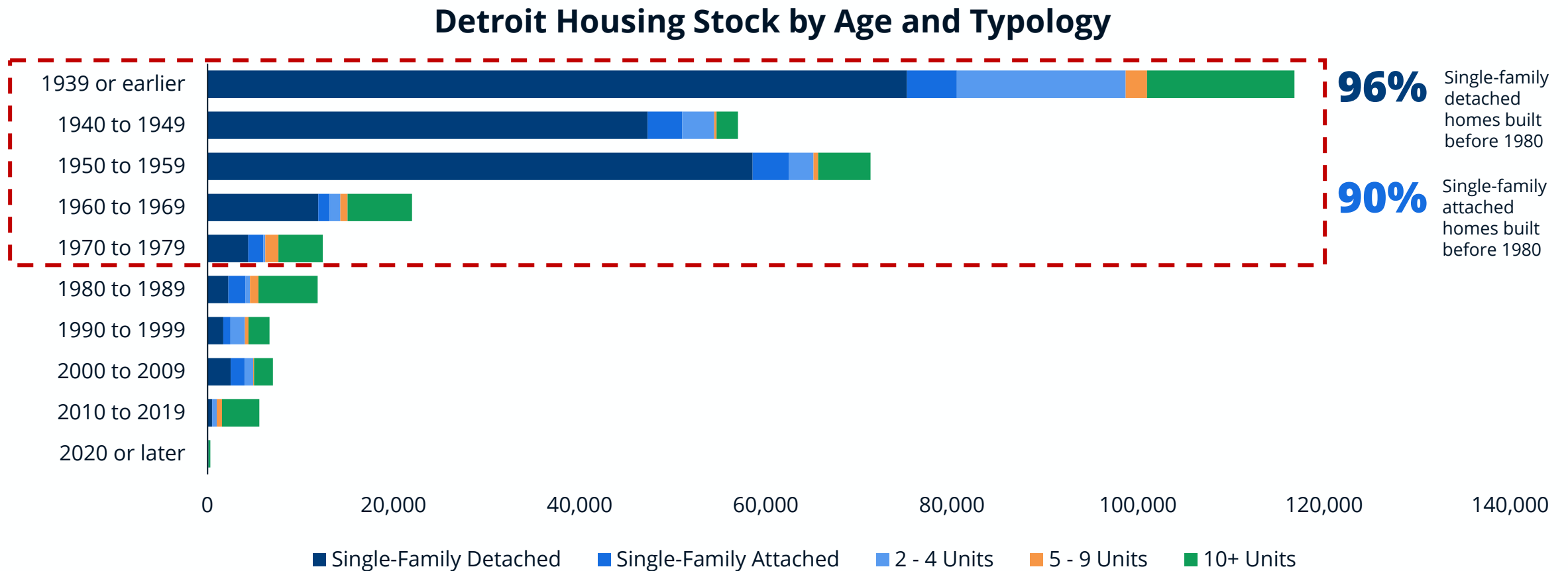
The share of larger multifamily developments in Detroit has increased while the share of townhomes, duplexes, and other “missing-middle” housing stock declined in the past decade.

**Detroit Occupied Housing Units by Typology  
2010 - 2021**



## AGE OF HOUSING STOCK

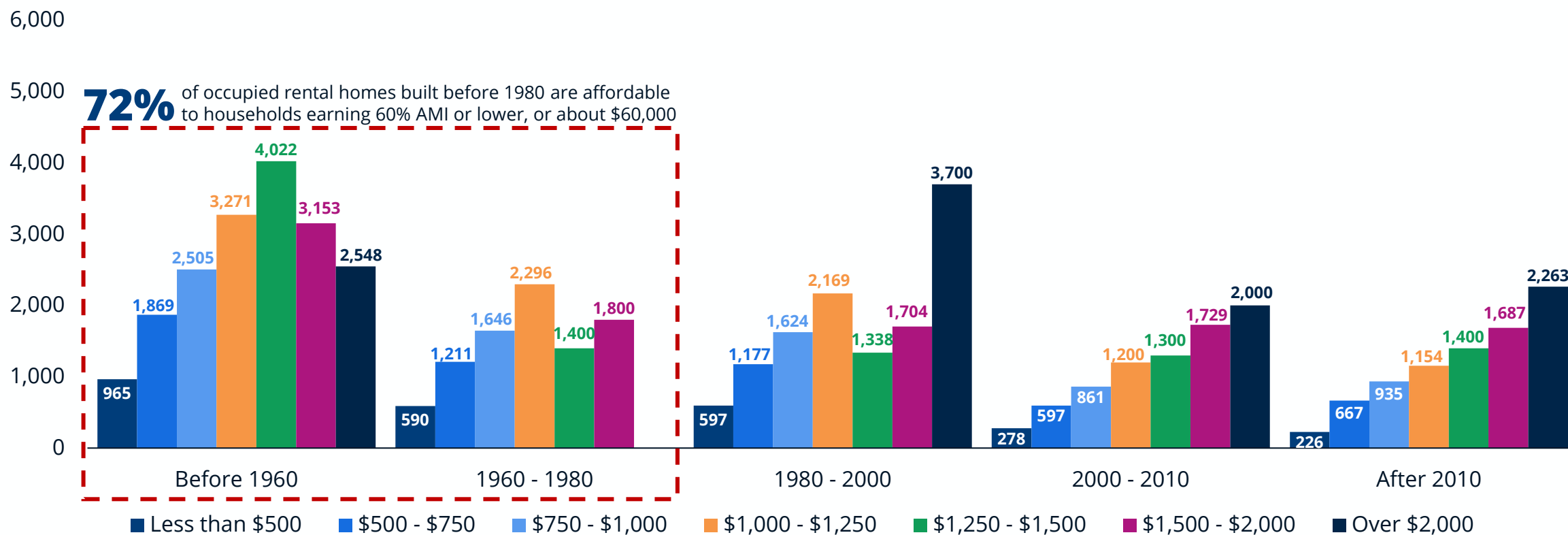
Detroit's housing stock is aging. Though older homes are not inherently problematic, health and safety issues such as lead exposure and structural disrepair can result in potentially hazardous living conditions.



## AGE OF HOUSING STOCK

Detroit's older housing stock offers naturally-occurring affordable housing (NOAH) options for lower-income renter households.

### Detroit Housing Stock by Age and Rent

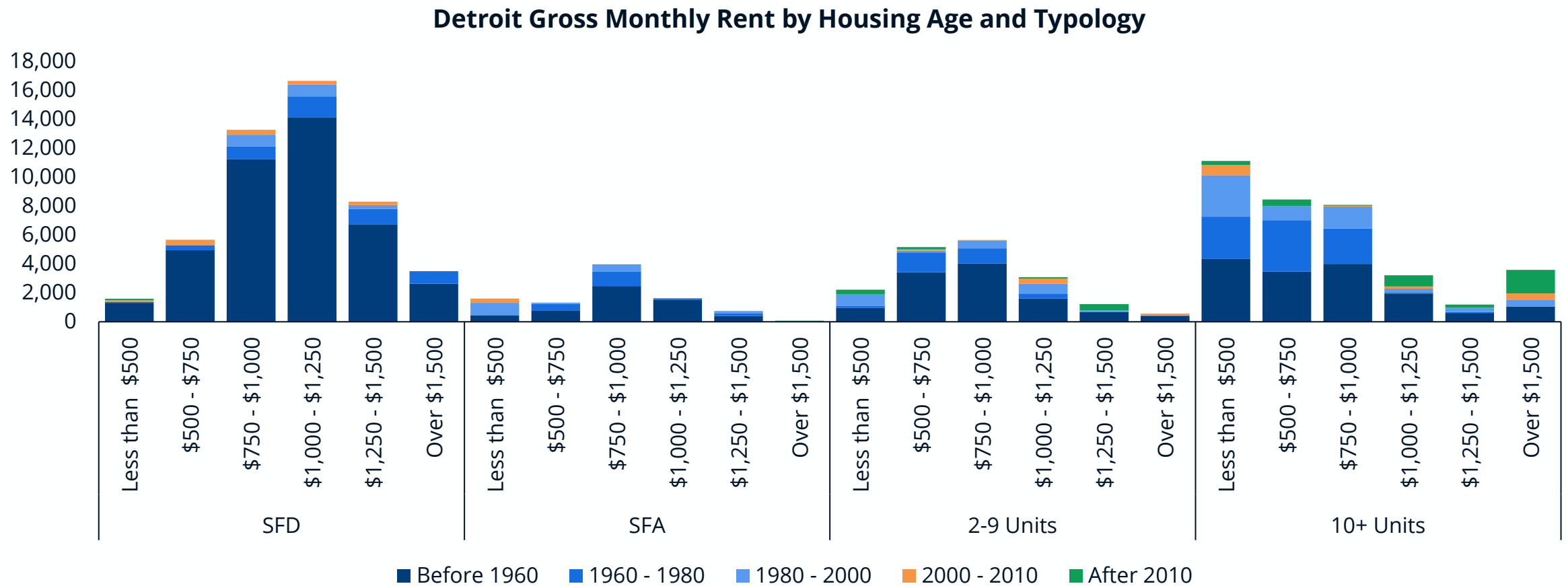


[1] PUMS data represents an extrapolation of a sample size of units by year built and affordability. It's likely that there are housing with rents over \$2,000 built between 1960 and 1980 but it represents a very small portion of the dataset.

Sources: ACS 1-Year PUMS (2021)

## AGE OF HOUSING STOCK

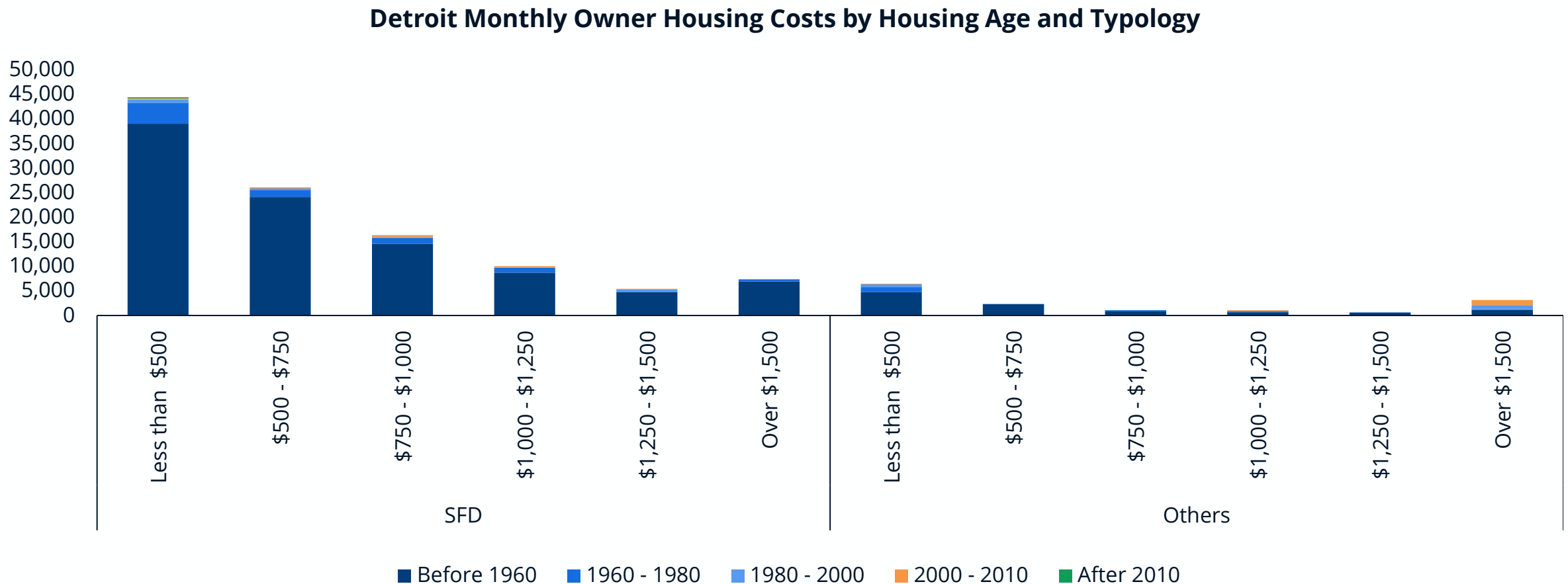
Older housing stock, primarily single-family detached homes, provides Detroiters with lower-cost housing options, especially at the \$750 to \$1,250 rental price point.





## AGE OF HOUSING STOCK

Nearly 70% of owners spend less than \$1,000 per month on housing costs. This could be attributed to lower home values and the prevalence of long-term homeowners.



Sources: PUMS 2021

## HOUSING OCCUPANCY

Housing occupancy across unit types for single-family homes are generally comparable for both renter and owner households. 2- to 3-bedrooms tend to be the dominant typologies.

### Renter-Occupied Housing Units by Bedroom Count

	Studios	1-Bedroom	2-Bedroom	3-Bedroom	4+ Bedroom
Single-Family Detached	119 Units (<1%)	1,335 Units (2%)	11,444 Units (21%)	<b>33,893 Units (62%)</b>	8,256 Units (15%)
Single-Family Attached	0 Units (0%)	938 Units (9%)	<b>6,627 Units (65%)</b>	2,440 Units (24%)	245 Units (2%)
2-4 Units	1,087 Units (8%)	3,070 Units (21%)	<b>6,630 Units (46%)</b>	3,168 Units (22%)	476 Units (3%)
5-9 Units	433 Units (9%)	1,503 Units (31%)	<b>2,200 Units (45%)</b>	749 Units (15%)	0 Units (0%)
10+ Units	4,606 Units (12%)	<b>23,103 Units (62%)</b>	8,767 Units (24%)	676 Units (2%)	67 Units (<1%)

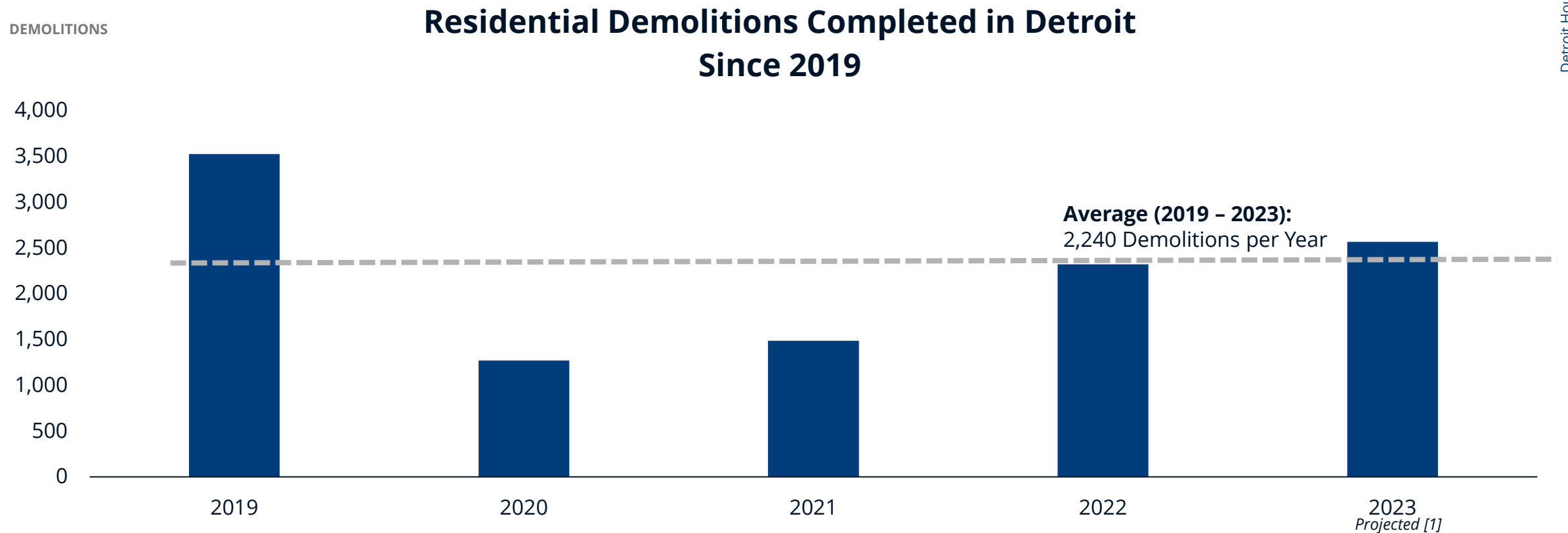
### Owner-Occupied Housing Units by Bedroom Count

	Studios	1-Bedroom	2-Bedroom	3-Bedroom	4+ Bedroom
Single-Family Detached	294 Units (<1%)	966 Units (1%)	20,674 Units (18%)	<b>66,906 Units (59%)</b>	24,149 Units (21%)
Single-Family Attached	57 Units (1%)	538 Units (8%)	<b>4,386 Units (63%)</b>	1,679 Units (24%)	261 Units (4%)
2-4 Units	137 Units (2%)	130 Units (2%)	<b>3,397 Units (58%)</b>	1,541 Units (26%)	667 Units (11%)
5-9 Units	<b>76 Units (100%)</b>	0 Units (0%)	0 Units (0%)	0 Units (0%)	0 Units (0%)
10+ Units	99 Units (4%)	896 Units (38%)	<b>1,382 Units (58%)</b>	0 Units (0%)	0 Units (0%)

Sources: ACS 1-Year Estimates 2021; HR&A Advisors

## HOUSING DEMOLITIONS

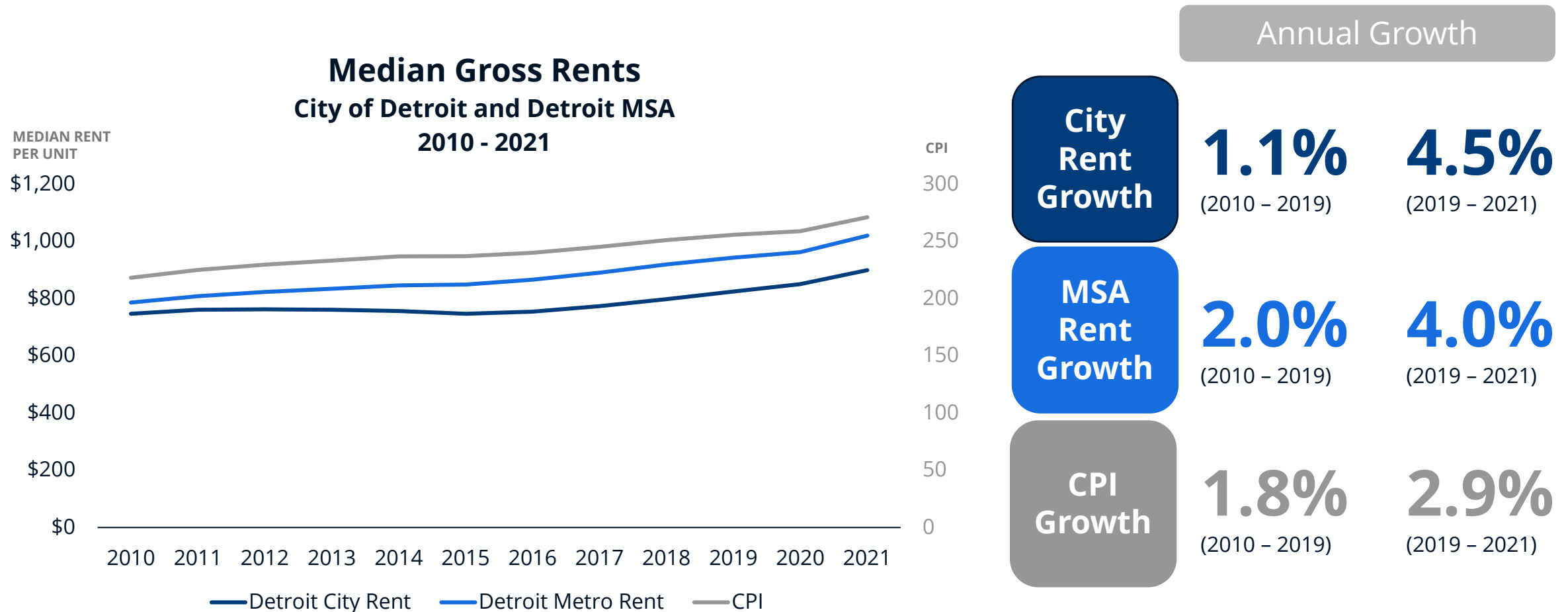
Over 11,000 homes have been demolished in Detroit since 2019.



[1] 2023 counts have been extrapolated to include anticipated demolitions.  
Sources: City of Detroit; HR&A Advisors

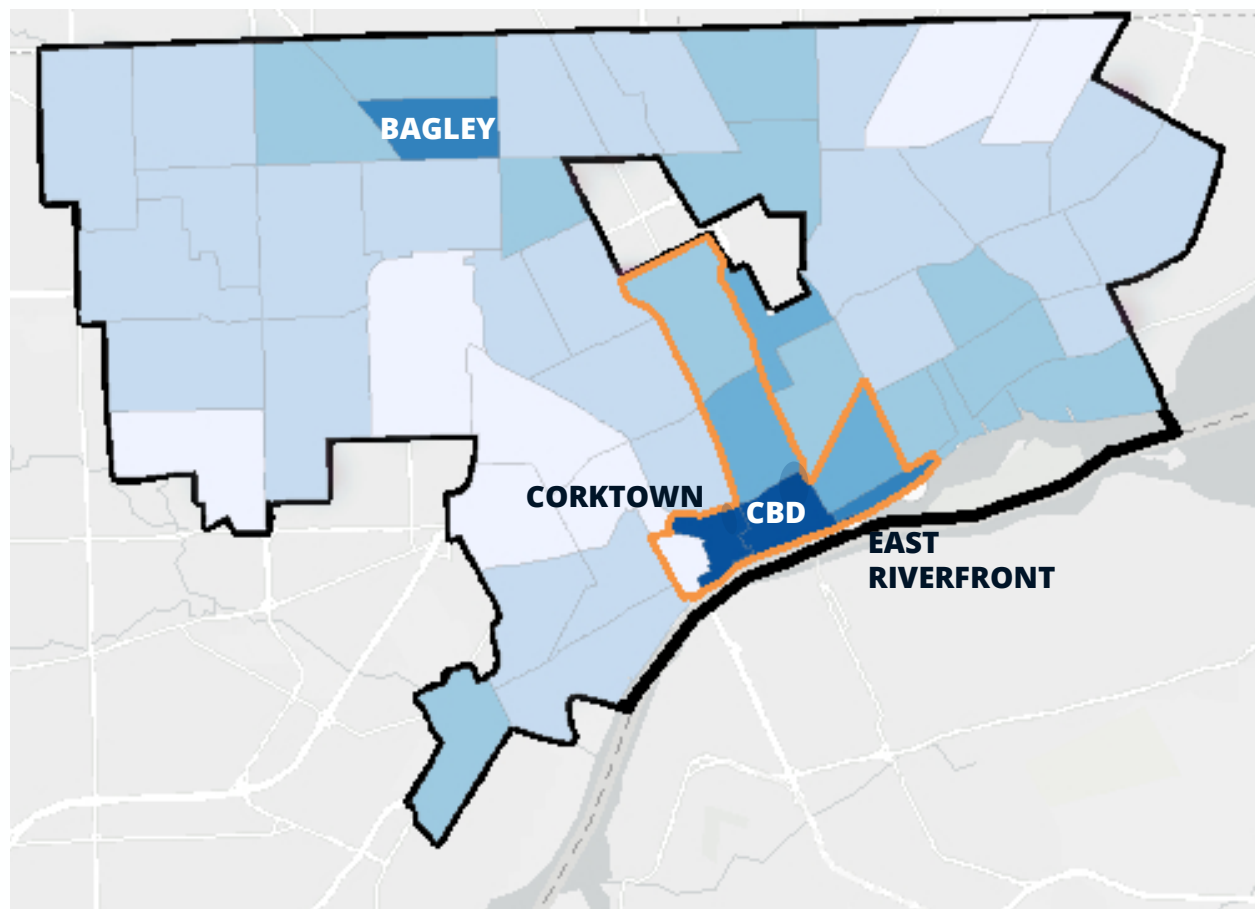
## RENTAL MARKET TRENDS

While rental prices in Detroit have historically lagged the MSA, citywide annual rent growth has exceeded metro area rent growth since 2019.



## MULTIFAMILY RENTAL MARKET GEOGRAPHIC TRENDS

Neighborhoods in the Greater Downtown Detroit area command the highest multifamily rents, though high-quality adaptive reuse projects are emerging in other districts.



**\$1,790** Corktown – Average Rent

**\$1,760** Detroit CBD – Average Rent

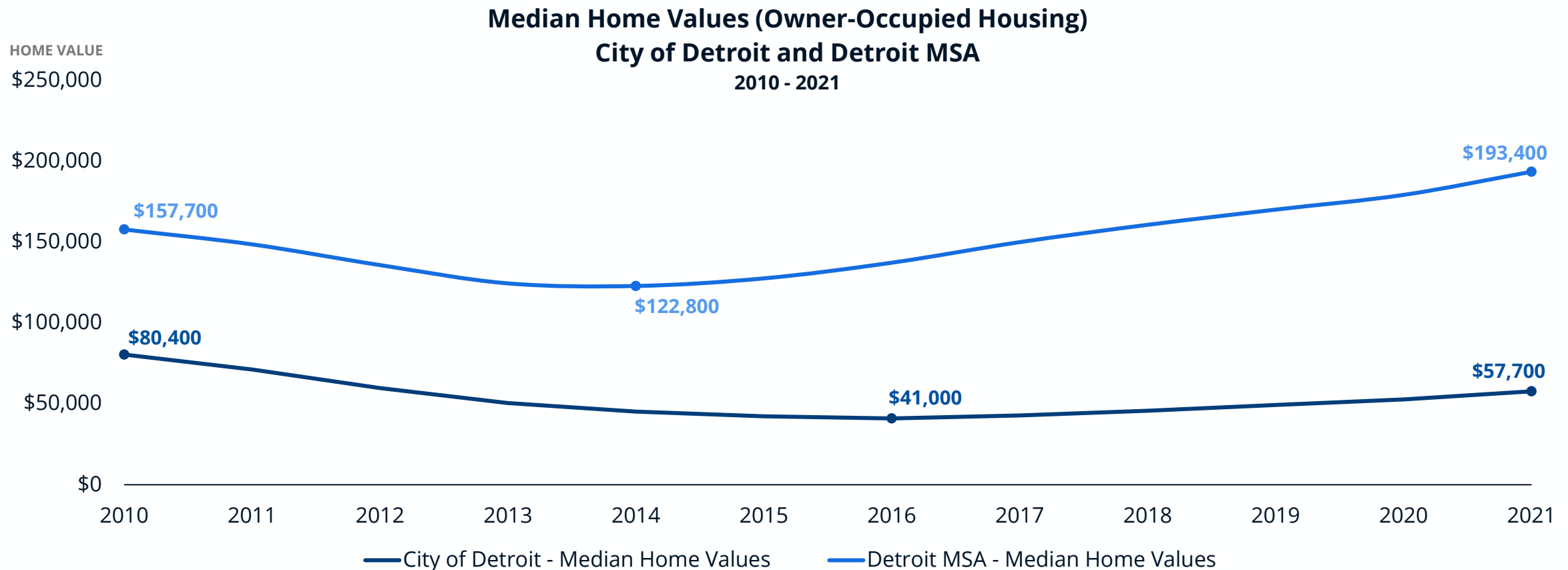
**\$1,400** East Riverfront – Average Rent

**\$1,350** Bagley – Average Rent



## HOME VALUE TRENDS

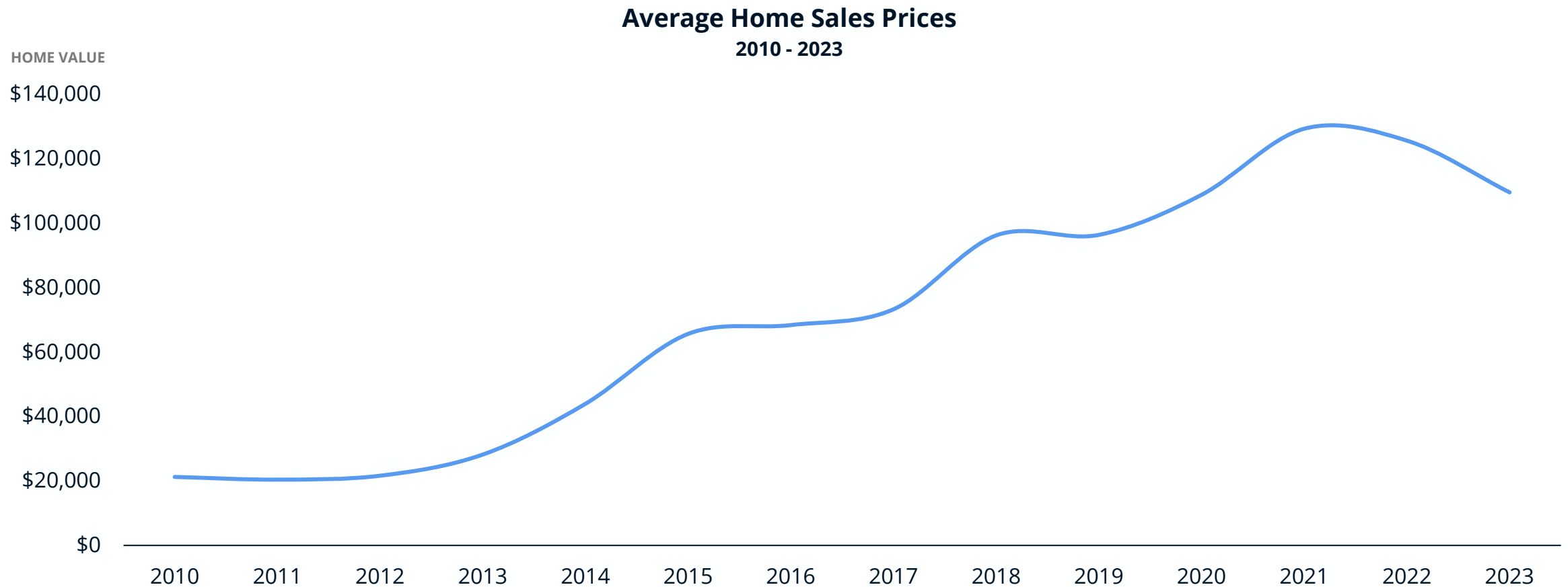
Home values in the Detroit region sharply declined following the Great Recession. While the region's home values have f]gYb, home values within the city have Yl dYf]YbWX`U'g`ck Yf recovery and continue to lag the region.





## HOME SALES PRICE TRENDS

Average home sales prices in Detroit saw a substantial increase following the Great Recession, but have declined since 2021.

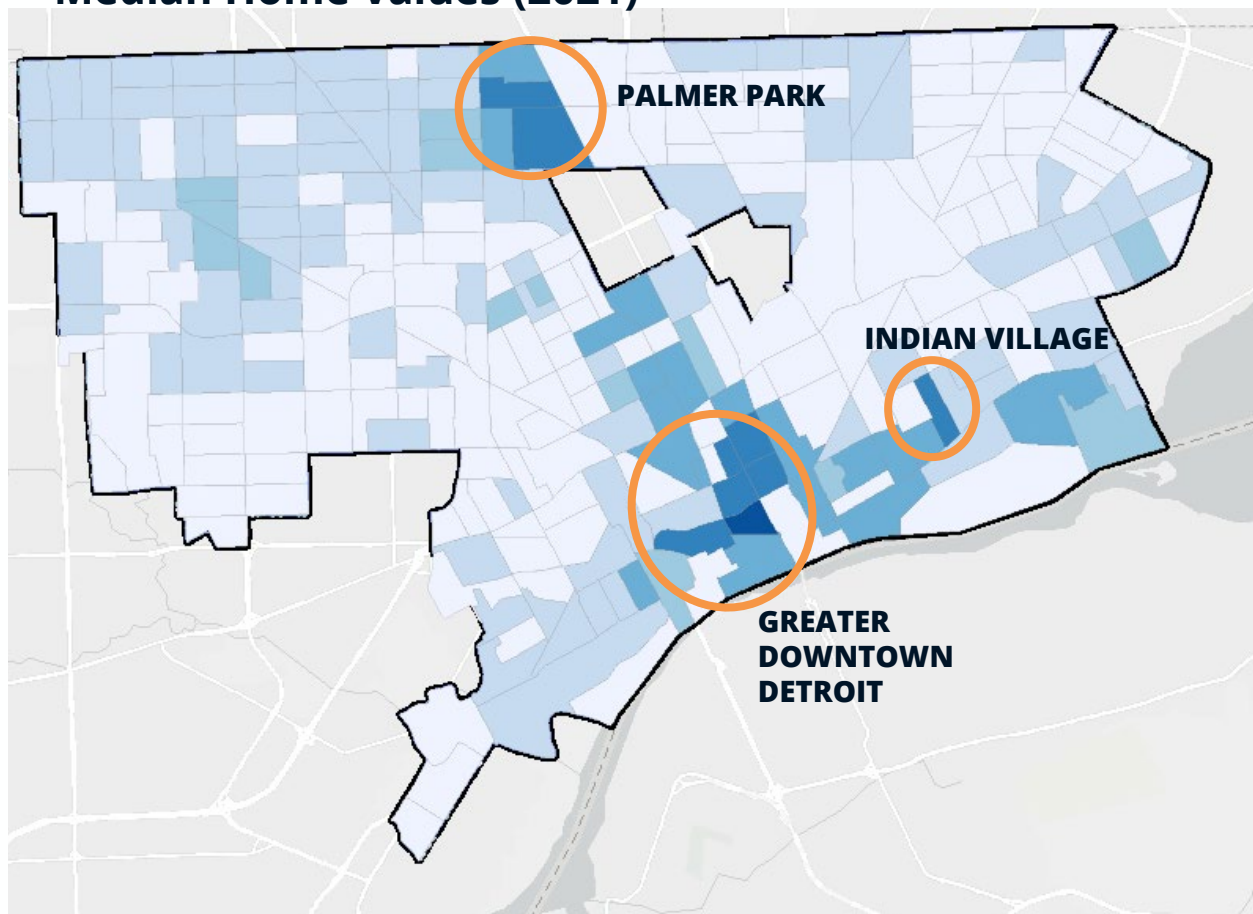


Sources: MLS, HR&A Advisors

## HOME VALUE GEOGRAPHIC TRENDS

Homes with the highest values are primarily located in northern Detroit, downtown Detroit, and southeastern Detroit.

### Median Home Values (2021)



**\$425K** Downtown Detroit – Median Home Value

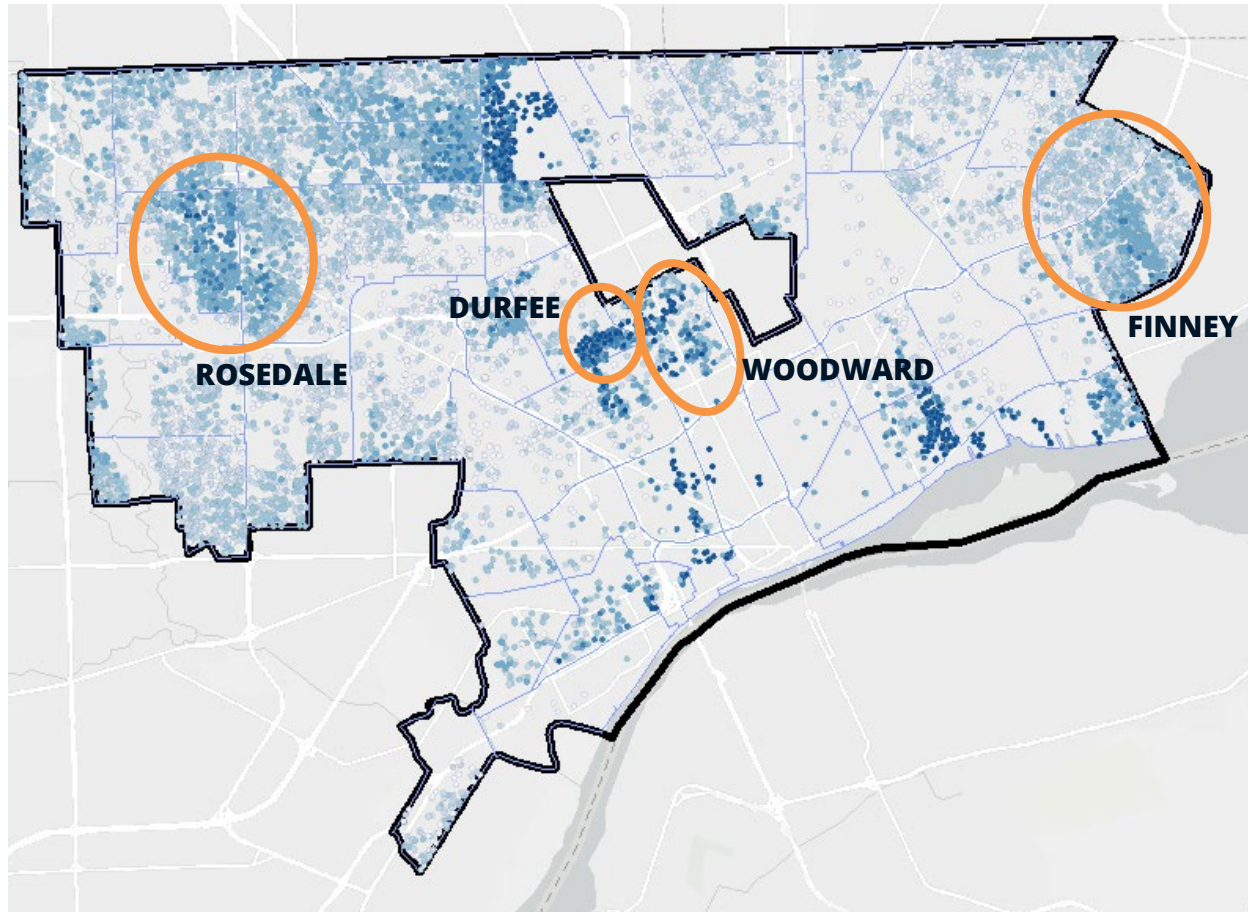
**\$403K** Indian Village – Median Home Value

**\$312K** Palmer Park – Median Home Value

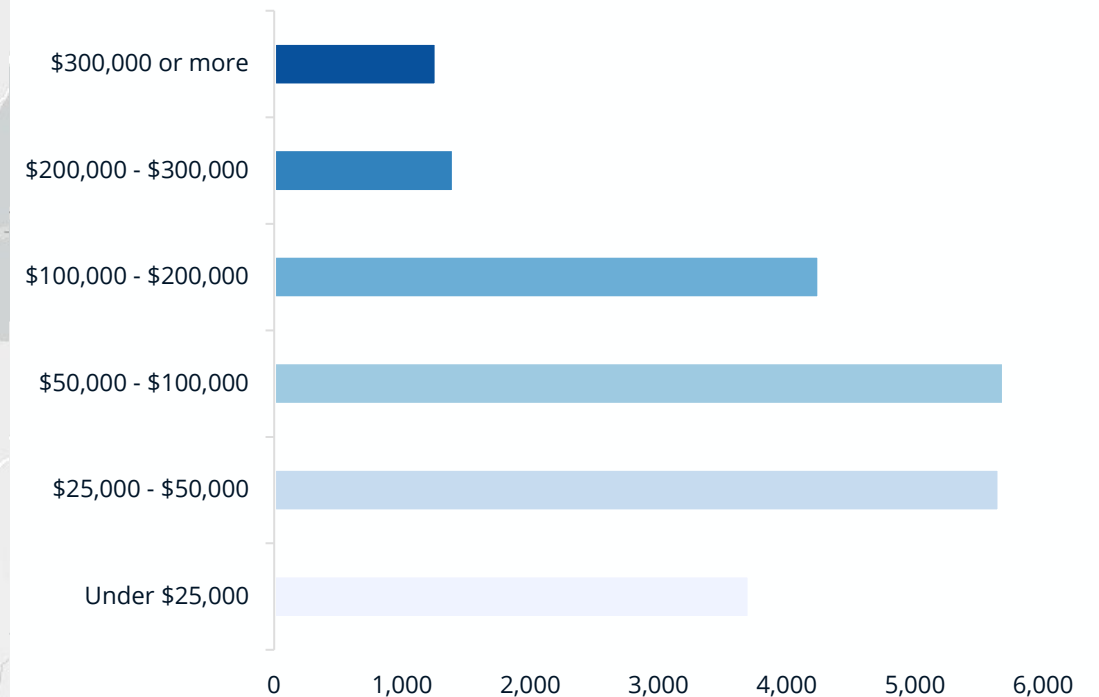


## SINGLE-FAMILY HOUSING TRANSACTIONS

The Rosedale, Woodward, Durfee, and Finney neighborhoods have also begun to see an uptick in higher-value home sales since 2018.



**Single-Family Home Resale Transactions  
City of Detroit  
2018 - 2022**





An aerial photograph of the Detroit, Michigan city skyline at dusk or dawn. The image shows a dense urban landscape with numerous buildings, including several prominent skyscrapers in the distance. The sky is a deep blue, and the city lights are beginning to glow. The title 'Development Trends' is overlaid in the center in a large, white, sans-serif font.

# Development Trends

## DEVELOPMENT TRENDS | SUMMARY

Housing developers have capitalized on the city's existing building stock to rehabilitate buildings, but the current development climate will challenge future housing development.

Many developers have pursued rehab projects of existing buildings into multifamily apartments. Multifamily rehabilitation projects include adaptive reuse of former commercial buildings and extensive renovations of older apartment buildings.

**45%**  
**of multifamily developments  
delivered since 2018 are rehabs**

There has been limited new construction single-family homes and larger bedroom multifamily developments that cater to families in the past five years, though pipeline development projects have begun to include a greater share of higher-bedroom units.

**11%**  
**of pipeline multifamily units  
have 3 or more bedrooms**

Since new construction single-family development in Detroit has been limited, prospective homeowners and investors have rehabilitated and redeveloped vacant and underutilized housing stock.

**149**  
**Single-family gut rehabs permitted  
since 2019**

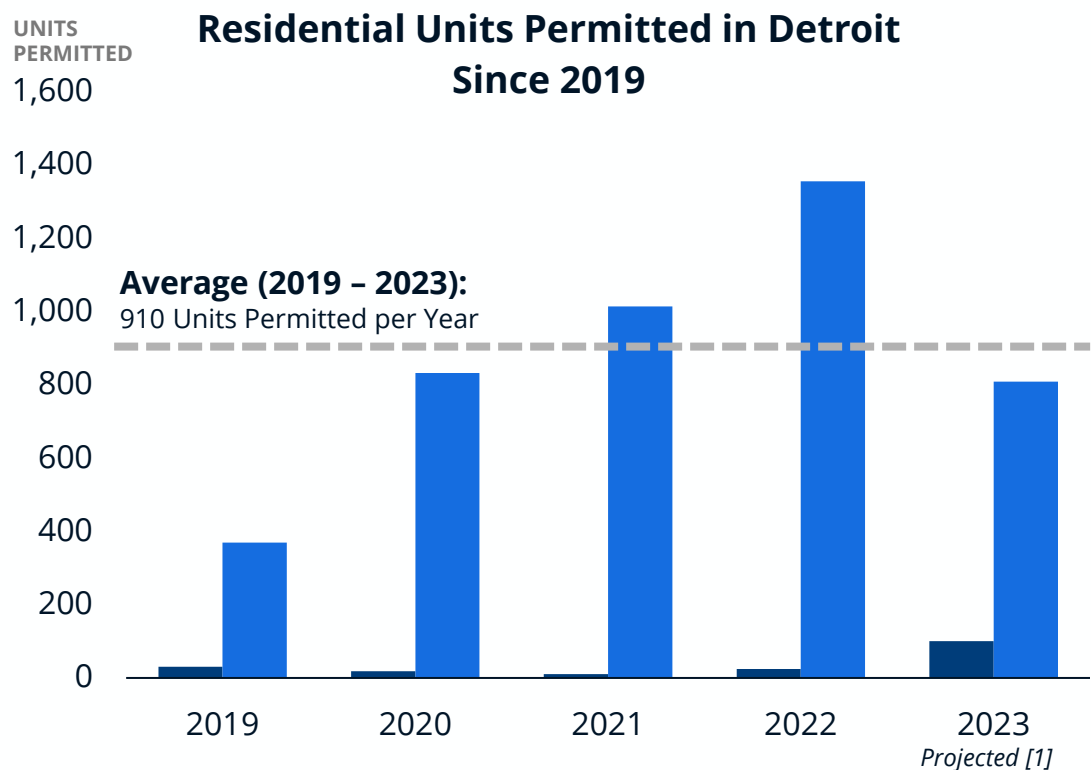
Rising construction costs and interest rates will continue to hamper housing development. Additionally, environmental remediation costs and long entitlement periods have challenged developers, especially smaller-scale, local developers.

**46%**  
**Rise in construction costs since  
2020**

*Sources: Board of Governors of the Federal Reserve System (US); CoStar; Detroit BSEED; Local Developer Interviews; U.S. Bureau of Labor Statistics; Zillow; HR&A Advisors*

## DEVELOPMENT TRENDS | CITYWIDE DEVELOPMENT ACTIVITY

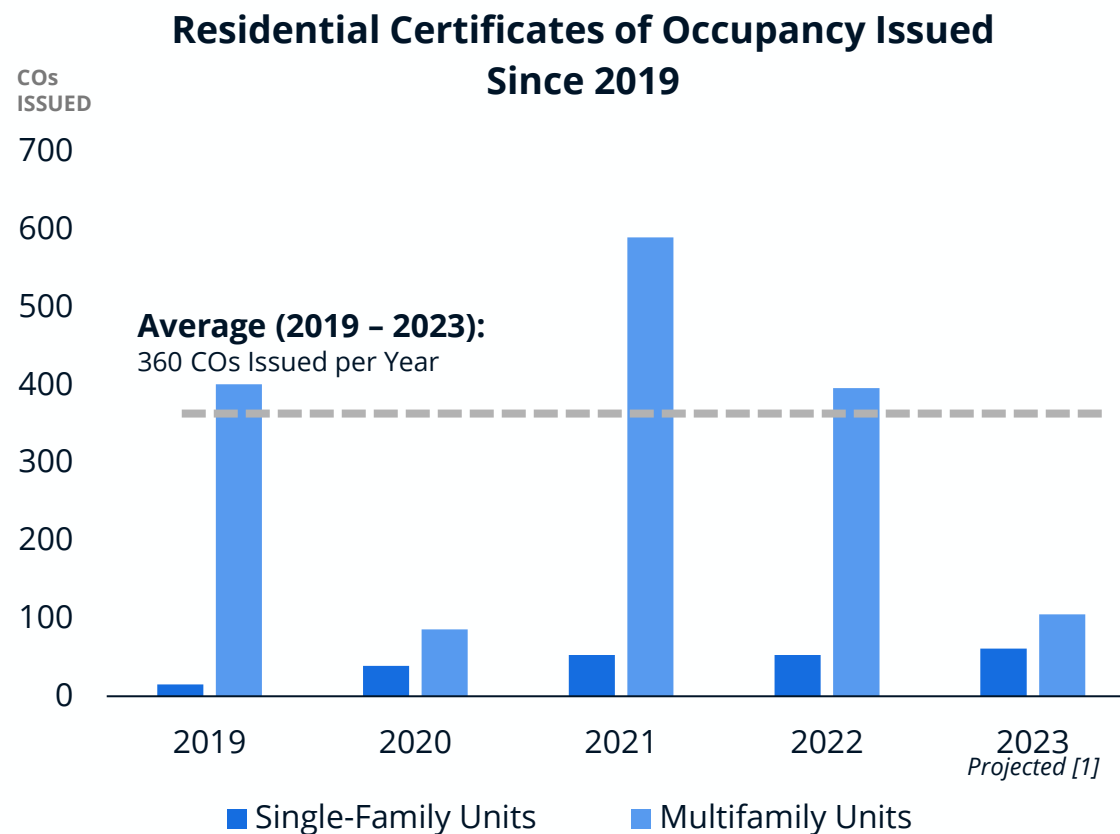
In past five years, multifamily development activity has increased, but deliveries have slowed since 2021.



■ Units in Single-Family Structures ■ Units in All Multi-Family Structures

[1] 2023 counts have been extrapolated to include anticipated permit and CO issuances

Sources: City of Detroit, HR&A Advisors

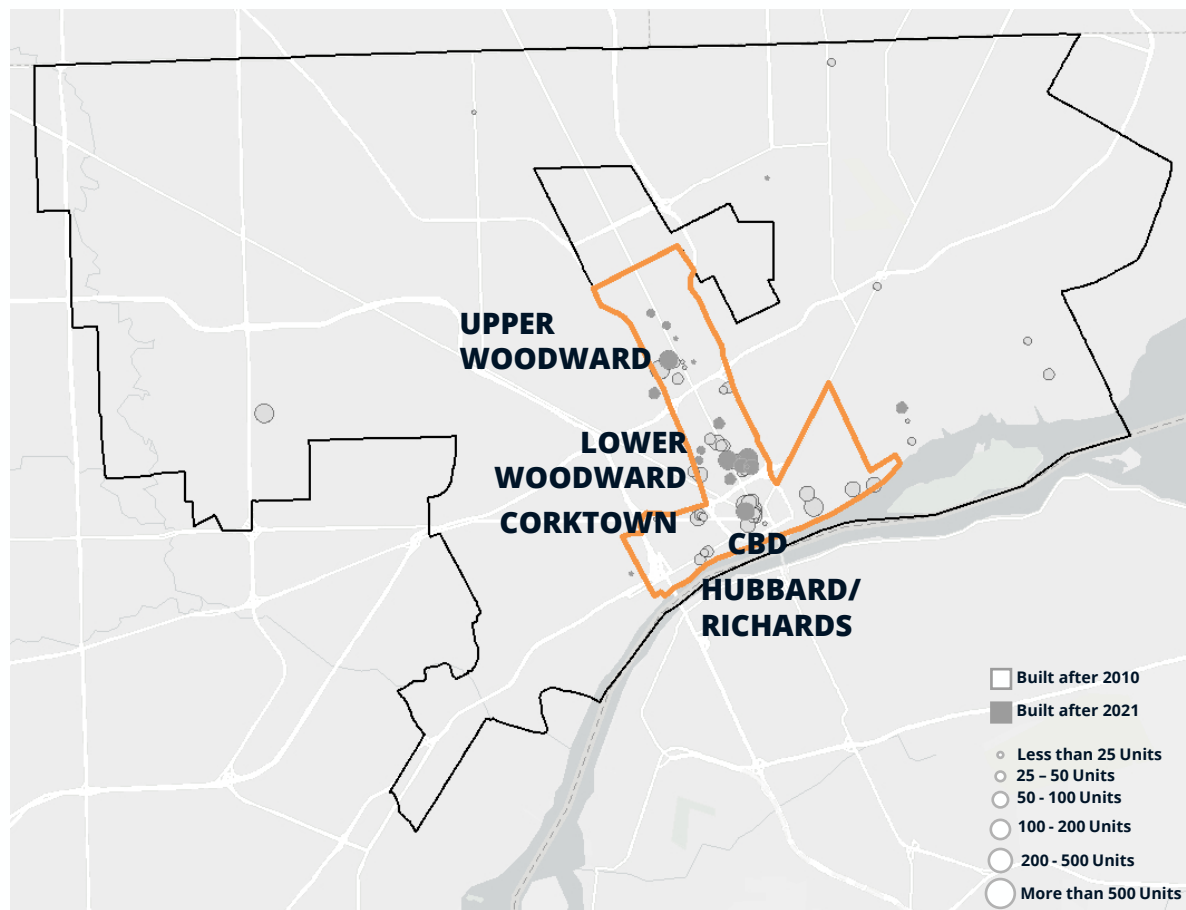




## DEVELOPMENT TRENDS | MULTIFAMILY RENTAL DEVELOPMENT ACTIVITY

Multifamily developments have been primarily delivered in the Greater Downtown area over the past decade.

### Multifamily Projects Delivered in Detroit Since 2010



Sources: CoStar; Esri, HRD, HR&A Advisors

**6,170**

New multifamily units since 2010

**89%**

New projects in Greater Downtown Detroit since 2010

**1,824**

New multifamily units since 2021<sup>[1]</sup>

**94%**

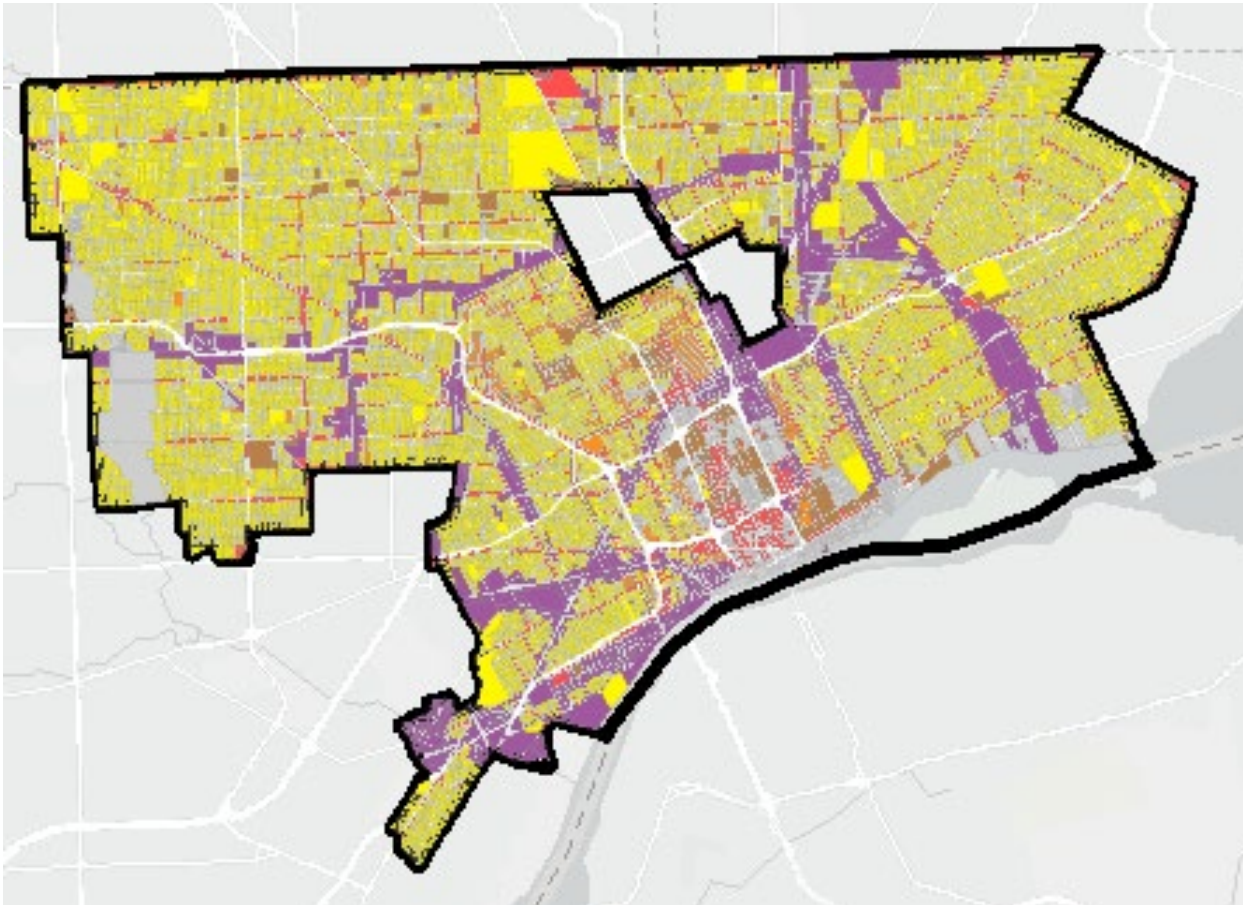
New projects in Greater Downtown Detroit since 2021<sup>[1]</sup>

[1] Inclusive of new multifamily units delivered since 2010

## DEVELOPMENT TRENDS | EXISTING ZONING

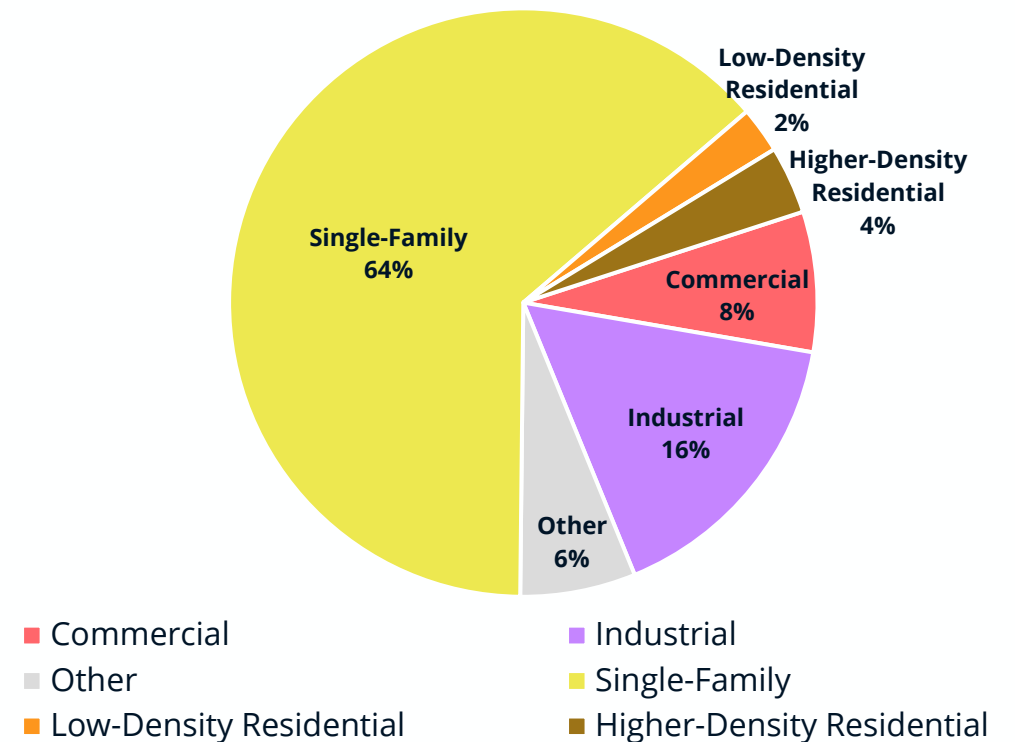
Detroit's existing zoning restricts multifamily residential uses primarily to the greater downtown Detroit area and along major thoroughways.

### Detroit Consolidated Zoning Map



Sources: City of Detroit, HR&A Advisors

### Detroit Land Use by Acreage



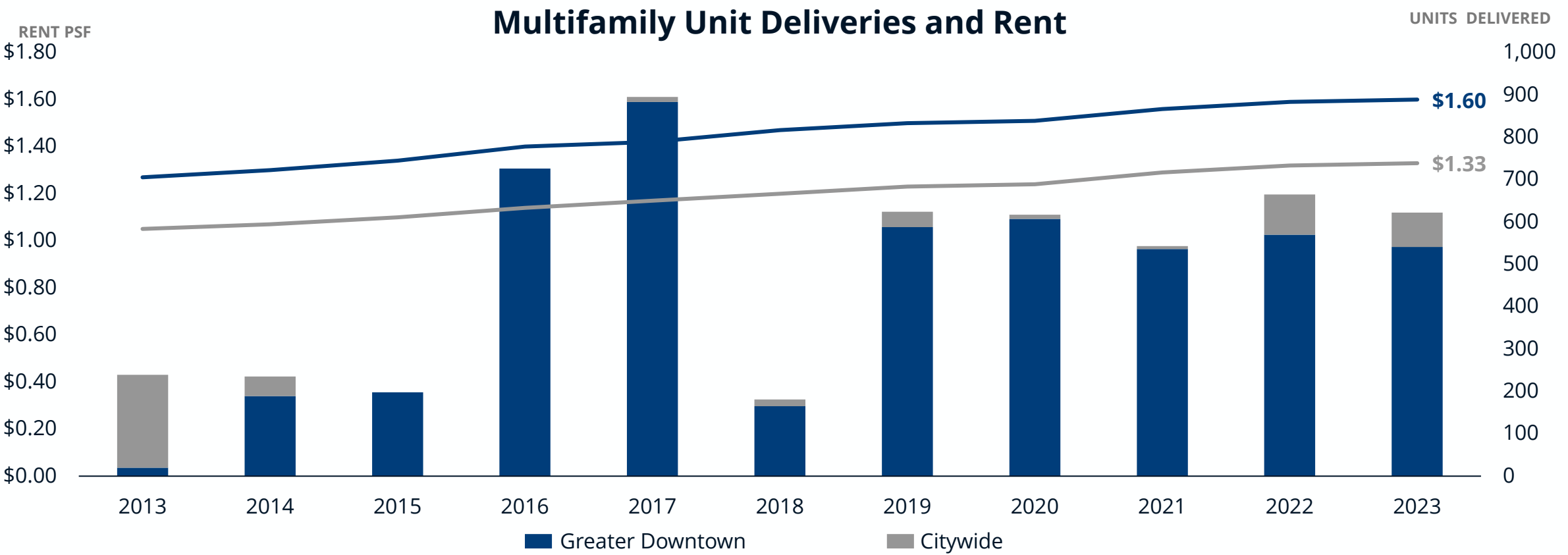
[1] Other typologies include mixed-use, PUDs, and other special zoning districts.

DEVELOPMENT TRENDS | MULTIFAMILY DELIVERIES AND RENTS

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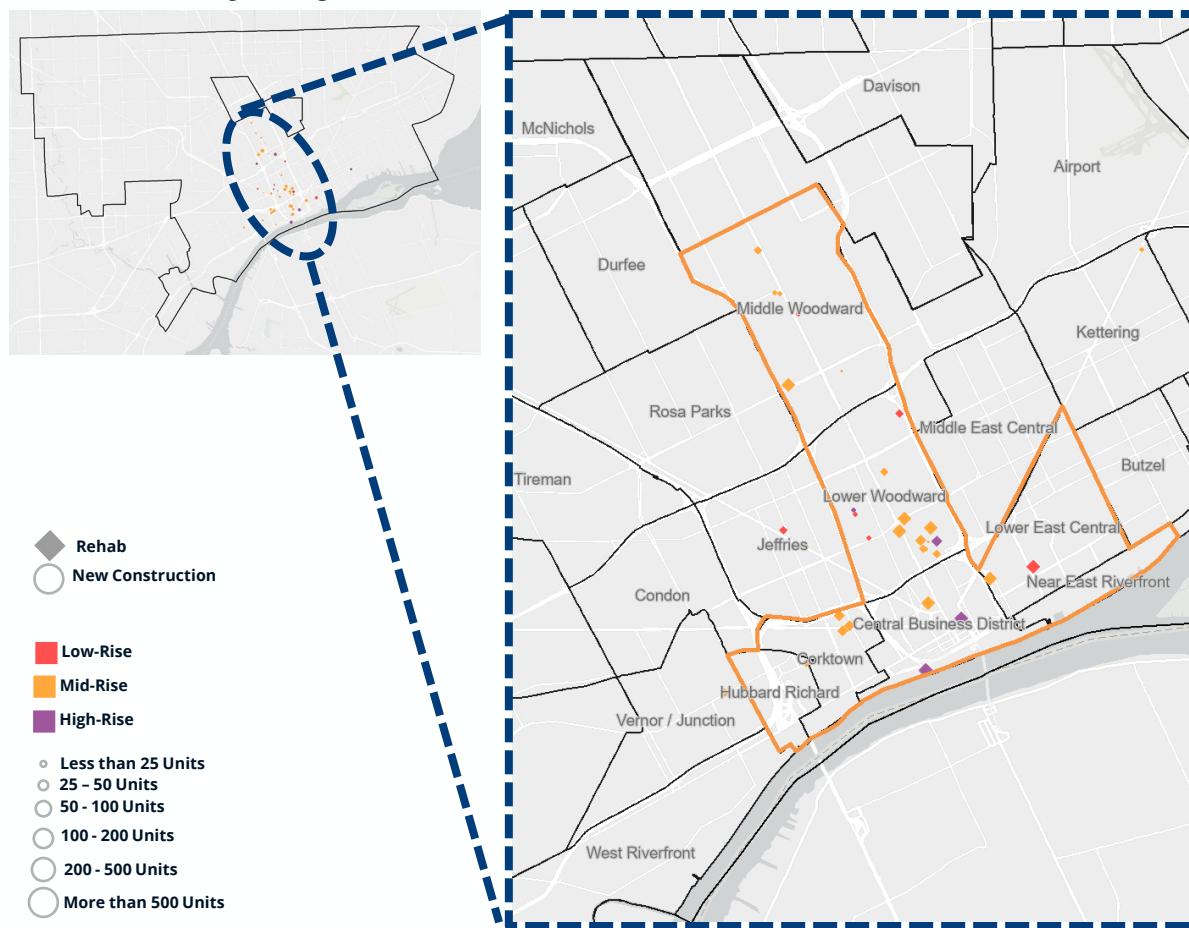


[1] Removed 562-unit Urban at Palmer Park development from 2022 deliveries; unable to verify delivery with consultant team  
Sources: CoStar; HR&A Advisors

## DEVELOPMENT TRENDS | MULTIFAMILY RENTAL DEVELOPMENT ACTIVITY

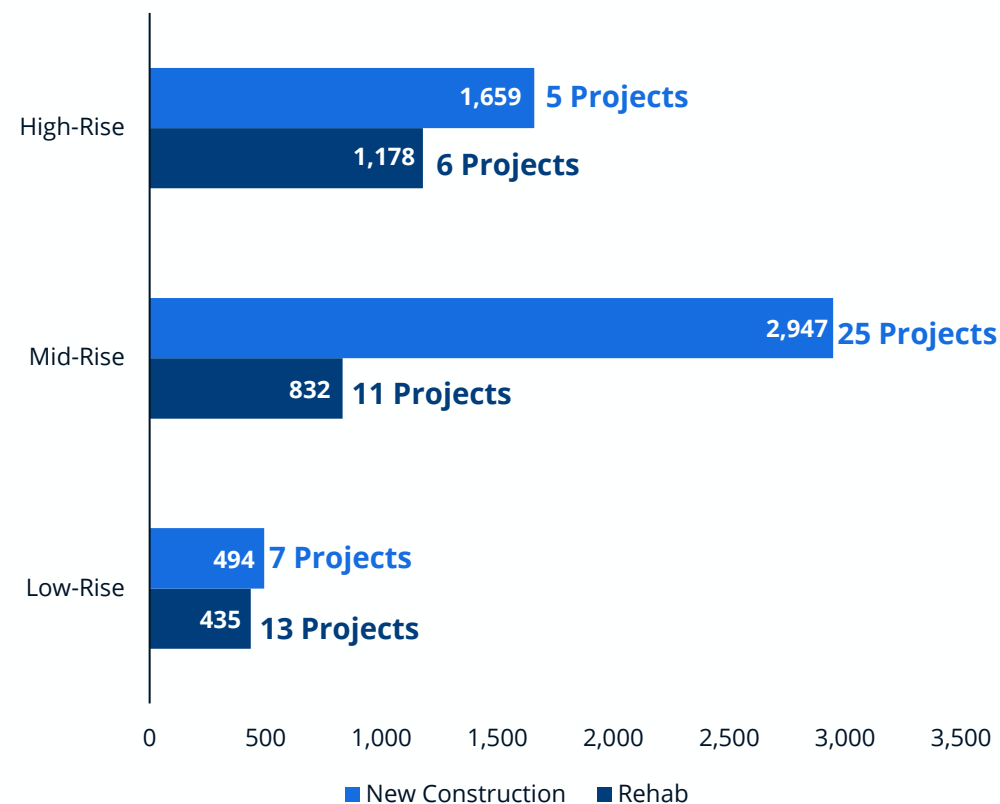
Most of Detroit's recently delivered new construction deliveries are “mid-rise” (4-6 story) apartments.

### Multifamily Projects Delivered in Detroit Since 2018



Sources: CoStar, Esri, HRD, HR&A Advisors

### Multifamily Units Delivered in Detroit Since 2018

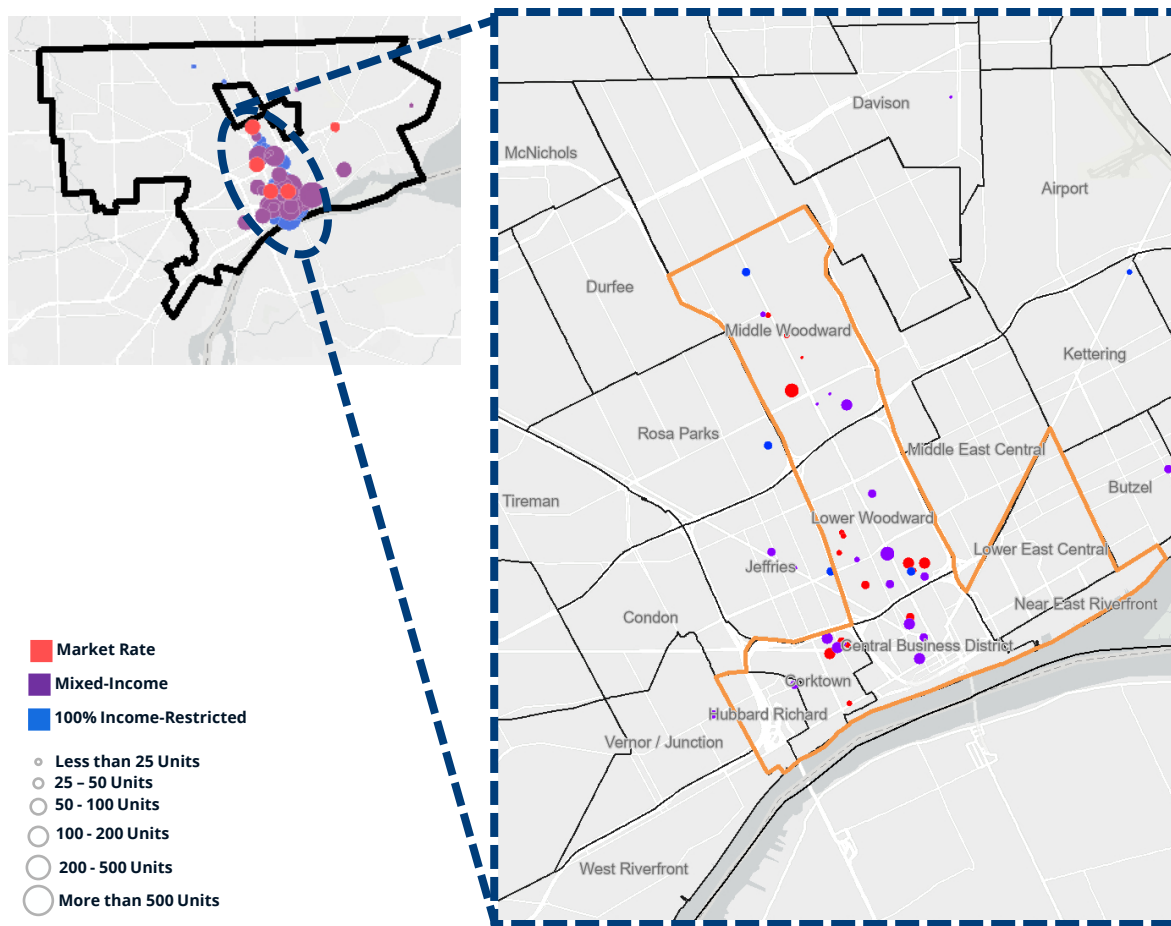


Note: Low-rise projects defined as projects with less than 4 stories, mid-rise projects defined as projects with 4 to 6 stories, high-rise projects defined projects with over 8 stories.

## DEVELOPMENT TRENDS | MULTIFAMILY RENTAL DEVELOPMENT ACTIVITY

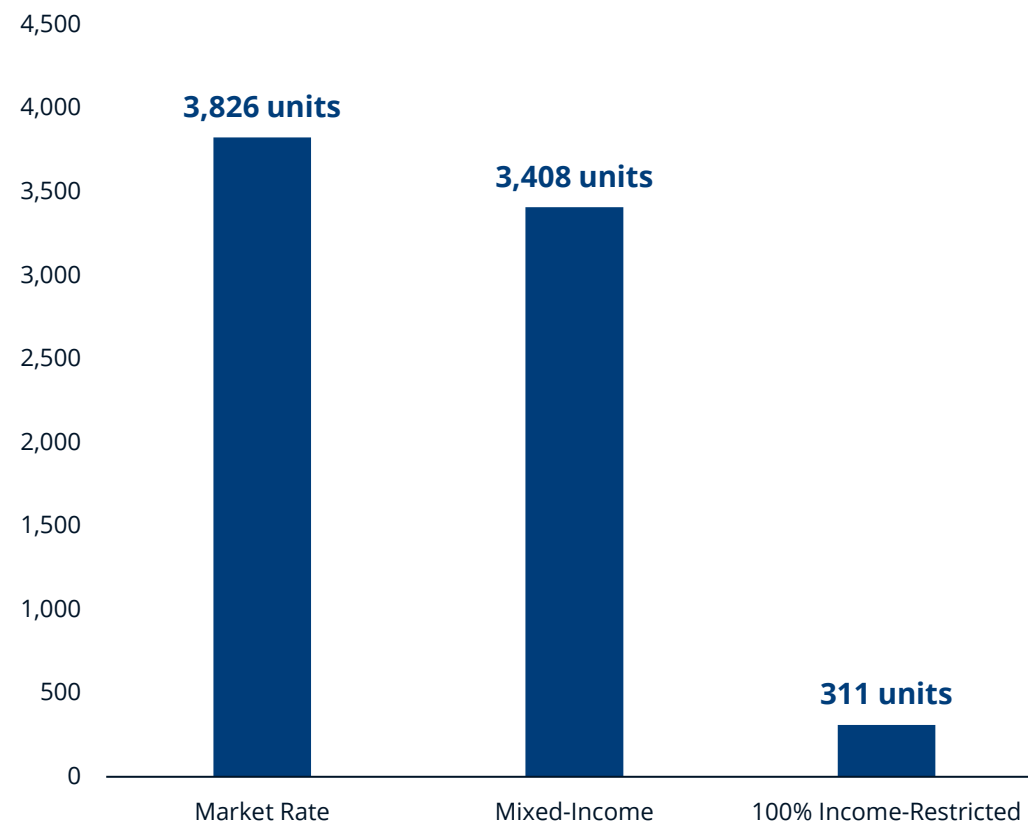
Nearly half of recent multifamily rental deliveries are comprised of mixed-income apartment projects.

### Multifamily Projects Delivered in Detroit Since 2018



Sources: CoStar, Esri, HRD, HR&A Advisors

### Affordability of Multifamily Projects Delivered in Detroit Since 2018

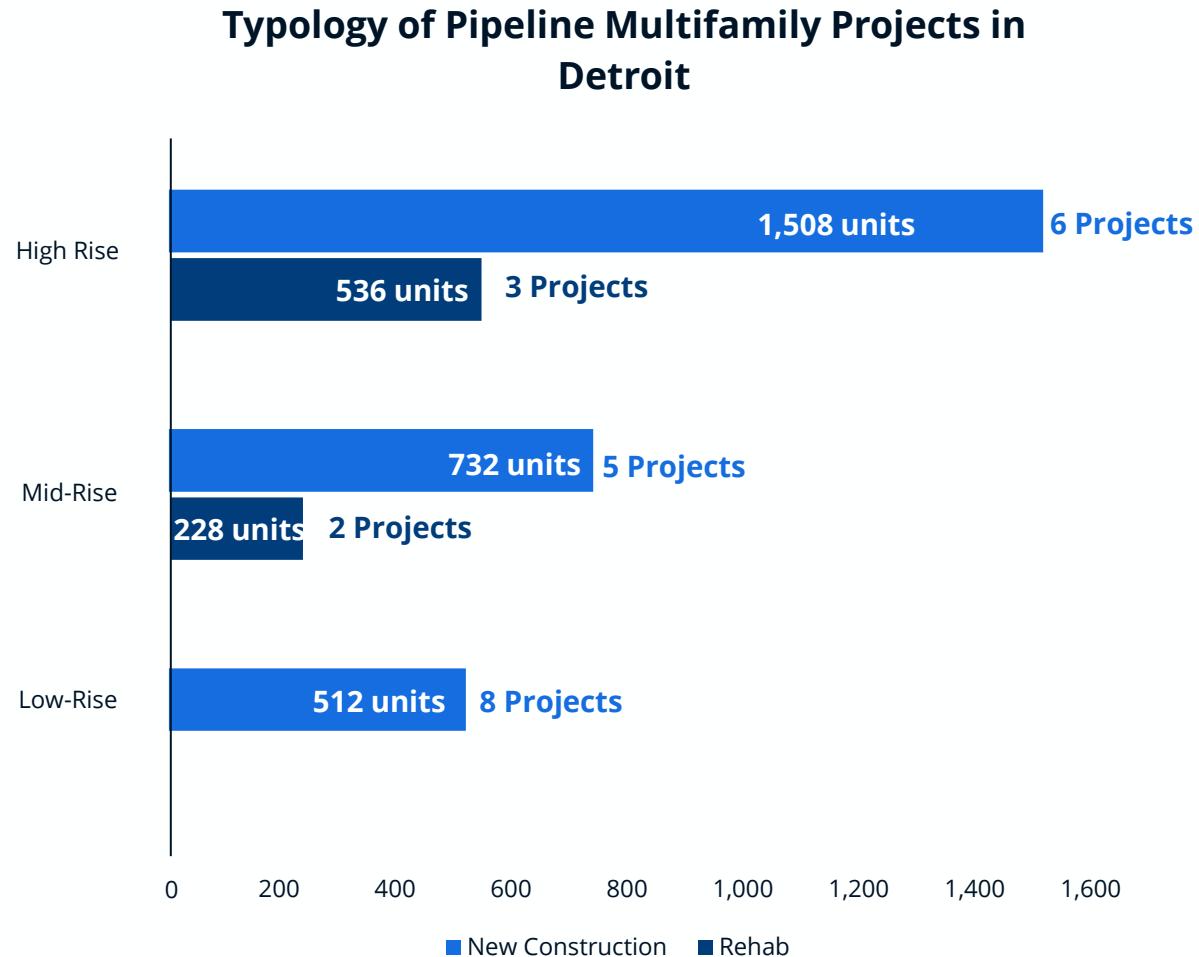


Note: Mixed-income properties include a combination of market rate and income-restricted affordable units. Income-restricted includes properties in which all units are restricted to residents in eligible income brackets.



## DEVELOPMENT TRENDS | MULTIFAMILY RENTAL PIPELINE

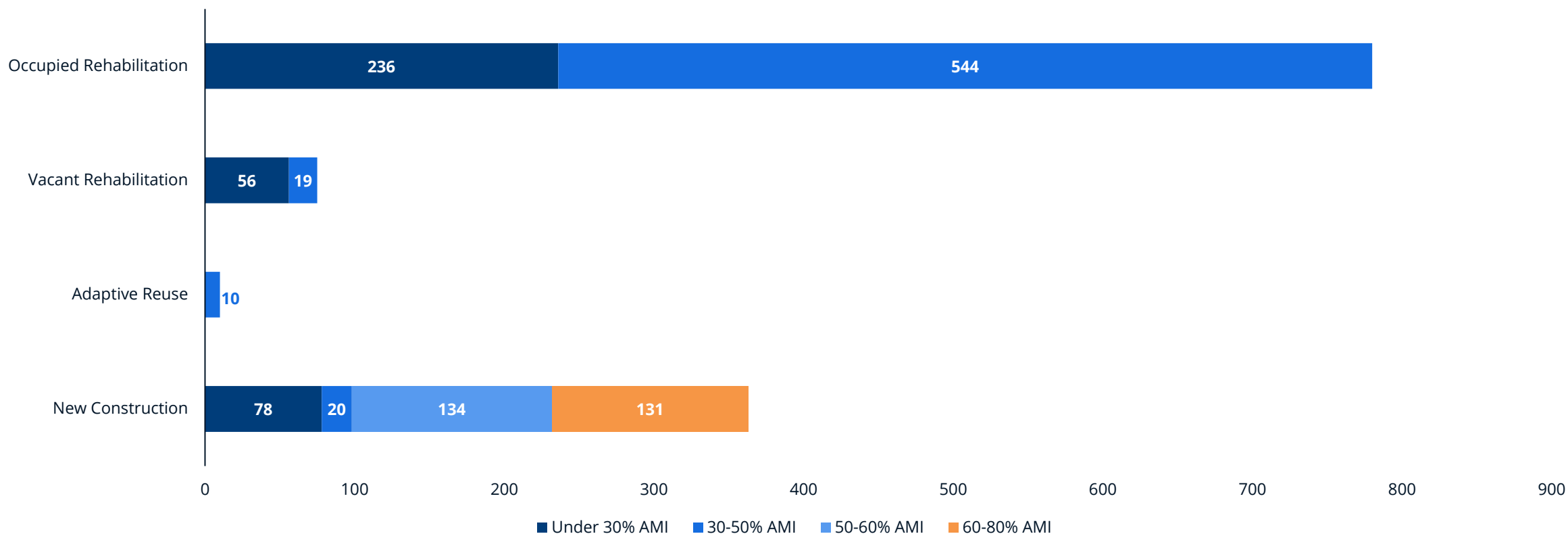
Most housing units in Detroit's pipeline are in high-rise, new construction apartments.



## DEVELOPMENT TRENDS | MULTIFAMILY RENTAL PIPELINE

Rehabilitations of multifamily properties have successfully produced 0-50% AMI units, while new construction multifamily projects have produced fewer units across a broader range of affordability levels.

**Affordable Multifamily Units Yielded by Typology since 2018**



## DEVELOPMENT TRENDS | MULTIFAMILY RENTAL DEVELOPMENT ACTIVITY

While recently delivered multifamily projects have primarily excluded larger family units, pipeline development projects are increasing their share of 3-bedroom homes or larger.

### Units by Bedroom Mix Multifamily Rental Developments

	Delivered Since 2018	Pipeline <sup>[1]</sup>
Studio	468 Units (20%)	740 units (22%)
1 Bedroom	1,239 Units (51%)	1,519 Units (43%)
2 Bedrooms	702 Units (29%)	821 Units (23%)
3+ Bedrooms	9 Units (<1%)	422 Units (12%)



#### Left Field at Tiger Stadium

Under Construction (2023)

Corktown

120 Units; 20% 3+ Bedrooms

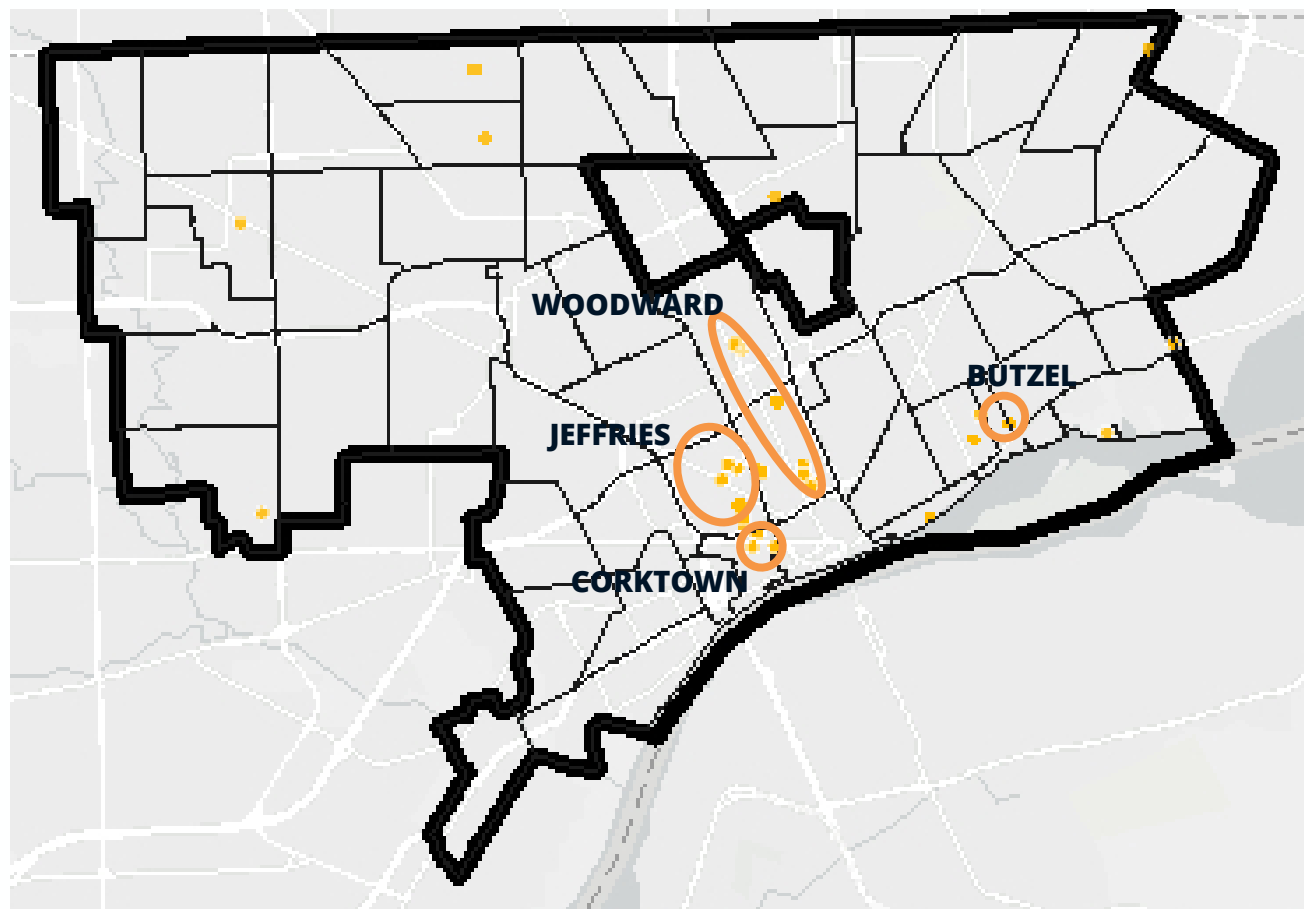
Mixed-Income

*[1] Three pipeline projects did not include unit mixes; these projects were excluded from tabulation.  
Sources: CoStar, HRD; HR&A Advisors*

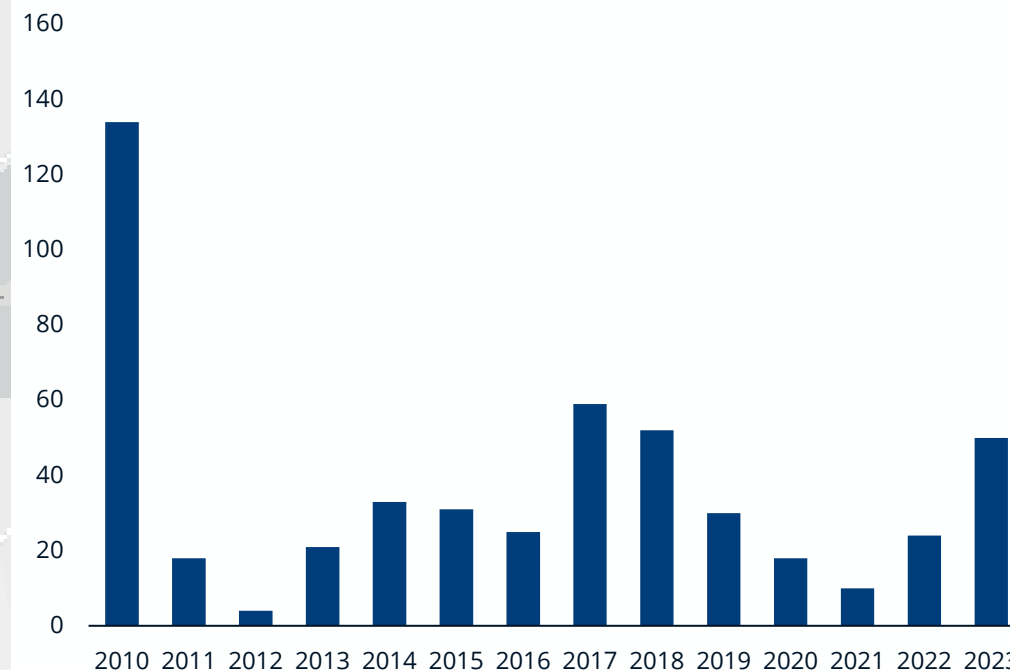
## DEVELOPMENT TRENDS | SINGLE-FAMILY ACTIVITY - DEVELOPMENT

New single-family development saw a slight uptick following COVID, primarily in neighborhoods surrounding downtown such as Corktown, Jeffries, Woodward, and Butzel.

### New Construction Single-Family Homes Developed Since 2019



### Single-Family Permits Issued 2010 - 2023

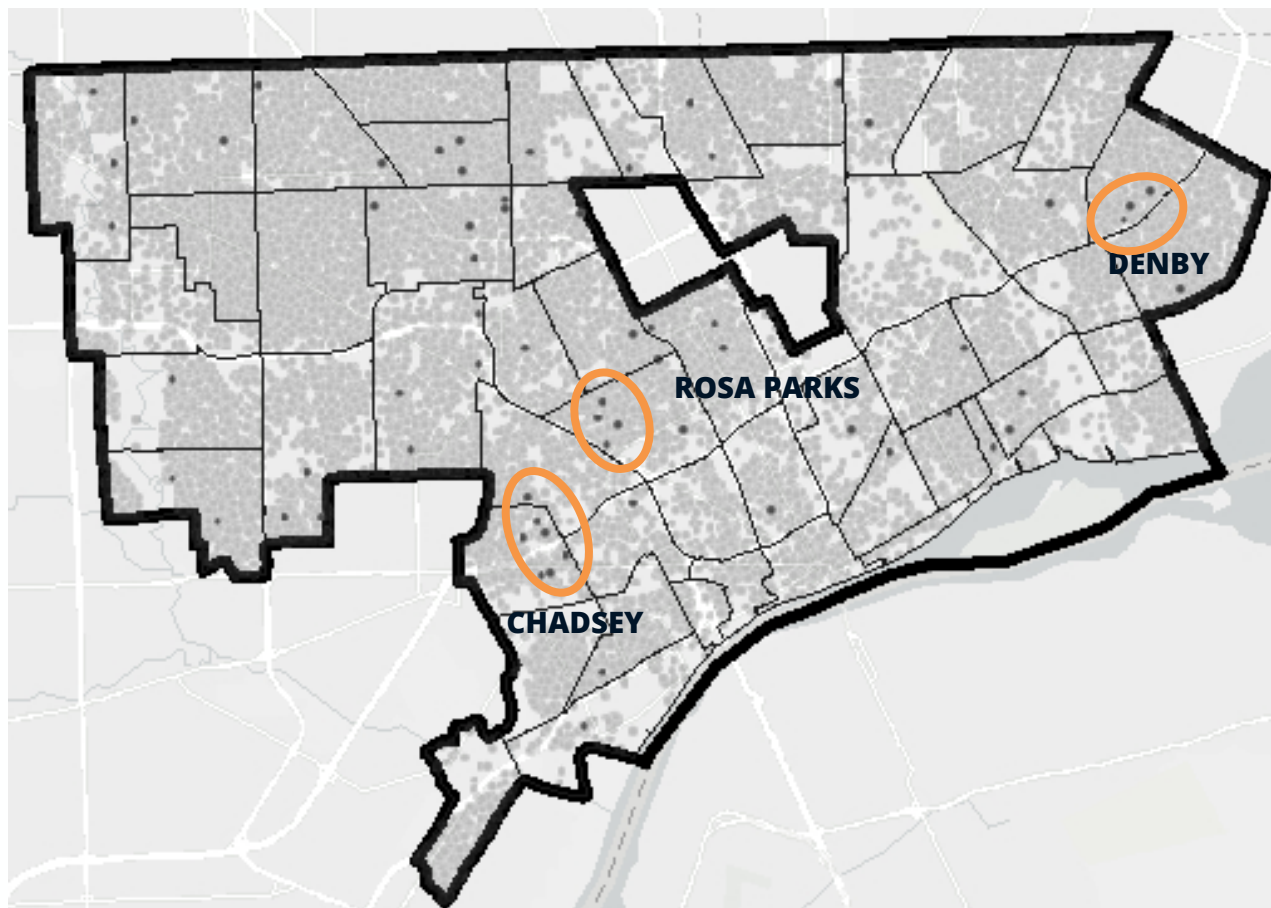


*Single-family permits defined as new-construction permits issued for single-family detached or single-family attached (townhome, rowhouse, etc.) housing.*

## DEVELOPMENT TRENDS | SINGLE-FAMILY ACTIVITY - REHABILITATION

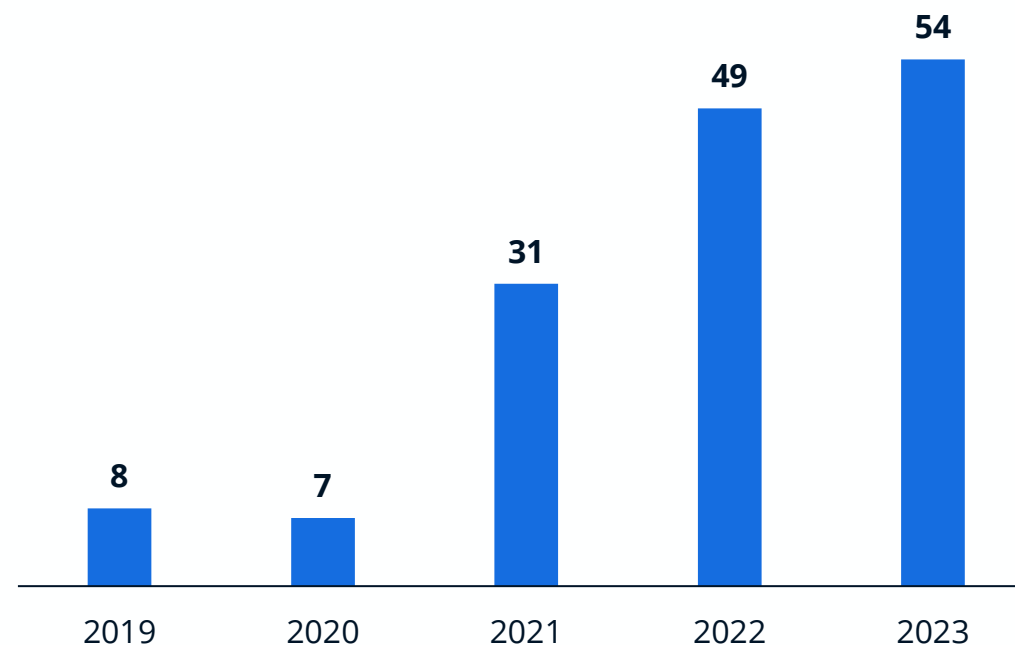
Permitting data indicates that single-family and two-family rehabilitation activity has increased since 2020.

### Single-Family Rehab Permits Issued Since 2019



Sources: City of Detroit BSEED, HR&A Advisors

### Single-Family Rehab Permits Issued 2010 - 2023



*Single-family rehabs used for this analysis included BSEED-defined residential rehabs and alterations exceeding \$20,000 in cost, or other permits including rehabilitation uses in the permitted uses.*



## DEVELOPMENT TRENDS | SINGLE-FAMILY TYPOLOGIES – NEW CONSTRUCTION & REHABILITATION

Rehabs of detached and attached homes are the most prevalent single-family development typology though there has been some new construction townhome developments.

### Townhome NEW CONSTRUCTION



221 Alfred St

### Single-Family Detached REHABILITATION



446 King St

### Single-Family Attached REHABILITATION

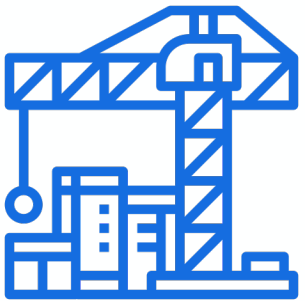


1289 Belvidere



## DEVELOPMENT TRENDS | DEVELOPMENT CHALLENGES

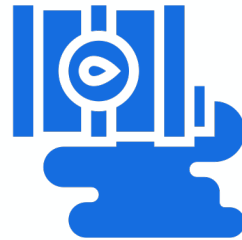
Local and regional housing stakeholders and developers indicated that housing development in Detroit is primarily challenged by five factors.



**Increasing  
Construction  
Costs**



**Rising  
Interest  
Rates**



**Environmental  
Remediation  
Costs**



**Entitlements and  
Permitting Process  
Delays**



**Developer and  
Contractor  
Capacity**

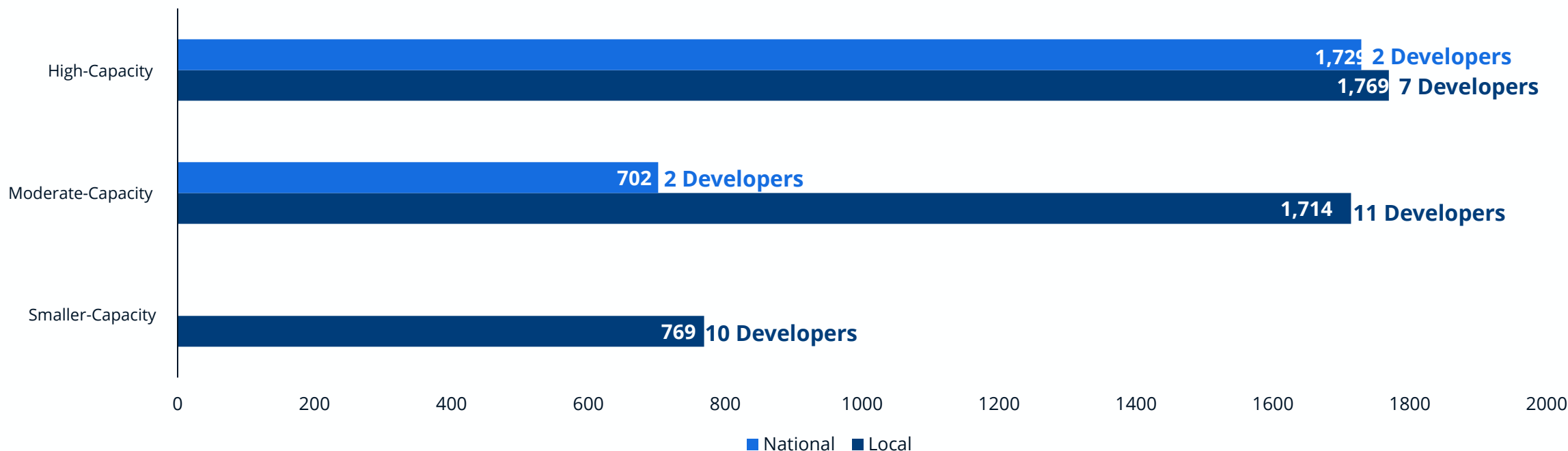
**National Trends**

**Local and Regional Trends**

## DEVELOPMENT TRENDS | ACTIVE DEVELOPER LIST

While a few national developers with relatively large portfolios have successfully delivered projects in Detroit, most active developers are based locally and have small to moderate portfolios.

**Multifamily Units Developed By Developer Scale Since 2017**



[1] Smaller-capacity developers were defined as development entities with one development project

[2] Moderate-capacity developers were defined as development entities with up to five development projects in their portfolio.

[3] High-capacity developers were defined as development entities with more than five development projects in their portfolio.

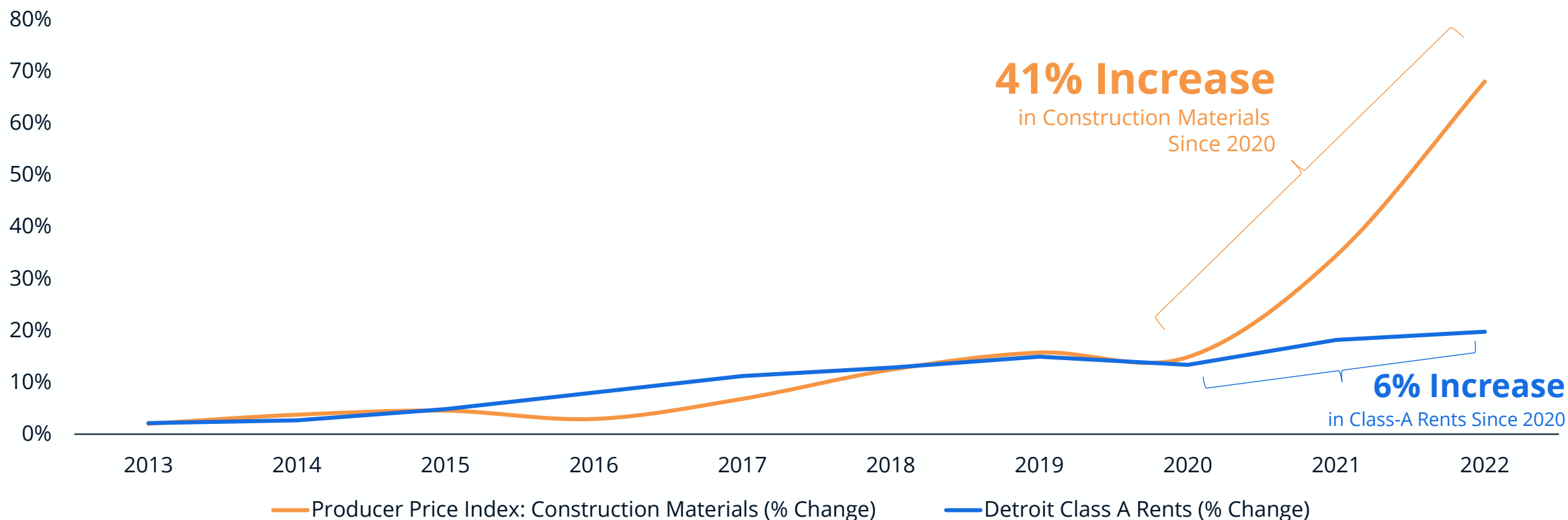
[4] Local developers defined as development entities with headquarters in the city of Detroit or Detroit metro area.

Source: CoStar, HR&A Advisors

## DEVELOPMENT TRENDS | DEVELOPMENT CHALLENGES

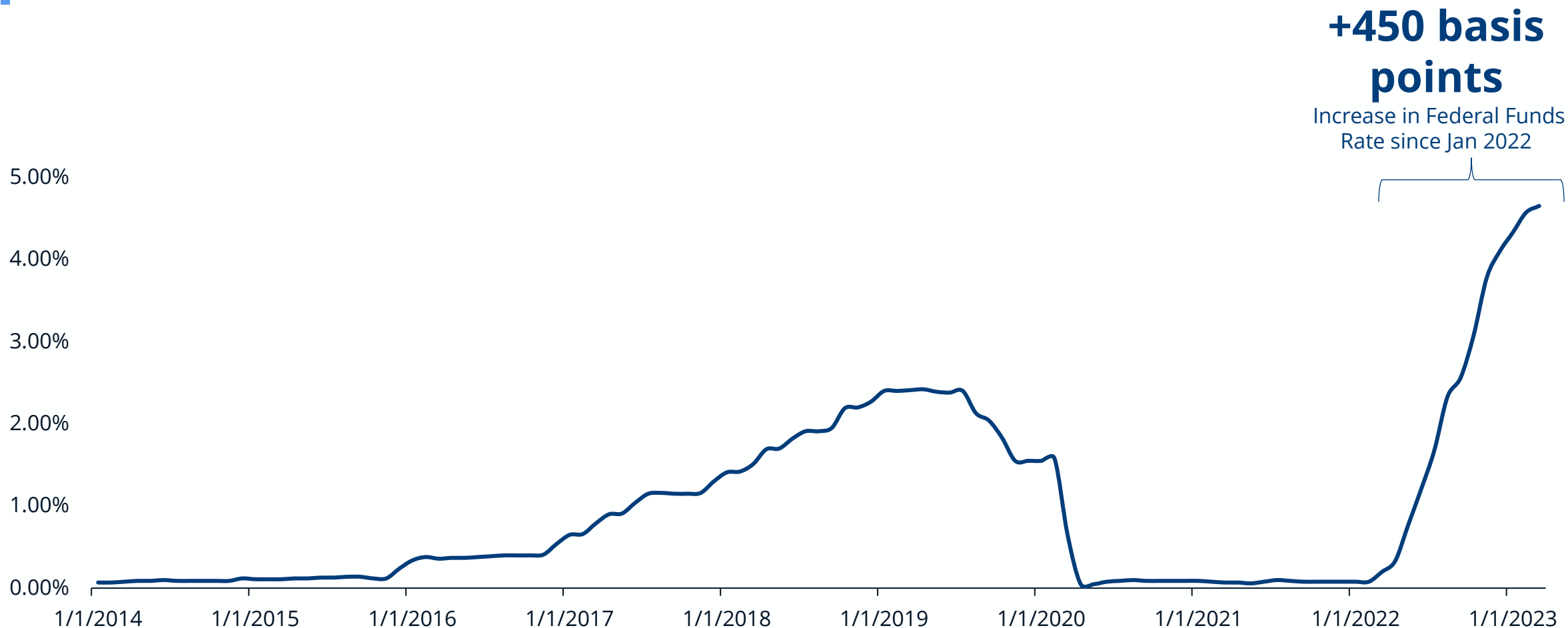
Since 2020, development costs in the city have increased at a faster pace than market rents in Detroit.

**Change in Class A Rents and Construction Costs  
2013 – 2022**



## DEVELOPMENT TRENDS | DEVELOPMENT CHALLENGES

Interest rates have drastically increased since the beginning of 2022, which has challenged the ability of development projects to secure financing.



**Source(s):** Board of Governors of the Federal Reserve System (US)

## DEVELOPMENT TRENDS | DEVELOPMENT CHALLENGES

Developers have also indicated that environmental remediation costs and holding costs from entitlement delays have also challenged their ability to deliver affordable units.

### Environmental Remediation Costs



- \* There are limited greenfield sites within Detroit; most available development sites require some form of remediation.
- \* Depending on the amount of required remediation, it can add hundreds of thousands of dollars to development budgets.

### Entitlements and Permitting Process Delays



- \* Many developers have challenges with navigating the permitting and entitlement processes.
- \* Holding costs borne from delays in the entitlement process can make the difference between feasible and infeasible development projects.
- \* The City is currently undergoing efforts to streamline internal review processes, which can reduce time and save costs.

### Developer and Contractor Capacity



- \* While public and nonprofit investment has been made into building local developer capacity, there are still few local developers and contractors with the development, financing, and property management expertise required for substantial residential investment.
- \* The lack of Detroit-based contractors has created a tight labor market, resulting in increased labor costs for developers.



An aerial photograph of Detroit, Michigan, taken at dusk. The city's skyline is visible in the background, with several prominent skyscrapers illuminated. The foreground and middle ground show a dense urban landscape with various buildings, including residential and commercial structures, and some green spaces. The overall tone is dark and moody due to the low light.

# Preservation Trends



## PRESERVATION TRENDS | SUMMARY

The City has invested heavily in funding and partnerships to preserve affordable homes over the past five years, but many of these homes could lose their affordability by 2028.

LIHTC funding is the most leveraged federal subsidy for affordable rental homes, covering more than half of all federally subsidized affordable units in the city.

**15,426**

**Affordable units supported by  
LIHTC subsidies**

Since 2017, the City has supported the preservation of nearly 8,800 affordable homes. The vast majority of these preserved homes serve 30-60% AMI households.

**65%**

**of homes preserved since 2017  
serve 30-60% AMI households**

While the City has invested heavily in preserving affordable homes, it will need to address expiring affordability contracts for housing which could convert to market-rate housing<sup>1</sup>.

**649**

**Affordable units set to expire by  
2028**

Detroit has an expansive stock of NOAH properties; over 800 multifamily properties have rents which are naturally priced at the local fair-market rents. However, the City has a limited stock of NOAH units which could cater to family households.

**1%**

**of NOAH units in multifamily  
homes have more than 2 bedrooms**

*[1] LIHTC expiration based on 30-year affordability periods.*

## PRESERVATION TRENDS | FEDERALLY SUBSIDIZED RENTAL UNITS

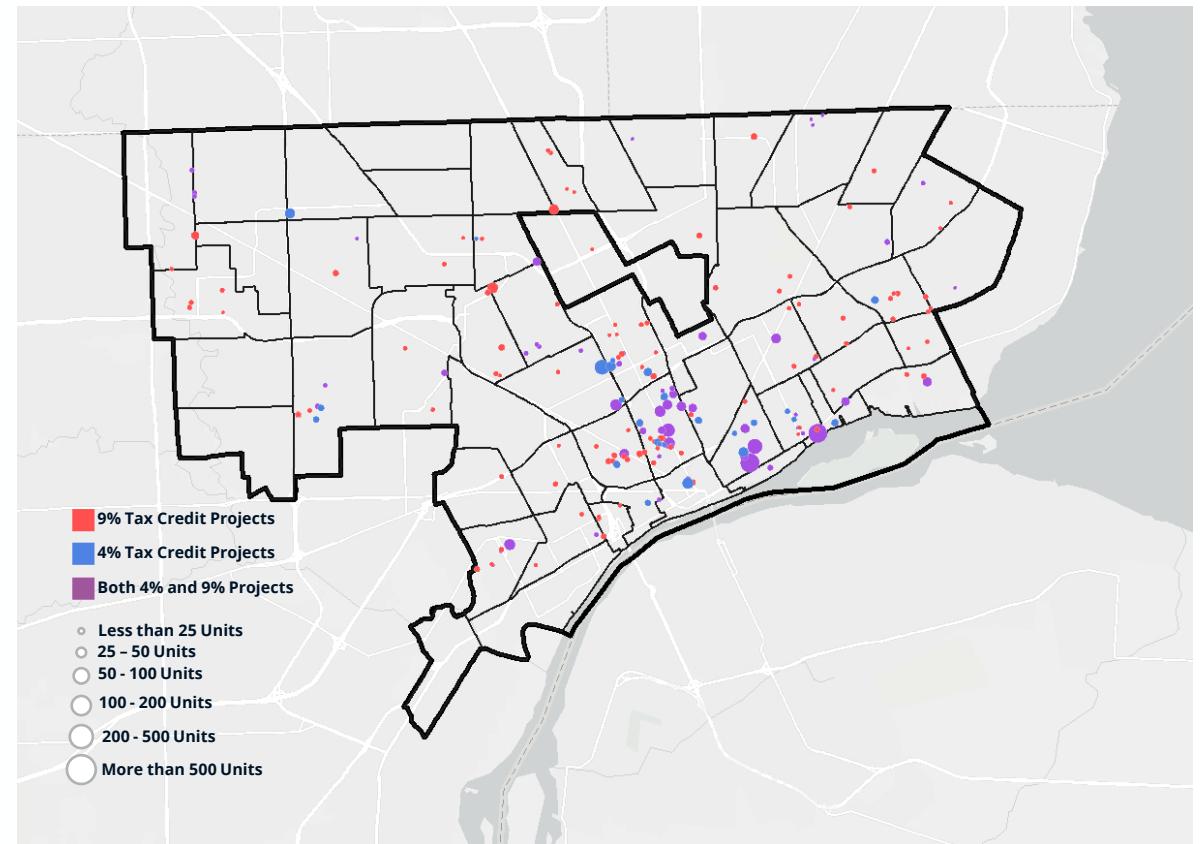
Low-income housing tax credits (LIHTC) are the most prevalent federal funding sources for affordable housing in the city with over 15,000 housing units supported by LIHTC in Detroit.

Program Type	Units
LIHTC Units	15,426 units (4% and 9% credits)
<i>LIHTC Units with Section 8</i>	<i>6,439 units</i>
<i>LIHTC Units w/o Section 8</i>	<i>8,987 units</i>
Section 8 Units w/o LIHTC <sup>[2]</sup>	3,568 units

[1] Section 8 w/o LIHTC units include housing developments with Section 8 assisted units which were not funded through LIHTC and do not contain PBVs.

[2] MSHDA affordability data used to adjust and correct federal LIHTC data. Michigan provides data on state-specific LIHTC expiration dates.

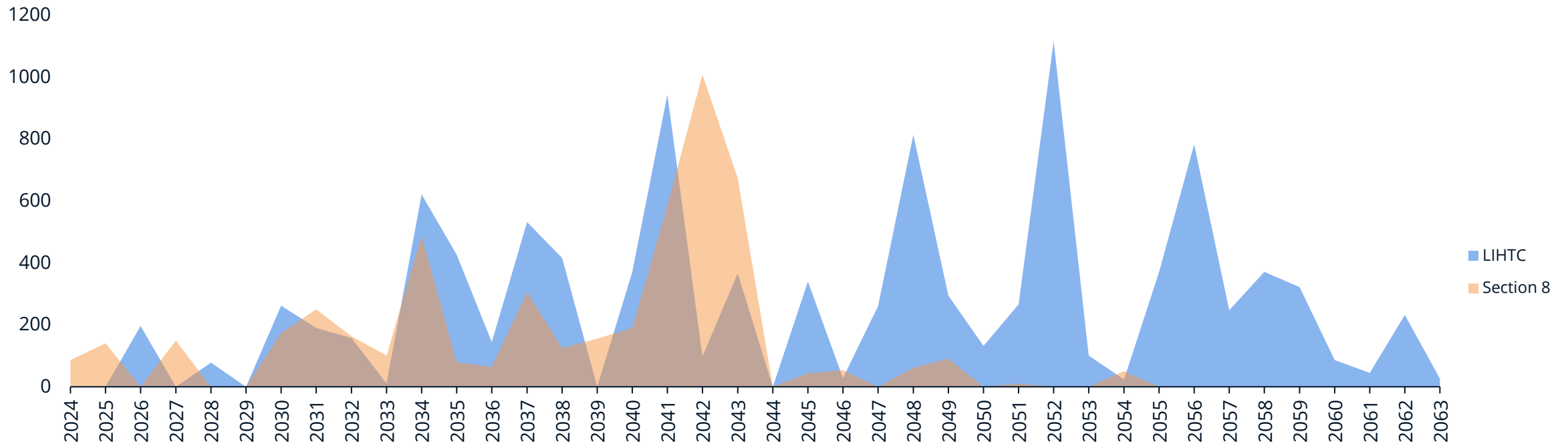
LIHTC Projects in Detroit



## PRESERVATION TRENDS | EXPIRING AFFORDABILITY

There are approximately 750 units at risk of newly expiring affordability covenants (LIHTC or Section 8) over the next five years. An additional ~1,600 LIHTC units are past their compliance period and potentially at risk of losing affordability covenants.

### Federally Funded Affordable Units Set to Expire in Detroit through 2063



[1] LIHTC expiration based on 30-year affordability periods. Following 30-year LIHTC affordability period, tax credits expire and are no longer subjected to HUD or IRS monitoring.

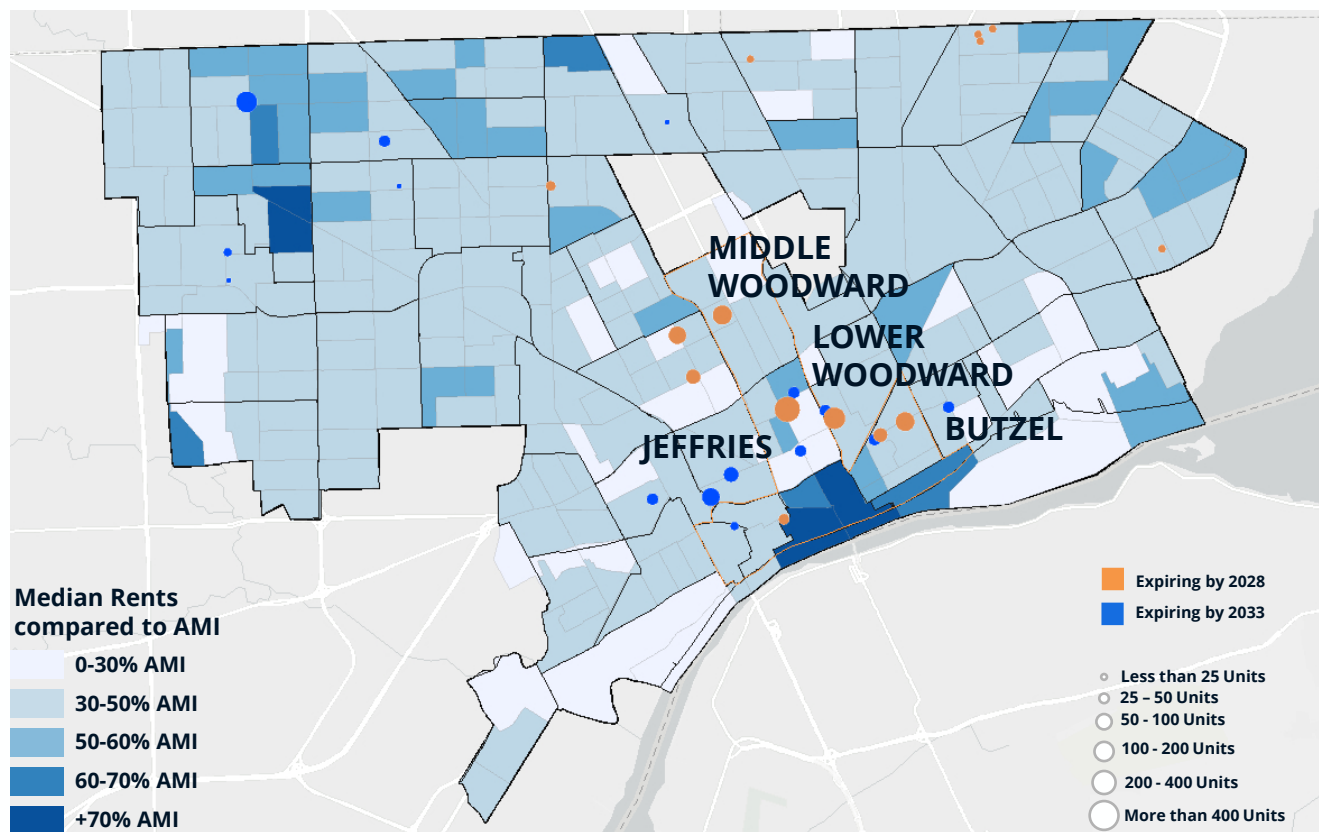
[2] Expiring affordable units were counted based on the latter of LIHTC or Section 8 affordability periods if projects were funded using both sources..

Sources: National Preservation Housing Database, HR&A Advisors

## PRESERVATION TRENDS | EXPIRING AFFORDABILITY

Nearly half of homes with affordability covenants expiring by 2028 are in neighborhoods surrounding Greater Downtown Detroit experiencing significant housing development activity, such as Woodward.

### Federally Funded Affordable Units Set to Expire in Detroit through 2033



Sources: National Preservation Housing Database, HR&A Advisors

### Emerging<sup>[1]</sup> Neighborhoods with Expiring Affordability Requirements

- Butzel
  - 62 Units expiring by 2033
- Jeffries
  - 451 Units expiring by 2033
- Lower Woodward
  - 149 Units expiring by 2028
  - 169 Units expiring by 2033
- Middle Woodward
  - 100 Units expiring by 2028

### Strong<sup>[2]</sup> Neighborhoods with Expiring Affordability Requirements

- Corktown
  - 29 Units expiring by 2028

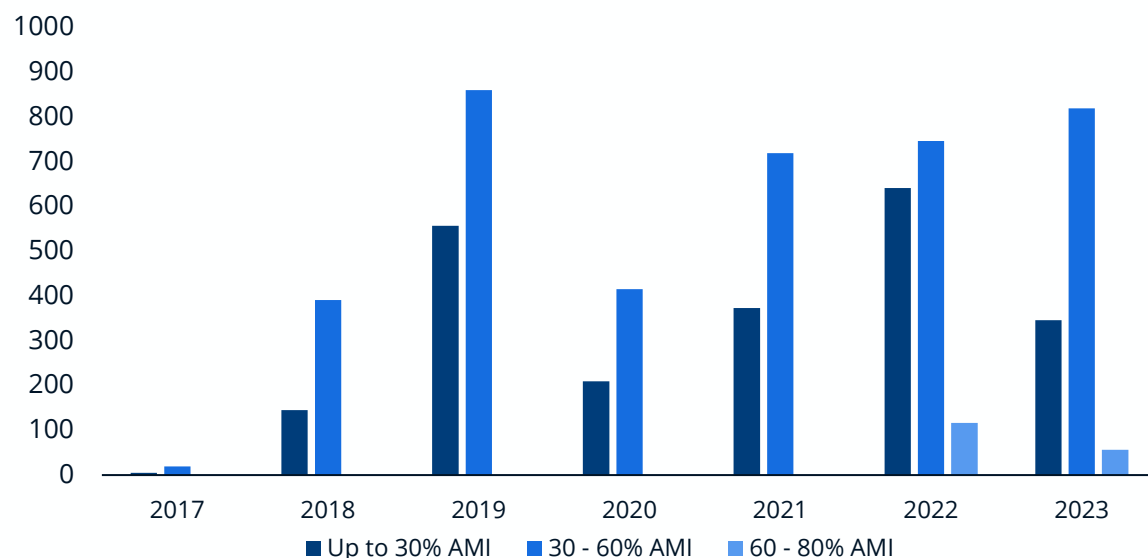
[1] "Emerging" neighborhoods are those in which median rents are still low (affordable to 60% AMI households), but there is development activity described in pg. 63 and 74.

[2] "Strong" neighborhoods are those with median rents which are affordable to households earning at least 70% AMI.

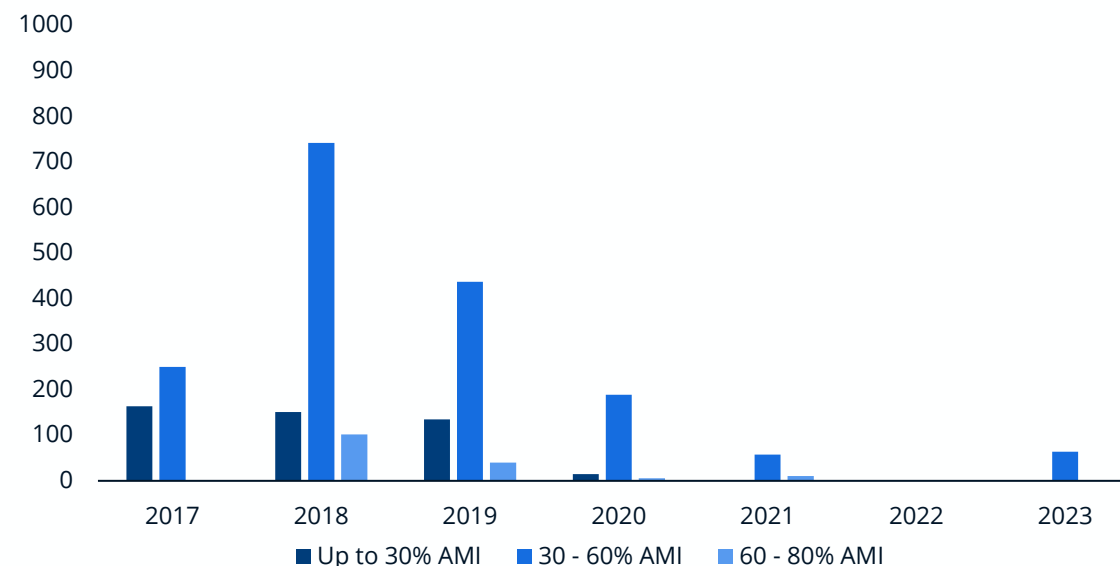
## PRESERVATION TRENDS | RECENT ACTIVITY

While rehabilitation preservation activity has declined in recent years due to rising development costs, the City has ramped up its efforts to preserve homes for households earning below 30% AMI and 30-60% AMI.

**Affordable Units Preserved through Affordability Contract and Renewals since 2017**



**Affordable Units Preserved through Rehabilitations since 2017**





## PRESERVATION TRENDS | OWNERSHIP CHANGES

High-capacity local developers, who are typically backed by substantial capital stacks, make up over half of the ownership of preserved affordable units.

**Developer Capacity of Affordable Housing Developments Preserved Since 2017**



[1] Smaller-capacity developers were defined as development entities with one development project.

[2] Moderate-capacity developers were defined as development entities with up to five development projects in their portfolio.

[3] High-capacity developers were defined as development entities with more than five development projects in their portfolio.

[4] Local developers defined as development entities with headquarters in the city of Detroit or Detroit metro area and no additional regional offices.

[5] Developers include have developments which were developed or preserved since 2017.

Source: NHPD, HR&A Advisors

## PRESERVATION TRENDS | MULTIFAMILY NOAH PROPERTY INVENTORY

About 60% of multifamily NOAH units are 1-bedroom units. There are a limited number of larger NOAH units, challenging the ability of lower-income families in finding housing.

### NOAH Units by Bedroom Mix Multifamily Developments

	FMR	Under 30% AMI	Up to 50% AMI	Up to 60% AMI	Up to 80% AMI	Total Inventory
<b>Studio</b>	1,636 units	271 units	1,440 units	2,786 units	3,278 units	5,718 units
<b>1 Bedroom</b>	8,290 units	967 units	7,581 units	9,132 units	11,610 units	33,442 units
<b>2 Bedrooms</b>	3,521 units	354 units	2,888 units	3,719 units	4,529 units	17,468 units
<b>3 Bedrooms</b>	147 units	13 units	82 units	112 units	211 units	2,752 units
<b>4+ Bedrooms</b>	8 units	0 units	0 units	8 units	12 units	543 units

[1] AMI categories are cumulative

Sources: CoStar, HUD; HR&A Advisors

## PRESERVATION TRENDS | SINGLE-FAMILY NOAH PROPERTY INVENTORY

Single-family detached homes and townhomes have provided Detroiters with naturally occurring affordable rental options; over half of available 3+ bedroom homes are naturally affordable to renter households earning up to 50% AMI.

### NOAH Units by Bedroom Mix Available Single-Family Homes

	FMR	Under 30% AMI	Up to 50% AMI	Up to 60% AMI	Up to 80% AMI	Total Listings
<b>1 Bedroom</b>	<b>31 homes</b> 8 SFDs 23 Townhomes	0 homes	<b>23 homes</b> 8 SFDs 15 Townhomes	<b>35 homes</b> 8 SFDs 27 Townhomes	<b>39 homes</b> 9 SFDs 30 Townhomes	<b>44 homes</b> 9 SFDs 35 Townhomes
<b>2 Bedrooms</b>	<b>182 homes</b> 126 SFDs 56 Townhomes	0 homes	<b>137 homes</b> 88 SFDs 49 Townhomes	<b>198 homes</b> 138 SFDs 60 Townhomes	<b>216 homes</b> 149 SFDs 67 Townhomes	<b>226 homes</b> 149 SFDs 77 Townhomes
<b>3 Bedrooms</b>	<b>544 homes</b> 522 SFDs 22 Townhomes	<b>5 homes</b> 5 SFDs 0 Townhomes	<b>322 homes</b> 306 SFDs 16 Townhomes	<b>515 homes</b> 496 SFDs 19 Townhomes	<b>590 homes</b> 564 SFDs 26 Townhomes	<b>596 homes</b> 565 SFDs 31 Townhomes
<b>4+ Bedrooms</b>	<b>33 homes</b> 32 SFDs 1 Townhome	0 homes	<b>11 homes</b> 10 SFDs 1 Townhome	<b>33 homes</b> 32 SFDs 1 Townhome	<b>45 homes</b> 43 SFDs 2 Townhome	<b>50 homes</b> 47 SFDs 3 Townhomes

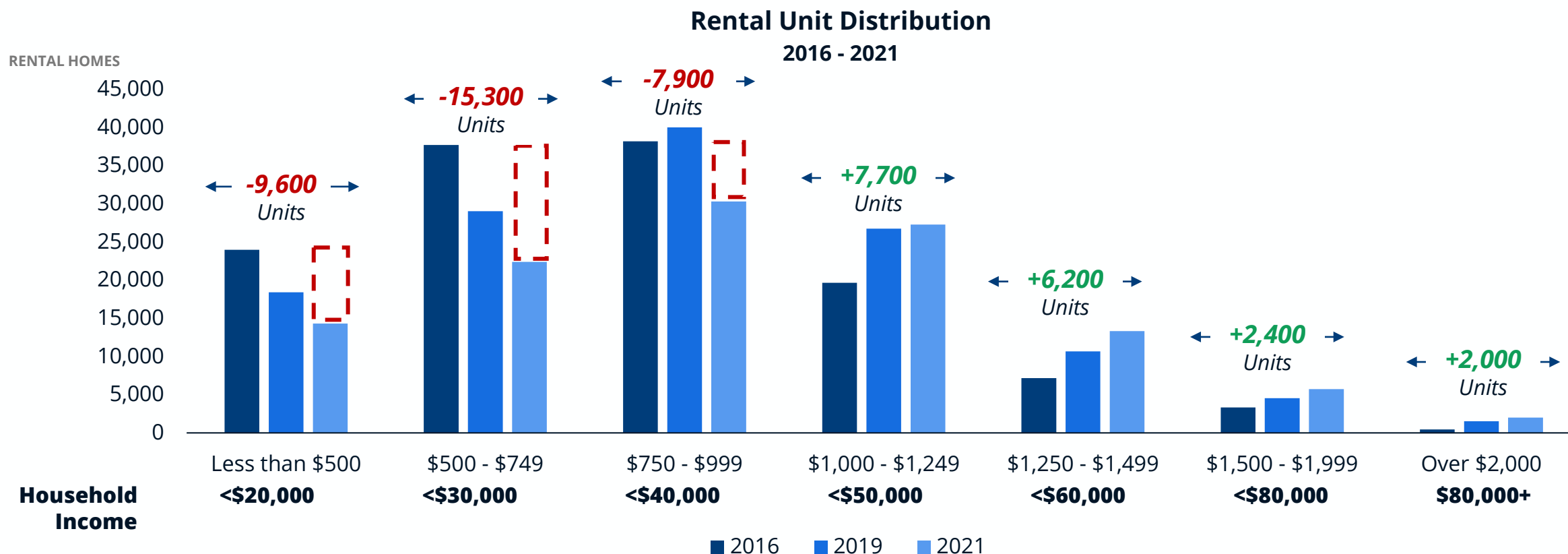


| 04

# Housing Gap Analysis

## RENTAL HOUSING STOCK

There has been a significant loss of units affordable to low-income families, especially for those earning less than \$40,000 annually.



Note: Includes both single-family and multifamily units.

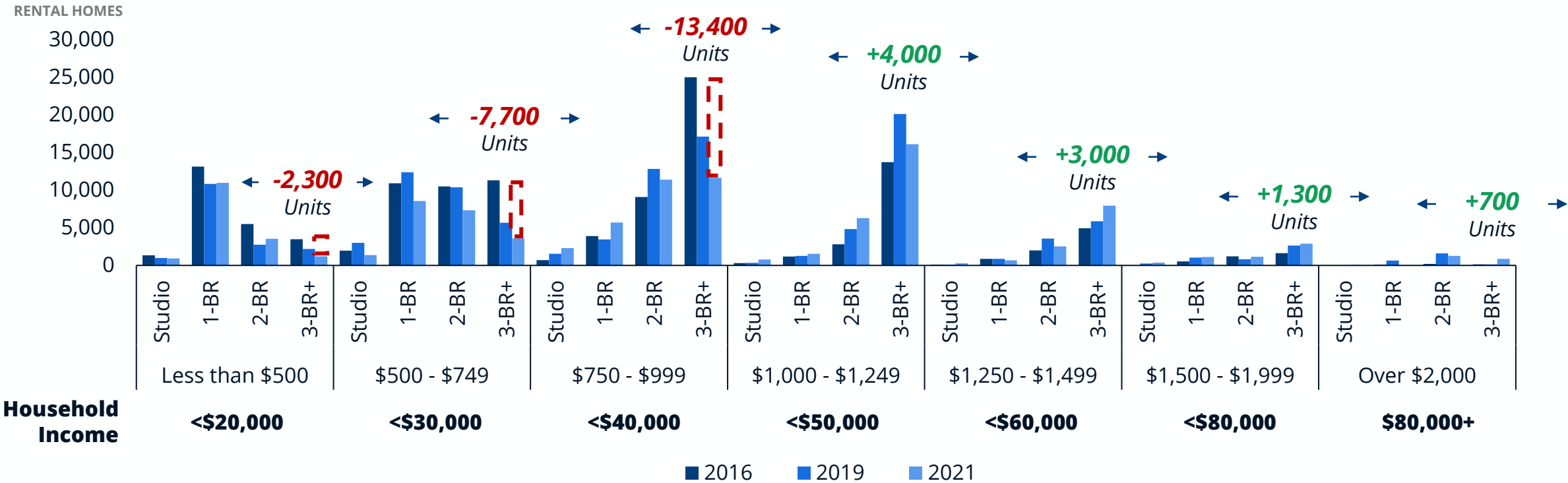
Sources: ACS 1-Year Estimates 2016 - 2021; HR&A Advisors



RENTAL HOUSING STOCK

In the past five years, the city experienced a decline in affordable “family-sized” units (3+ bedrooms), especially those affordable to families earning less than \$40,000 annually. The decline in larger, lower cost units was likely due in part to unit loss/demolition.

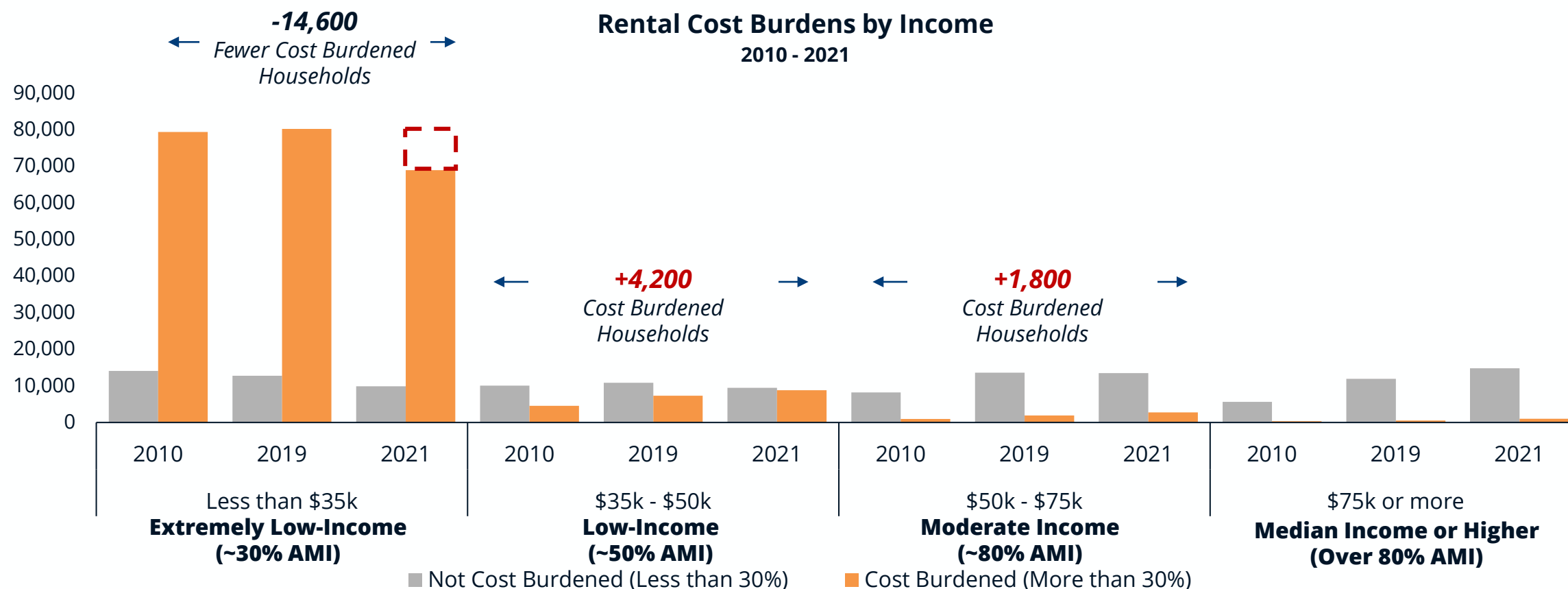
Rental Unit Distribution by Rent and Bedroom Count  
2016 - 2021



Sources: ACS 1-Year Estimates 2016 - 2021; HR&A Advisors

## RENTAL COST BURDENS

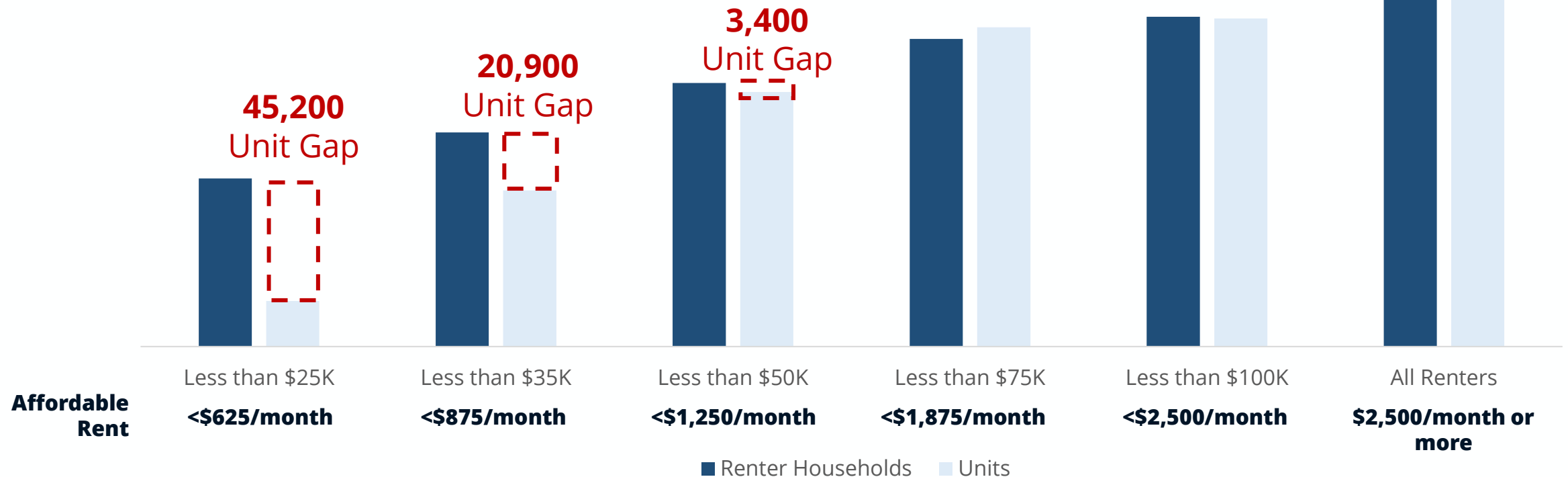
The number of low- and moderate-income cost burdened renter households has nearly doubled since 2010 while the number of extremely low-income renter households' has declined.



## RENTAL GAP

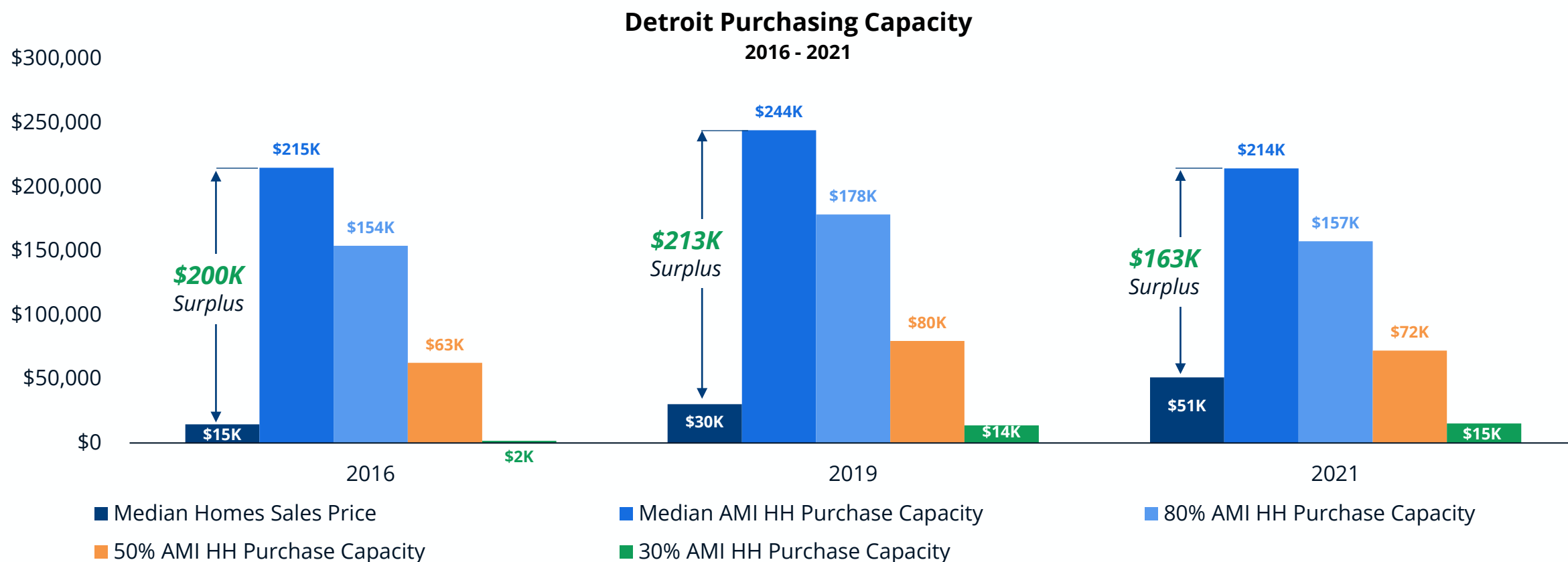
Detroit renters earning less than \$35,000 face a substantial rental supply gap.

### Cumulative Affordable Rental Supply Gap 2021



## PURCHASING CAPACITY

While homeownership has remained attainable for most Detroiters due to lower home values, the purchasing capacity for prospective homeowners has declined since 2019, potentially due to rising interest rates.



Sources: ACS 1-Year Estimates 2016 - 2021; Freddie Mac, State of Michigan, Zillow, HR&A Advisors

An aerial photograph of the Detroit city skyline at dusk. The image shows a dense urban landscape with various buildings, including a large stadium in the center-left and a prominent church with a tall steeple in the lower right. The city lights are visible against the darkening sky.

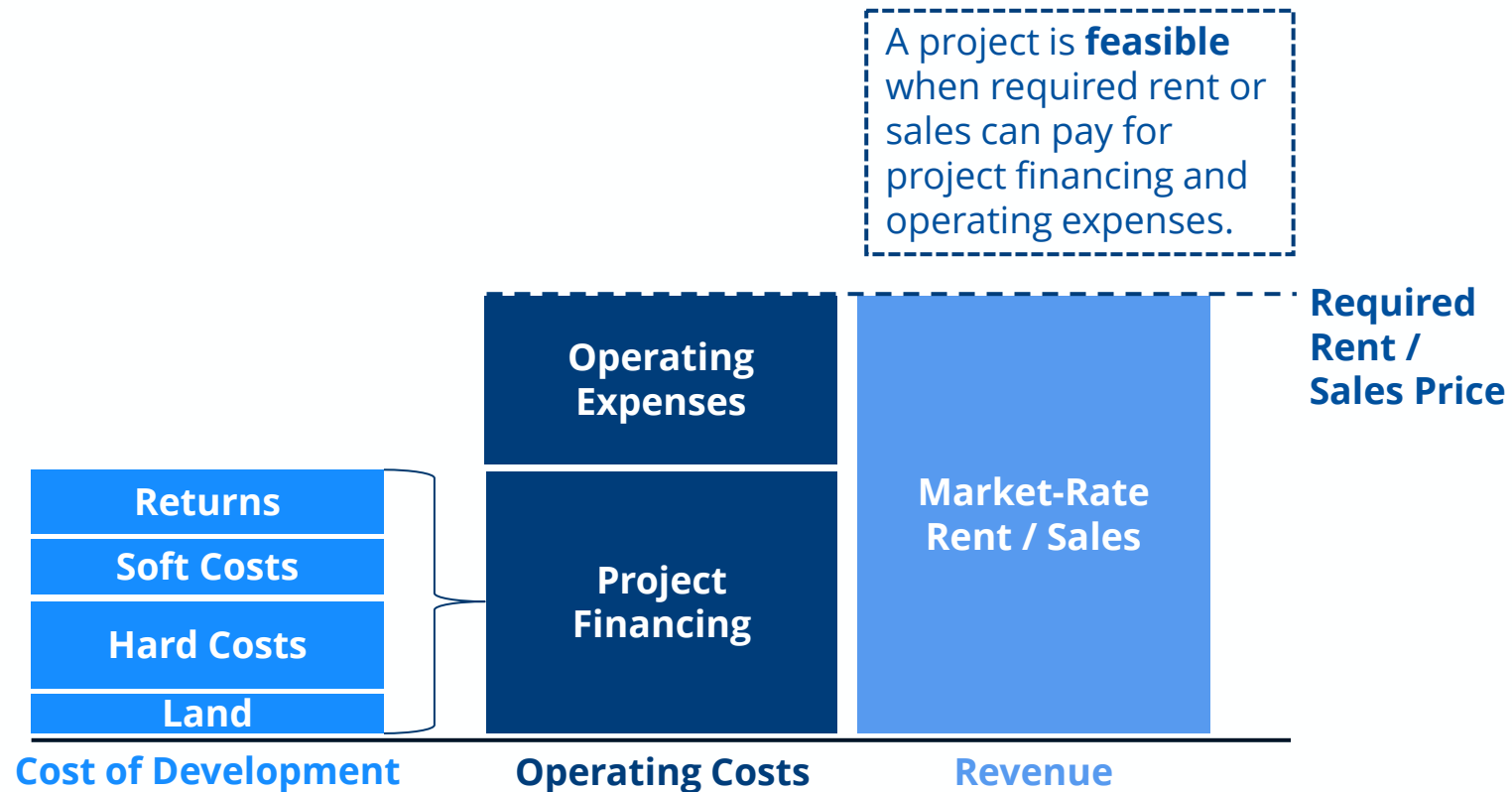
| 05

# Feasibility Analysis








## Financial Feasibility Analysis

A financial feasibility model identifies potential financing gaps that may challenge housing development and evaluates incentives that could be used to bridge these gaps for property owners and developers.



## Development Typologies

HR&A tested five development typologies which are prevalent in Detroit's development pipeline as part of the financial feasibility analysis.

Rental			For-Sale	
Mid-rise Multifamily	Low-rise Multifamily	Mid-Rise Multifamily	Single-Family Attached	Single-Family Detached
 <p>The Residences at Edmund Place</p>	 <p>Elaine Lofts</p>	 <p>The Gabriel Houze</p>	 <p>216 Alfred Street</p>	 <p>15246 Seymour Street</p>
New Construction	Vacant Rehab	Vacant Rehab	New Construction	Vacant Rehab

## Development Typologies

HR&A sourced development assumptions for each development typology from various third-party sources to inform our analysis.

	Mid-rise Multifamily New Construction		Low-rise Multifamily Vacant Rehab		Mid-rise Multifamily Vacant Rehab		Single-Family Attached New Construction *		Single-Family Detached Vacant Rehab	
<b>Units</b>	40 units		25 units		50 units		2 units		1 unit	
<b>Lot Size (acres)</b>	1.5 acres		0.6 acres		1.75 acres		0.4 acres		0.2 acres	
<b>Average Unit Size per Net SF</b>	900 SF		700 SF		1,000 SF		1,600 SF		1,700 SF	
<b>Unit Mix</b>	Studio: 13% 1 BD: 22%	2 BD: 60% 3 BD: 5%	Studio: 10% 1 BD: 50%	2 BD: 40% 3 BD: 0%	Studio: 5% 1 BD: 20%	2 BD: 50% 3 BD: 25%	1 BD: 0% 2 BD: 0%	3 BD: 50% 4 BD: 50%	1 BD: 0% 2 BD: 5%	3 BD: 70% 4 BD: 25%
<b>Total Construction Costs</b>	\$340/ Gross SF	\$420,000/ unit	\$250/ Gross SF	\$250,000/ unit	\$250/ Gross SF	\$360,000/ unit	\$140/ Gross SF	\$220,000/ unit	\$130/ Gross SF	\$220,000/ unit
<b>Acquisition Costs</b>	\$10/ Land SF	---	\$10/ Land SF	\$30/ Building SF	\$10/ Land SF	\$30/ Building SF	\$1/ Land SF	---	\$1/ Land SF	\$2/ Building SF
<b>Parking Type</b>	Surface		Surface		Surface		Surface		Surface	
<b>Parking Ratio</b>	1.25x		1.25x		1.25x		1.5x		1.5x	
<b>Rent per SF</b>	\$2.25/SF		\$1.80/SF		\$1.85/SF		---		---	
<b>Sales Price per SF</b>	---		---		---		\$300/SF		\$200/SF	
<b>Cap Rate</b>	5.5%		6.5%		6.5%		---		---	
<b>Benchmark Equity Multiple</b>	---		---		---		1.7x		1.7x	

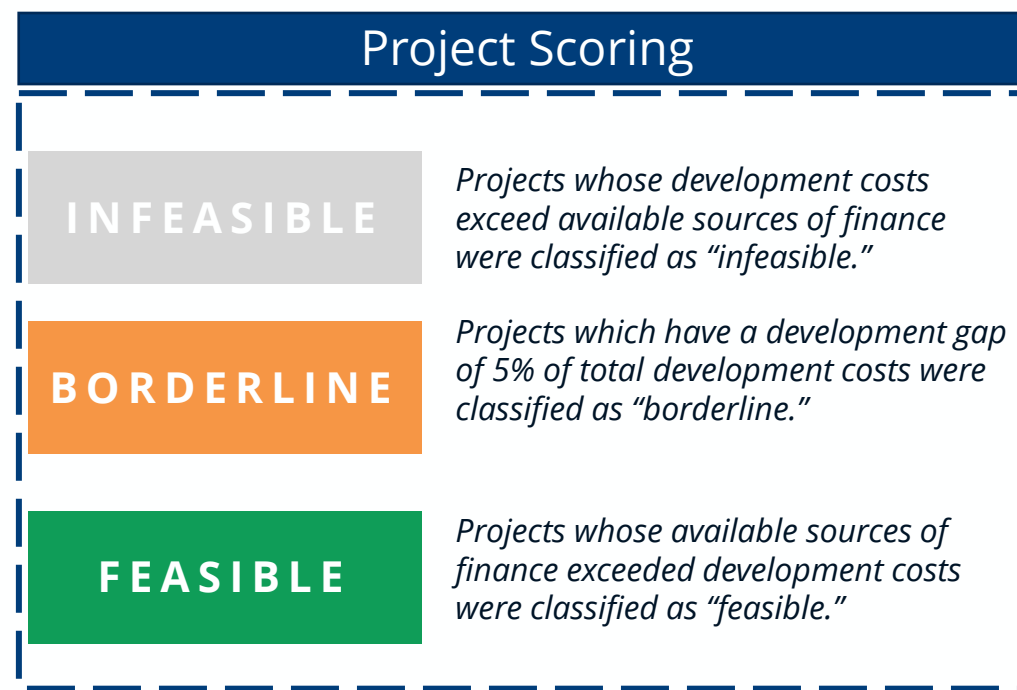
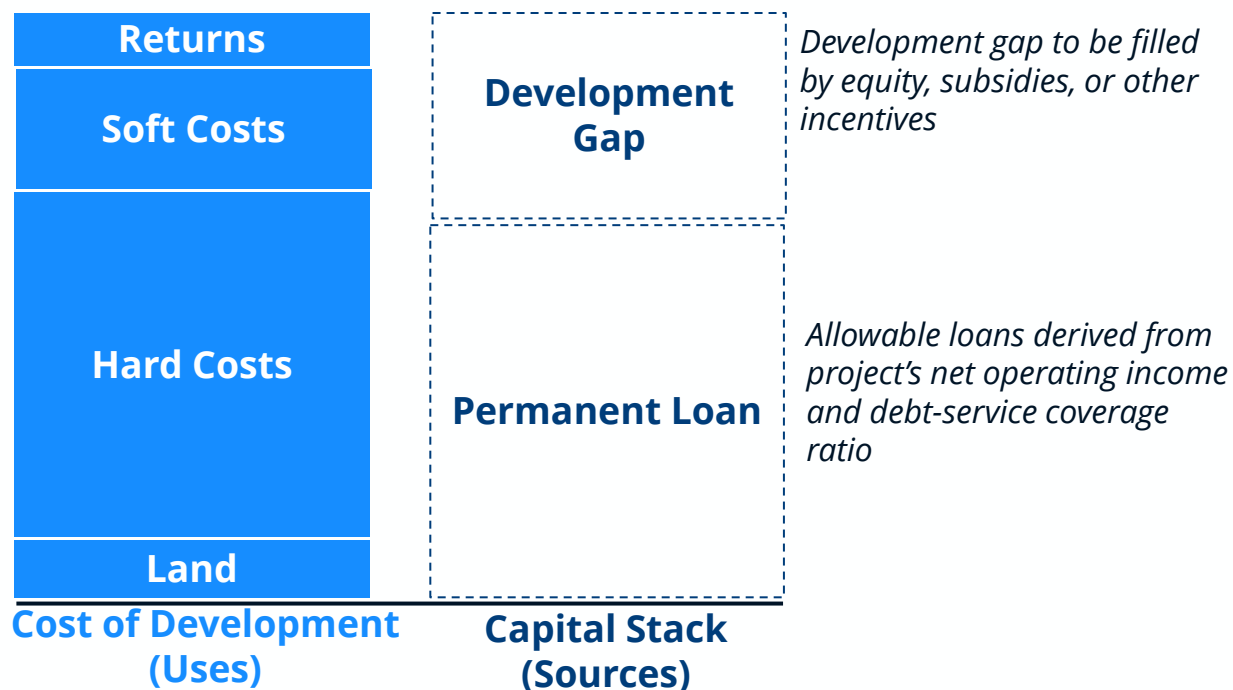
Sources: CBRE, CoStar, Developer Interviews, HRD, Michigan Department of Treasury, Redfin, Walker Parking Consultants, Zillow

\*NOTE: Due to lack of local single-family attached new construction data, national construction cost estimates were used and assume a development-ready site.

## Evaluation Criteria – Rental Housing

Our financial feasibility analysis evaluates the financial gap (or surplus) of each rental development typology and affordability scenario.

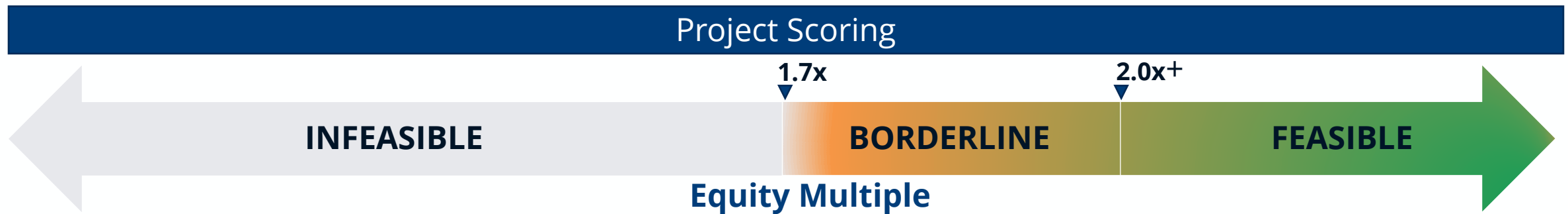
We modeled the development gap (difference between total development costs and the capital stack available to finance projects) in order to determine a project's feasibility.



## Evaluation Criteria – For-Sale Housing

To evaluate for-sale housing typologies, HR&A evaluated a project's achievable equity multiple.

**Equity multiple** is a measure of how much a developer could make, when they sell single-family detached or attached homes, compared to their cost to build or rehabilitate the homes (developers in Detroit are typically looking for 2.0x equity multiple on for-sale).

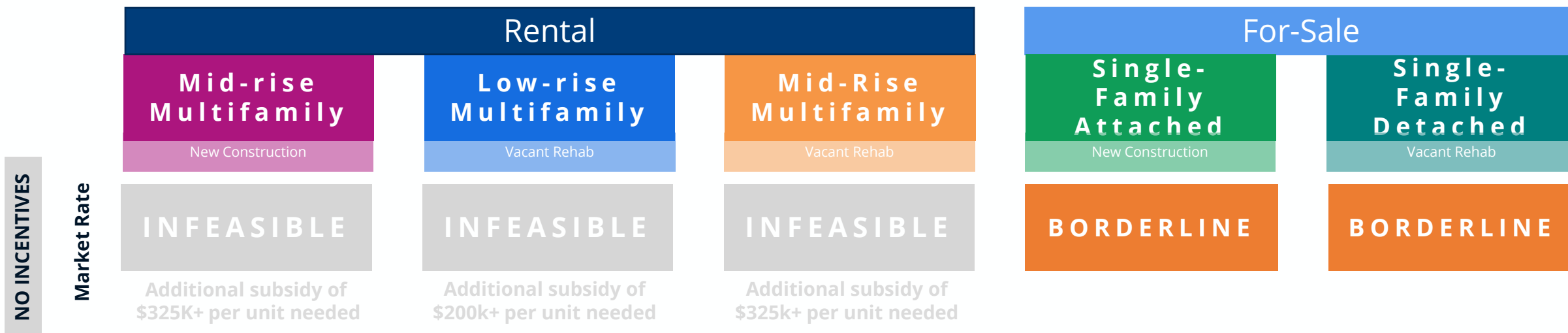


[1] Benchmark equity multiples derived from developer interviews and previous HR&A experience.



## Baseline Scenario

We analyzed project feasibility across each building type, **without any subsidy or incentives**, based on the required yield on cost and equity multiple that typical for-profit developers need to build.



All rental housing development typologies in Detroit require substantial incentives or subsidies. This can be attributed to market rents which have not kept pace with rising development costs and interest rates.

While for-sale single-family typologies could be feasible in Detroit, lower-income Detroiters may not be able to access or maintain housing. For prospective homebuyers and smaller-scale infill developers, rising interest rates may limit their ability to secure financing for housing development and acquisition while for fixed-income homeowners, property tax burdens can exacerbate housing cost burdens.

## Subsidies and Incentives

HR&A analyzed the impacts of various property tax abatement and subsidy programs in their ability to bridge housing financing gaps.

	Incentives and Programs	Authority	Program Description	Incentive Terms and Requirements
Multifamily	<b>Low Income Housing Tax Credit (LIHTC)</b>	<b>IRS, MSHDA</b>	Federal program which awards 10-year tax credits (4% or 9%) to housing developers for affordable housing	Usually allocated for 40% units at 60% AMI with income averaging. The City often awards projects with 100% of units affordable at 60% AMI or lower.
	<b>Brownfields Housing TIF<sup>[1]</sup></b>	<b>MSHDA, DBRA</b>	Modification of the state's brownfield development program, expanding it to support housing developments.	Draft local guidance indicates set aside requirement of 20% of homes for 80% AMI households or lower for rental projects. For-sale eligibility for households earning no more than 120% AMI
	<b>Residential Housing Facilities Act</b>	<b>MSHDA</b>	Tax incentive to owners of rental housing property of more than four units to enable renovation and expansion of aging facilities and assist in the building of new facilities.	Eligible for homes priced for households earning 120% AMI or less. Provides 50% exemption from ad valorem real property tax for up to 12 years
	<b>Payments in Lieu of Taxes (PILOTS) <sup>[2]</sup></b>	<b>City of Detroit</b>	The City may allow affordable housing developments to contribute a payment directly proportional to revenue generated in lieu of real estate taxes.	PILOTS allocated on a case-by-case basis. Typical allotments involve a 5% PILOT of revenue generated, less project paid utilities.
	<b>Land Value Tax<sup>[1]</sup></b>	<b>City of Detroit</b>	Detroit's proposed Land Value Tax Plan would reduce certain tax rates for homes and property structures and increase tax rates on land.	Proposed for primary residential properties. Tax proposal reduces City of Detroit Operating tax by 14 mills on buildings and increases millage on land by 104 mills.
Single Family	<b>Neighborhood Enterprise Zone – Homestead Exemption</b>	<b>MSHDA, City of Detroit</b>	Primary residences in NEZ districts are eligible for NEZ Homestead Exemption, which provides property tax reduction	All principal residences are eligible; must commit to minimum of \$500 in repairs/improvements to home over 2-year period. Reduces City of Detroit Operating tax and Wayne County Operating Tax millages by 50% on buildings

[1] Indicates proposed program; analysis does not reflect any changes to proposals or implementation guidelines completed after the date of this report.

[2] The analysis of the Payment in Lieu of Taxes (PILOT) was based on terms and eligibility criteria of the PILOT program that was in place as of the date of this report and does not reflect subsequent changes to the PILOT ordinance.

## Subsidies and Incentives

HR&A analyzed the impacts of various property tax abatement and subsidy programs in their ability to bridge housing financing gaps for each typology.

Eligible Incentives and Programs	Mid-rise Multifamily New Construction	Low-rise Multifamily Vacant Rehab	Mid-rise Multifamily Vacant Rehab	Single-Family Attached New Construction	Single-Family Detached Vacant Rehab
Low Income Housing Tax Credit (LIHTC)	●	●	●		
Brownfields Housing TIF	●	●	●		
Residential Housing Facilities Act	●	●	●		
Payments in Lieu of Taxes (PILOTs)	●	●	●		
Land Value Tax	●	●	●	●	●
Neighborhood Enterprise Zone – Homestead Exemption				●	●

## Affordability Scenarios

HR&A also incorporated affordability scenarios for the evaluation of incentives.

	Rental			For-Sale	
	Mid-rise Multifamily	Low-rise Multifamily	Mid-Rise Multifamily	Single-Family Attached	Single-Family Detached
	New Construction	Vacant Rehab	Vacant Rehab	New Construction	Vacant Rehab
Scenario 1: Moderate	100% Units at 80% AMI	100% Units at 80% AMI	100% Units at 80% AMI	100% Units at 80% AMI	100% Units at 80% AMI
Scenario 2: High	100% Units at 60% AMI	100% Units at 60% AMI	100% Units at 60% AMI	100% Units at 60% AMI	100% Units at 60% AMI
Scenario 3: Maximum	50% Units at 30% AMI 50% Units at 80% AMI	50% Units at 30% AMI 50% Units at 80% AMI	50% Units at 30% AMI 50% Units at 80% AMI	100% Units at 30% AMI	100% Units at 30% AMI

## Gap Financing Analysis – LIHTC (9% Credit)

Developers can leverage substantial equity from LIHTC as part of a project’s capital stack, but still require additional subsidies and incentives in order to ensure housing developments feasible.

		Rental			For-Sale	
NO INCENTIVES	Market Rate	<b>Mid-rise Multifamily</b> New Construction <b>INFEASIBLE</b> Additional subsidy of \$325k+ per unit needed	<b>Low-rise Multifamily</b> Vacant Rehab <b>INFEASIBLE</b> Additional subsidy of \$200k+ per unit needed	<b>Mid-Rise Multifamily</b> Vacant Rehab <b>INFEASIBLE</b> Additional subsidy of \$325k+ per unit needed	<b>Single-Family Attached</b> New Construction <b>BORDERLINE</b>	<b>Single-Family Detached</b> Vacant Rehab <b>BORDERLINE</b>
WITH INCENTIVES	MODERATE	<b>NOT APPLICABLE</b> (LIHTC Awards typically allocated for projects supporting at or below 60% AMI households)				
	HIGH	<b>INFEASIBLE</b> Additional subsidy of \$75k+ per unit needed	<b>INFEASIBLE</b> Additional subsidy of \$25k+ per unit needed	<b>INFEASIBLE</b> Additional subsidy of \$125k+ per unit needed	<b>NOT APPLICABLE</b> (Assuming LIHTC only available for multifamily rental)	
	MAXIMUM	<b>INFEASIBLE</b> Additional subsidy of \$100k+ per unit needed	<b>INFEASIBLE</b> Additional subsidy of \$50k+ per unit needed	<b>INFEASIBLE</b> Additional subsidy of \$150k+ per unit needed		

[1] See Appendix for LIHTC assumptions



## Gap Financing Analysis – LIHTC (4% Credit)

Developers can also leverage financing from non-competitive 4% LIHTC awards. However, development projects would still require additional gap financing sources.

		Rental			For-Sale	
INCENTIVES	NO INCENTIVES	<b>Mid-rise Multifamily</b> New Construction <b>INFEASIBLE</b> Additional subsidy of \$325k+ per unit needed	<b>Low-rise Multifamily</b> Vacant Rehab <b>INFEASIBLE</b> Additional subsidy of \$200k+ per unit needed	<b>Mid-Rise Multifamily</b> Vacant Rehab <b>INFEASIBLE</b> Additional subsidy of \$325k+ per unit needed	<b>Single-Family Attached</b> New Construction <b>BORDERLINE</b>	<b>Single-Family Detached</b> Vacant Rehab <b>BORDERLINE</b>
	MODERATE	<b>NOT APPLICABLE</b> (LIHTC Awards typically allocated for projects supporting at or below 60% AMI households)				
	HIGH	<b>INFEASIBLE</b> Additional subsidy of \$225k+ per unit needed	<b>INFEASIBLE</b> Additional subsidy of \$150k+ per unit needed	<b>INFEASIBLE</b> Additional subsidy of \$225k+ per unit needed	<b>NOT APPLICABLE</b> (Assuming LIHTC only available for multifamily rental)	
	MAXIMUM	<b>INFEASIBLE</b> Additional subsidy of \$250k+ per unit needed	<b>INFEASIBLE</b> Additional subsidy of \$175k+ per unit needed	<b>INFEASIBLE</b> Additional subsidy of \$250k+ per unit needed		

[1] See Appendix for LIHTC assumptions

## Gap Financing Analysis – Brownfield Housing TIF

Developers can leverage incremental revenues generated from projects to offset capital costs, but would require additional subsidies and incentives to make affordable housing developments feasible.

		Rental			For-Sale	
Market Rate	NO INCENTIVES	Mid-rise Multifamily New Construction	Low-rise Multifamily Vacant Rehab	Mid-Rise Multifamily Vacant Rehab	Single-Family Attached New Construction	Single-Family Detached Vacant Rehab
		INFEASIBLE Additional subsidy of \$325k+ per unit needed	INFEASIBLE Additional subsidy of \$200k+ per unit needed	INFEASIBLE Additional subsidy of \$325k+ per unit needed	BORDERLINE	BORDERLINE
WITH INCENTIVES	MODERATE	NOT APPLICABLE (City to award TIF to projects supporting at or below 60% AMI households)				
	HIGH	INFEASIBLE Additional subsidy of \$275k+ per unit needed	INFEASIBLE Additional subsidy of \$150k+ per unit needed	INFEASIBLE Additional subsidy of \$250k+ per unit needed	NOT APPLICABLE (Assuming Housing TIF only available for large-site single-family developments)	
	MAXIMUM	INFEASIBLE Additional subsidy of \$300k+ per unit needed	INFEASIBLE Additional subsidy of \$175k+ per unit needed	INFEASIBLE Additional subsidy of \$275k+ per unit needed		

## Gap Financing Analysis – Residential Housing Facilities Act

Assuming a 50% abatement on residential property taxes, rental development projects could experience modest tax burden reductions, but would still require additional incentives to be viable.

		Rental			For-Sale	
		Mid-rise Multifamily New Construction	Low-rise Multifamily Vacant Rehab	Mid-Rise Multifamily Vacant Rehab	Single-Family Attached New Construction	Single-Family Detached Vacant Rehab
NO INCENTIVES	Market Rate	INFEASIBLE Additional subsidy of \$325k+ per unit needed	INFEASIBLE Additional subsidy of \$200k+ per unit needed	INFEASIBLE Additional subsidy of \$325k+ per unit needed	BORDERLINE	BORDERLINE
WITH INCENTIVES	MODERATE	INFEASIBLE Additional subsidy of \$300k+ per unit needed	INFEASIBLE Additional subsidy of \$175k+ per unit needed	INFEASIBLE Additional subsidy of \$300k+ per unit needed	NOT APPLICABLE (Assuming Residential Housing Facilities Act only applicable for multifamily rental)	
	HIGH	INFEASIBLE Additional subsidy of \$325k+ per unit needed	INFEASIBLE Additional subsidy of \$200k+ per unit needed	INFEASIBLE Additional subsidy of \$325k+ per unit needed		
	MAXIMUM	INFEASIBLE Additional subsidy of \$350k+ per unit needed	INFEASIBLE Additional subsidy of \$225k+ per unit needed	INFEASIBLE Additional subsidy of \$350k+ per unit needed		

## Gap Financing Analysis – PILOTs

Reducing the tax burden of multifamily properties through PILOTs can reduce the financial gap by about \$25,000 per unit across all typologies, compared to the Residential Housing Facilities Act.

		Rental			For-Sale	
		Mid-rise Multifamily	Low-rise Multifamily	Mid-Rise Multifamily	Single-Family Attached	Single-Family Detached
		New Construction	Vacant Rehab	Vacant Rehab	New Construction	Vacant Rehab
NO INCENTIVES	Market Rate	INFEASIBLE	INFEASIBLE	INFEASIBLE	BORDERLINE	BORDERLINE
		Additional subsidy of \$325k+ per unit needed	Additional subsidy of \$200k+ per unit needed	Additional subsidy of \$325k+ per unit needed		
WITH INCENTIVES	MODERATE	INFEASIBLE Additional subsidy of \$275k+ per unit needed	INFEASIBLE Additional subsidy of \$150k+ per unit needed	INFEASIBLE Additional subsidy of \$275k+ per unit needed	NOT APPLICABLE (Assuming PILOTs only available for multifamily rental)	
	HIGH	INFEASIBLE Additional subsidy of \$300k+ per unit needed	INFEASIBLE Additional subsidy of \$175k+ per unit needed	INFEASIBLE Additional subsidy of \$300k+ per unit needed		
	MAXIMUM	INFEASIBLE Additional subsidy of \$325k+ per unit needed	INFEASIBLE Additional subsidy of \$200k+ per unit needed	INFEASIBLE Additional subsidy of \$325k+ per unit needed		

## Gap Financing Analysis – Land Value Tax

The land value tax as proposed would moderately increase development feasibility for all for-sale typologies. However, developments seeking to provide housing for lower-income households would need additional subsidies.

		Rental			For-Sale	
		Mid-rise Multifamily	Low-rise Multifamily	Mid-Rise Multifamily	Single-Family Attached	Single-Family Detached
		New Construction	Vacant Rehab	Vacant Rehab	New Construction	Vacant Rehab
NO INCENTIVES	Market Rate	INFEASIBLE	INFEASIBLE	INFEASIBLE	BORDERLINE	BORDERLINE
		Additional subsidy of \$325k+ per unit needed	Additional subsidy of \$200k+ per unit needed	Additional subsidy of \$325k+ per unit needed		
WITH INCENTIVES	MODERATE	INFEASIBLE Additional subsidy of \$325k+ per unit needed	INFEASIBLE Additional subsidy of \$225k+ per unit needed	INFEASIBLE Additional subsidy of \$325k+ per unit needed	INFEASIBLE Additional subsidy of \$250k+ per unit needed	INFEASIBLE Additional subsidy of \$25k+ per unit needed
	HIGH	INFEASIBLE Additional subsidy of \$325k+ per unit needed	INFEASIBLE Additional subsidy of \$250k+ per unit needed	INFEASIBLE Additional subsidy of \$325k+ per unit needed	INFEASIBLE Additional subsidy of \$300k+ per unit needed	INFEASIBLE Additional subsidy of \$50k+ per unit needed
	MAXIMUM	INFEASIBLE Additional subsidy of \$350k+ per unit needed	INFEASIBLE Additional subsidy of \$250k+ per unit needed	INFEASIBLE Additional subsidy of \$350k+ per unit needed	INFEASIBLE Additional subsidy of \$350k+ per unit needed	INFEASIBLE Additional subsidy of \$150k+ per unit needed

## Gap Financing Analysis – NEZ Homestead Exemption

NEZ Homestead exemptions result in a property tax bill savings which is marginally higher than the proposed land value tax; however, this exemption is restricted to certain geographies within Detroit.

		Rental			For-Sale	
NO INCENTIVES	Market Rate	Mid-rise Multifamily New Construction	Low-rise Multifamily Vacant Rehab	Mid-Rise Multifamily Vacant Rehab	Single-Family Attached New Construction	Single-Family Detached Vacant Rehab
		INFEASIBLE Additional subsidy of \$325k+ per unit needed	INFEASIBLE Additional subsidy of \$200k+ per unit needed	INFEASIBLE Additional subsidy of \$325k+ per unit needed	BORDERLINE	BORDERLINE
WITH INCENTIVES	MODERATE	NOT APPLICABLE (NEZ only available to owner-occupied primary residences)				INFEASIBLE Additional subsidy of \$225k+ per unit needed
	HIGH					INFEASIBLE Additional subsidy of \$300k+ per unit needed
	MAXIMUM					INFEASIBLE Additional subsidy of \$100k+ per unit needed



## Feasibility Challenges

While developers can leverage numerous state and federal subsidies and incentives for housing development projects, rising construction costs, increasing interest rates, and high property taxes will continue to challenge housing development.



**Property taxes** in Detroit are among the highest in the state, with a current millage of 69 mils for residential homestead properties. Though homeownership is within reach for household earning at or above the region's AMI, many lower-income households may be unable to maintain homeownership as property taxes in Detroit continue to rise.



**Construction costs** have increased by over 40% in the past four years. As the COVID-19 pandemic began, the greatest feasibility challenges for construction came from increases in material costs. While construction materials costs have decreased in recent months, labor costs have continued to rise, especially for subcontractors. Detroit's constrained labor market for skilled subcontractors has further exacerbated labor costs for development projects.



**Interest rates** have continued to rise over the past year and a half. Not only has this challenged developers in obtaining financing for affordable housing projects, but it has also limited prospective homebuyers from accessing homeownership opportunities in Detroit.

## Feasibility Takeaways

Existing local funding sources and programs should be leveraged to support state and federal incentives in offsetting rising construction costs, interest rates, and property taxes.



**Property taxes:** While the State's **Residential Housing Facilities Act** can provide much needed tax relief for larger-scale rental properties, local tax abatement initiatives such as **PILOTs** and the proposed **Land Value Tax** may be more impactful in rendering projects financially feasible.



**Construction costs:** Developers in previous years have utilized large-scale grant funding, such as ARPA, to provide gap financing to offset construction costs, though funds through this source have almost been expended. Additionally, State and Federal programs such as the Brownfields TIF and LIHTC have been valuable funding sources to support construction, remediation, and other entitlement costs.



In addition to existing gap financing tools offered by the City such as the **Detroit Housing for the Future Fund** and **0% Home Repair Program**, streamlining permitting and entitlements processes could also decrease holding costs burdens, which could be especially impactful for smaller-scale affordable housing developers and homeowners looking to rehabilitate vacant and underutilized housing stock.

**Interest rates:** City programs such as the **downpayment assistance program** can offset the cost burdens borne from interest rates for homebuyers. Additionally, the City should continue to partner with CDFIs such as LISC to **provide low-interest financing to affordable housing developers.**

An aerial photograph of the Detroit, Michigan city skyline at dusk. The image shows a dense urban landscape with numerous buildings, including several prominent skyscrapers in the distance. The word "Appendix" is overlaid in a large, white, sans-serif font in the center of the image. The sky is a deep blue, and the city lights are beginning to glow.

# Appendix

## AMI Assumptions

The table below captures the 2023 AMI income limits for the Detroit-Warren-Livonia HUD metro region.

Percentage of Area Median Income (AMI)	Household Size					
	One	Two	Three	Four	Five	Six
<b>30% AMI</b>	\$20,200	\$23,000	\$25,900	\$28,800	\$31,100	\$33,400
<b>50% AMI</b>	\$33,600	\$38,400	\$43,200	\$48,000	\$51,800	\$55,700
<b>60% AMI</b>	\$40,300	\$46,000	\$51,800	\$57,500	\$62,200	\$66,800
<b>80% AMI</b>	\$53,800	\$61,400	\$69,100	\$76,700	\$83,000	\$89,100
<b>100% AMI</b>	\$67,200	\$76,700	\$86,400	\$95,900	\$103,700	\$111,400

Sources: HUD



## LIHTC Assumptions

The table below describes LIHTC modeling assumptions for the financial feasibility analysis.

	Rental			For-Sale	
	Mid-rise Multifamily	Low-rise Multifamily	Mid-Rise Multifamily	Single-Family Attached	Single-Family Detached
	New Construction	Vacant Rehab	Vacant Rehab	New Construction	Vacant Rehab
<b>Credit Amount</b>	4% and 9%	4% and 9%	4% and 9%	<b>Not Applicable</b>	
<b>Percent Eligible Costs</b>	75%	75%	75%		
<b>Basis Boost</b>	130%	130%	130%		
<b>Equity Price</b>	\$0.90	\$0.90	\$0.90		
<b>Max 9% LIHTC Award</b>	\$1,200,000 per year	\$1,200,000 per year	\$1,200,000 per year		

Sources: HR&A Advisors, HRD, HUD, Novogradac