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Development Trends and Developers in Midtown Detroit

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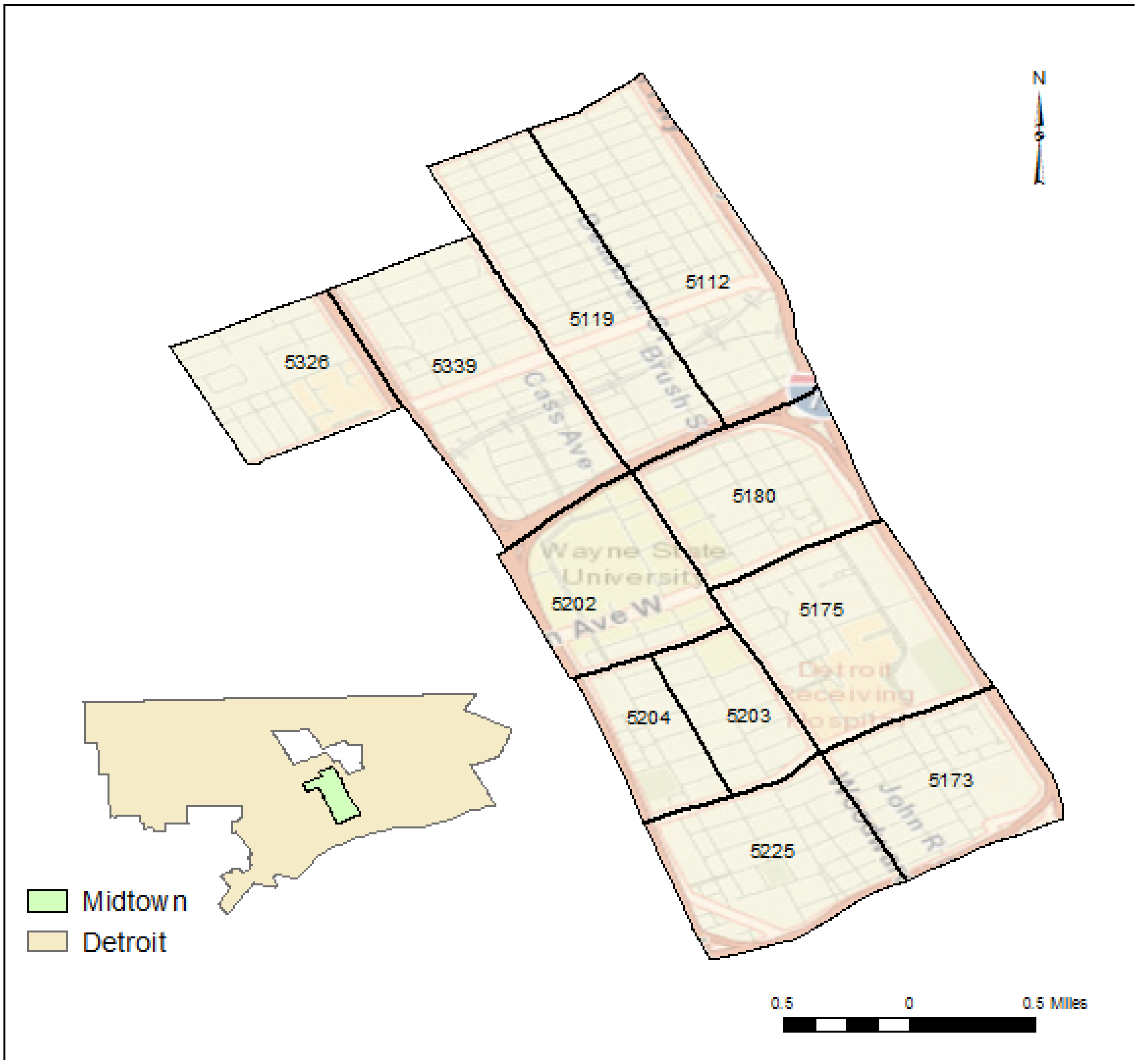
Introduction

Despite the economic stresses that the City of Detroit has experienced during the last decade, anecdotal evidence points to pockets of urban residential development in the city. According to some reports (see, e.g., *Crain's Detroit Business*, 2012), Midtown Detroit (Figure 1)[1] has shown some signs of resilience, in particular, and is considered to be one of the strongest areas in the city. This resilience is at least partially attributed to a strategy of real-estate-led economic development. In this strategy, policy makers hope to launch and sustain a virtuous cycle during which development attracts new residents who in turn demand additional development.

To successfully execute this strategy, however, the market needs to be attractive to developers. In particular, to attract the kinds of residents that Midtown wishes to attract—young, college-educated professionals (Live Midtown Inc., n.d.)—the area needs to attract developers who can foresee a profit in providing appropriate housing. This factor is important because small profit margins on development are likely to encourage the production of housing options that are attractive to low-income households only (Sternlieb, 1969; Sternlieb & Burchell, 1973), rather than result in a variety of housing options that provide choices to potential residents.

Figure 1. Midtown Detroit, its census tracts, and its location within Detroit

[1] The geographical definition of Midtown has evolved. As recently as the middle of the last decade, there were distinctions between the University Cultural Center (UCC) area in the southern portion, the New Center (NC) in the north-central portion, and the North End at the northern edges. However, discussions of Midtown now commonly include the former UCC and NC and, occasionally, the North End. This report defines Midtown to include the former UCC and NC and the North End.



Not surprisingly, developers have a history of responding to changing market conditions. Although the literature on this issue is not extensive, there is evidence that landlords responded to market conditions in the 1970s by better screening tenants and otherwise adapting their buildings (Fishman, 2004). Some developers focused on opportunities in gentrifying neighborhoods, particularly in cities that boomed during the 1990s, but most large developers moved to the more profitable suburbs (Belsky & Drew, 2007). Because of the rapidly changing suburban and exurban landscape, this latter group of developers attracted the most attention, in particular their ability to find market niches

(Daniels, 1999, 55) such as upscale homes for suburban households (Dowall, 1984; Quigley & Rosenthal, 2005).

There is less literature on the fate of small developers in depressed urban environments. In particular, the existing literature offers few insights into what the urban for-profit development industry might look like in Detroit and its first-ring suburbs, especially after the recent financial crisis. Little is known about whether the developers we observe participating in the nascent Midtown recovery are mostly “rehabbers,” developers who build from scratch, “master planners” who look for entire blocks to redevelop, or small entrepreneurs who are otherwise fully employed but opportunistically look for deals. Furthermore, little is known about how the recent financial crisis affects these developers.

These issues are important as Midtown seeks to find ways to cement a real-estate-driven strategy of economic development. Attempts to revitalize Midtown have been in place for well over a decade now, but there is a lack of systematic analyses of these efforts. This report sheds light on some elements of recent outcomes and in so doing addresses the following issues:

1. How much development has there been in Midtown between 2006 and 2011, and where is it located in Midtown? This report begins its analysis in 2006 because it was in that year that the real estate market began to decline and it will be helpful to see how Midtown has held up since then, particularly in comparing trends in Midtown with the wider city.
2. What are some of the challenges that developers face in developing in Midtown?

Midtown represents a good case study for an additional reason. It is in the midst of implementing strategies to attract young, college-educated professionals. Incentives currently offered by the area's three anchor institutions, Wayne State University, the Henry Ford Health System, and the Detroit Medical Center, to persuade their employees to move to or stay in the area are part of this strategy. It will be revealing to see whether there is a link between the location choices made by residents who take advantage of these incentives and the location of recent development activity.

This report proceeds as follows: First, it will present some important caveats that should be kept in mind. Second, it will review development activity and its location in Midtown between 2006 and 2011. Such activity will be measured by the number of building permits issued and the estimated construction costs associated with these permits. Third, based on interviews conducted by the author and Dr. Avis Vidal of the Department of Urban Studies and Planning at Wayne State University, the report will briefly discuss developers operating in Midtown. Fourth, using data from the incentive program mentioned earlier, the report will examine where recipients of incentives are moving to in Midtown and attempt to link the location choices to the location of development activity. Finally, the report will present conclusions.

Limitations of this Study

The results of this study should be considered preliminary for the following reasons:

1. This report was completed in a short period of time; therefore, an in-depth study of caveats that might challenge some of the conclusions was not possible.
2. Related to the point above, data obtained from the City of Detroit, while very useful, can be obscure. It was difficult to interpret the building permit data to ascertain the number of "units" in apartment buildings or condos built across the city and in Midtown. As the report will elaborate later, this may distort data in

construction activity when comparing Midtown to the city as a whole. Because of the way the data are recorded, it is also possible that building permits were double-counted.[2]

3. Additionally, building permit data were coded differently between 2006 and 2009 and between 2010 and 2011. Therefore, the data are not directly comparable. However, errors in interpreting the data are likely to be the same in all of Detroit as in Midtown; therefore, trend line comparisons between all of Detroit and Midtown are likely to be valid.
4. Ideally, the report should perform a more in-depth analysis of the economic effects of developers by examining the number of jobs produced, wages earned, and the duration of employment. While Dr. Vidal and the author spoke to a number of developers about their development activities, it is difficult to obtain these data because developers may be reluctant to share confidential business information. Nonetheless, as will be discussed later, there is enough information to make generalized conclusions about developers who operate in Midtown.

The report will elaborate on these and related caveats at pertinent points throughout the report.

Development Activity in Midtown

Anecdotal information suggests that Midtown has been home to more development activity than the rest of the city (see, e.g., *Crain's Detroit Business*, 2012 and other reports in

[2] Specifically, some building permits may have been renewals of previously granted permits, but time constraints do not permit a closer examination of this possibility.

that publication). However, there are no studies of where and how much activity has taken place.

There are several approaches to measuring development activity in Midtown and comparing it to the wider city. Because Midtown is home to large institutions—including a university—that employ and attract thousands of people who are likely to be younger and more commonly unmarried than the general population, the area is likely to attract a greater proportion of apartment buildings when compared to the rest of the city. For this reason, counting the number of apartment and condo units built over a fixed period of time would demonstrate how Midtown is doing in comparison to the rest of the city. Unfortunately, it is difficult to ascertain the number of units in apartment or condominium buildings from the building permit data maintained by the city.

For this reason, this report relies on two other measures of development activity between 2006 and 2011: the number of "raw" building permits[3] and the estimated value of construction activity associated with these permits. Both sets of data come from building permit records maintained by the city.

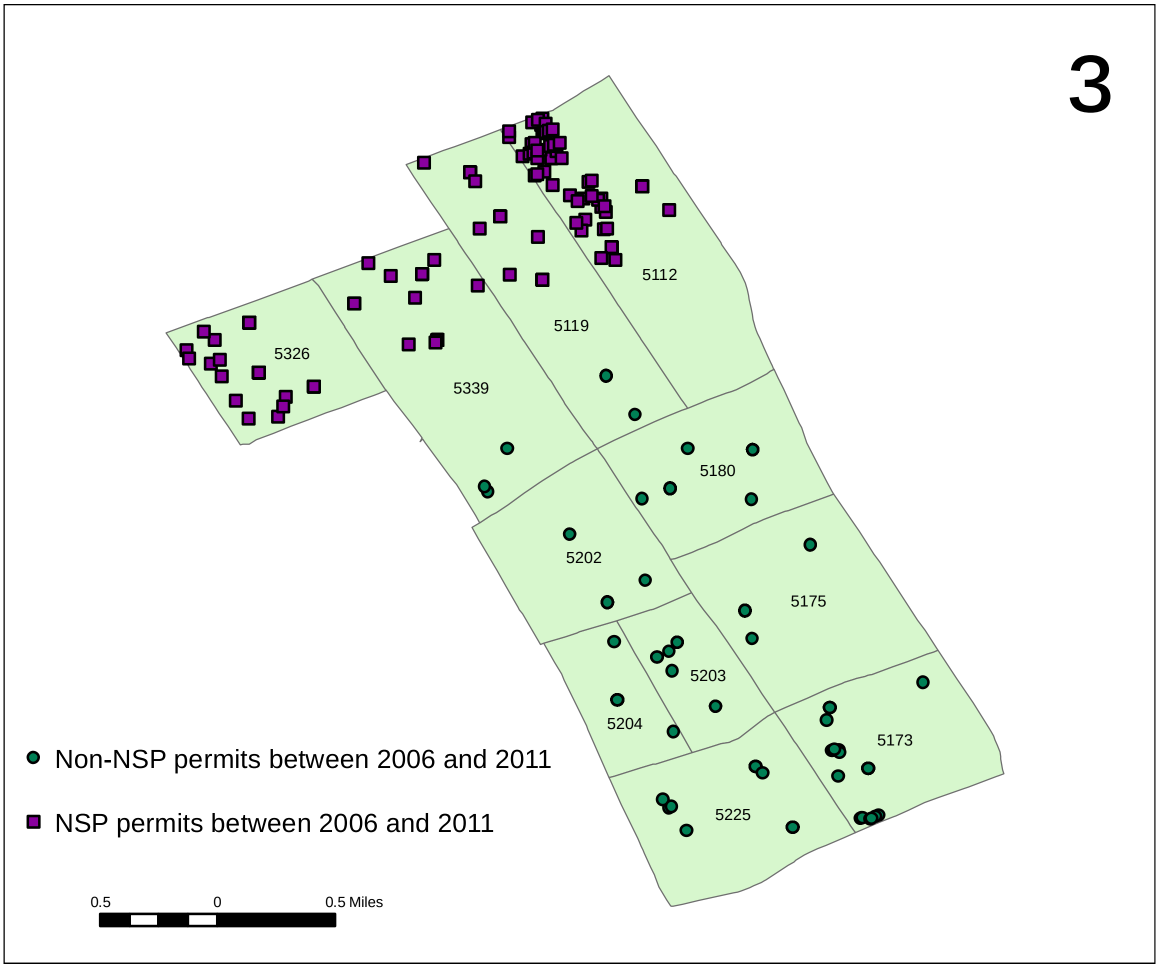
Level of Development Measured by Building Permits.

As shown in Figure 2, based on the number of building permits issued between 2006 and 2011, construction activity can be found throughout Midtown. The map distinguishes between activity related to the Neighborhood Stabilization Program (NSP) and other development activity. The NSP was established to stabilize communities following the housing crisis. It is distinguished from other development activity because of its short-term

[3] I used a liberal interpretation of building permit data to identify development activity and therefore likely overestimated the amount of development activity in both Detroit and Midtown. Closer examination of the data can provide more precise estimates of activity, but time constraints do not permit such analyses. Subsequent analyses will provide more accurate estimates of development activity.

nature, which means that it may not reflect underlying housing market conditions. The map shows that much of the activity in the North End is the result of funding from the NSP. Non-NSP activity is located in what was formally referred to as the University Cultural Center area and the New Center area.

Figure 2. Location of development (NSP and Non-NSP) activity in Midtown Detroit



Data on building permits issued for construction activity in Midtown and the entire city (Table 1) show a sharp decrease between 2006 and 2011. By 2011, only 26 building permits were issued in Midtown compared to 105 in 2006, representing a decline of 75%. The city as a whole did slightly better; 1,492 permits were issue across the city in 2011 compared to 4,652 in 2006, representing a decrease of 68%. In the years between 2006 and 2011, building permits issued across the entire city fell at a lower rate than in Midtown, These figures perhaps reflect the concentration of activity in Midtown in 2006, which meant that the numbers there had more room to fall. The NSP was also responsible for enhancing building activity in 2010 in Midtown, but the amount of activity was not sufficient to change the overall trend when compared to the entire city. The same funding also enhanced construction activity citywide in 2009 and 2010.

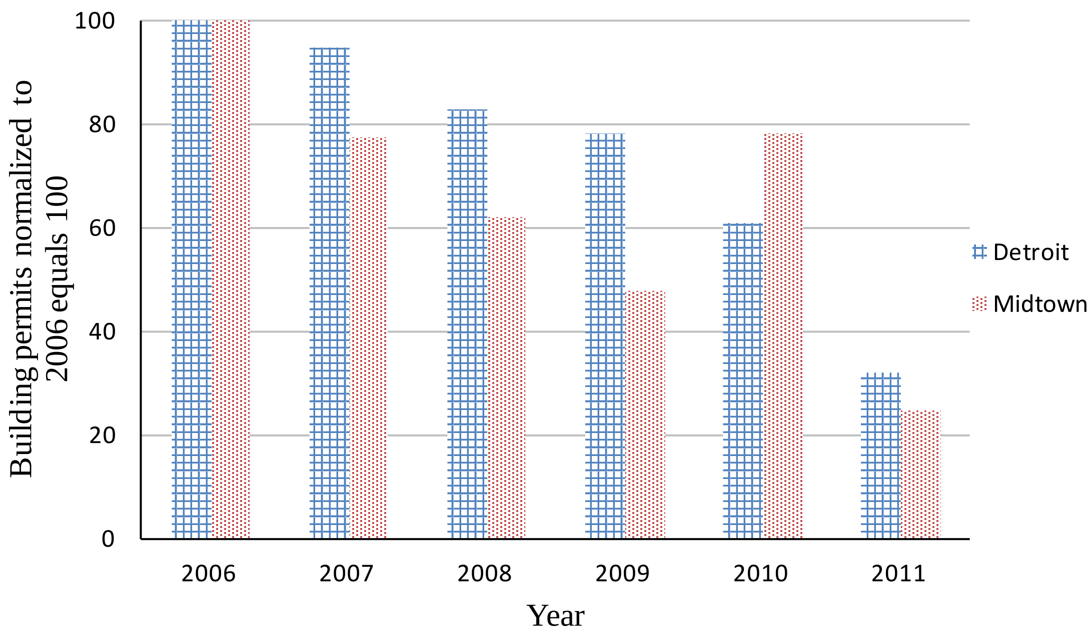
Figure 3 represents the information in Table 1 graphically, showing the decrease in development activity in Midtown relative to the city. (The increase in development activity in Midtown in 2010 is as a result of NSP funding). Again, the data may exaggerate the drop in Midtown, because a single building permit may actually involve many apartment or condominium units, which are concentrated in Midtown.

Table 1. Building permit activity in Detroit and Midtown

Year	Citywide Permits	Midtown Permits	Citywide Permits Normalized to 2006 Data Equals 100	Midtown Permits Normalized to 2006 Data Equals 100
2006	4652	105	100	100
2007	4402	81	95	77
2008	3841	65	83	62
2009	3626	50	78	48
2010	2823	82	61	78
2011	1492	26	32	25

Many of these permits were issued for activities in the same building. For example, of the 81 permits issued in 2007, 62 were for identical locations in 2006, suggesting additional activity at the same location. This activity at the same location may distort interpretation of the data, but without additional analysis, the effects of this distortion are unclear. It may be that the activity is entirely new, such as the addition of a new apartment, or it may simply be a continuation of the same project—for example, altering an apartment that had already received a permit for other activity during the previous year.

Figure 3. Building permit activity in Detroit and Midtown



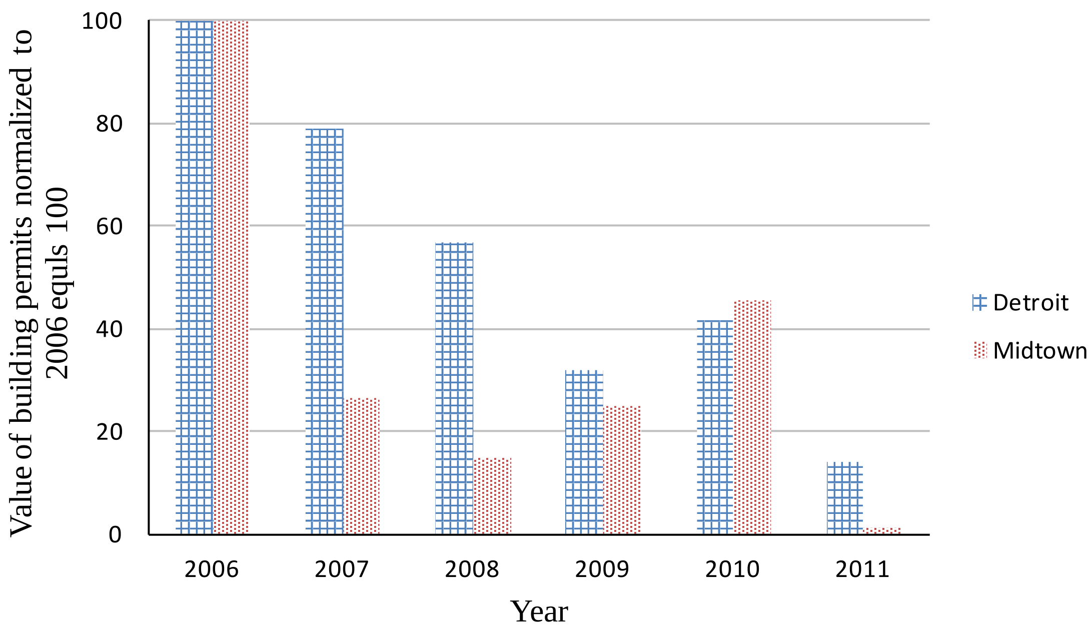
Level of Development Measured by Estimated Cost of Construction.

As noted earlier in the report, the number of building permits issued may not be an accurate indication of development activity because a single permit may be issued for a multiple-family home that contains many units. A measure of development activity that may overcome this limitation is the estimated construction cost associated with each building permit. Presumably, the number of units a developer planned to build would be reflected in the estimated costs of construction. Table 2 and Figure 4 show these data for Midtown and the entire city.

Table 2. Estimated costs of development activity in Detroit and Midtown

Year	Estimated Costs Citywide, '000	Esitmated Costs in Midtown, '000	Estimated Costs Citywide Normalized to 2006 Data Equals 100	Estimated Costs in Midtown Normalized to 2006 Data Equals 100
2006	147,034	17,237	100	100
2007	116,280	4,588	79	27
2008	83,476	2,577	57	15
2009	47,313	4,284	32	25
2010	61,508	7,891	42	46
2011	20,584	244	14	1

Figure 4. Estimated value of development activity in Detroit and Midtown.



Like the building permits, the estimated value of construction activity in Midtown shows a sharp drop between 2006 and 2011, decreasing in value from over $17M to $244,000. By 2011, construction value in Midtown was just 1% of its 2006 value. Citywide, construction activity fell from about $147M to about $20.5M. In 2011, construction value across the city was about 14% of its 2006 value, considerably stronger than in Midtown.

Similar to the results of the analysis of the data on building permits, NSP activity was shown to slow the decline, with an uptick in NSP activity in Midtown in 2009 and 2010. The NSP was also responsible for enhancing construction expenditures citywide in 2009 and 2010. Even taking this into account, however, the value of construction activity in Midtown fell at a rate of over 16% per year. The corresponding value for the city was about 14%. As shown in the analysis of building permits, the value of construction activity in Midtown fell at a slightly faster rate than the city as a whole.

There appear to be problems with the data. It is unlikely that construction activity in Midtown in 2011 is just 1% of what it was in 2006. It is possible that developers applied for building permits in 2010 and the planned expenditures were recorded in that year rather than in 2011. Indeed, for every year in which a building permit is recorded and estimates of construction activity made, it is possible that the activity actually took place in a subsequent year.[4] It is also possible that there were errors in recording the data and that some of the construction never occurred.

Nonetheless, one cannot ignore the trend that shows that construction activity fell even more sharply in Midtown than in the city as a whole between 2006 and 2011, whether measured by the number of building permits or the value of construction activity associated with the permits.

Who Is Building in Midtown?

A critical component for understanding what is happening in Midtown is an examination of the developers who operate there. For this purpose, Dr. Vidal and the author

[4] Another possible data error that overestimates rather than underestimates activities is that estimated costs may be double-counted if developers applied for renewals of building permits and noted the same estimated value of construction.

of this report conducted confidential open-ended interviews (no standard interviewing instrument was used) with 12 developers or intermediaries and other people knowledgeable about development activities in Midtown. Members of this group may also operate in the wider Detroit area, including its first-ring suburbs.

Developers were recruited for this study based on a mixture of our knowledge of those who work in the area and references from relevant organizations, local experts familiar with the industry (such as reporters who cover the real estate market), and additional references from the interviewed developers. During these interviews, we paid particular attention to issues such as *capital formation, location choices, networking opportunities, and operating procedures.*

In interviewing the developers, it became clear fairly quickly that they are from a variety of backgrounds. While the term "small scale" is applicable to all of the developers when compared to a national profile of developers, even within this group there is considerable variation. For the purpose of this discussion, we classified our interviewees as *"informal small developers"* and "*formal larger developers*." Some overlap exists between the two groups; there is a continuum between small informal and larger formal developers, but providing a distinction assists in understanding the activities of different types of developers.

The definition for each group is as follows: informal small developers are those who build one-at-a-time, single-family homes or small apartment buildings that contain only a handful of units in each building. Formal large developers have a long history of being in the business, engage in relatively larger ventures (including commercial properties), may have some staffing, and may engage in more formal real estate analysis before making investments.

Besides these two types of developers, there are intermediaries that are actively involved in development activities. Among them, Midtown Detroit, Inc. (MDI), has emerged as a critical player in promoting development in the area and warrants separate attention.

Intermediaries.

Intermediaries play an enormous role in "managing" Midtown. When there was a more distinctive difference between the University Cultural Center area and the New Center area, each area had an intermediary organization that helped to facilitate development: the University Cultural Center Association and the New Center Council, respectively. As the boundaries of Midtown evolved, and with the inclusion of the North End, a single intermediary organization emerged: MDI.

Many developers who operate in Midtown describe the intermediaries, in both their former and current forms, as acting as local mayors. These developers view the new MDI and its leadership as an invaluable source of support for development in Midtown; without it, much of the development in Midtown during the last decade would not have taken place. MDI helps developers—both local and nonlocal—navigate the development process by, for example, serving as a conduit for foundation or federal and state incentives money to support development.

Informal Small Developers.

In general, these developers mostly invest in single-family homes or small apartments that can be rehabilitated at a low cost and have minimal environmental issues, and in which they can utilize their own labor so as to control costs.

Capital formation. These developers are the most capital constrained and face severe challenges in securing funds for investments. All of the ones we interviewed expressed dissatisfaction with gaining access to loans from financial institutions. Instead, many relied on informal sources of capital, including personal equity, equity from family, personal credit cards, or sometimes small passive investors.

Location. These developers have an expansive geographic coverage, looking to take advantage of opportunities as they arise across Detroit and some of the suburbs. In general, because they are severely capital constrained, they are not choosers in terms of location, but rather search for locations that contain opportunities that suit their investing capacities.

Operating procedures. These developers rely on finding bargains, even by the standards of southeast Michigan. Unlike larger developers, these developers do not have institutional capacity. They will frequently file all applications for permits and other paperwork or attend hearings on their own. They may also perform some labor by themselves, although as they graduate up the ladder they are increasingly likely to start subcontracting work to contractors. These developers are also likely to engage in bidding for bank- or government-owned properties.

Reliance on incentives. Although there are a few exceptions, these developers are not likely to take advantage of existing incentives to reduce the cost of their projects. The primary reasons for this appear to be threefold: a lack of knowledge about the availability of incentives, a lack of capacity to apply for these incentives, and the fact that incentives may not be available to these developers given the small scale of their undertakings. These factors are interrelated: Even if small developers become aware of the existence of incentives, these developers do not seem to have the institutional capacity, confidence, or informal business networks to allow them to take advantage of incentives.

Formal Large Developers.

Capital formation. Like the small, informal developers, these developers are also capital constrained. However, they are distinguished from the small, informal developers by an ability to access other pools of capital, including foundation money, larger passive investors, and other incentives that come in the form of capital.

Location. These developers are actually more location constrained than smaller developers. Perhaps this is surprising, but it reflects the types of properties these developers are likely to engage in. They are interested in more established markets with larger properties, which exist only in certain areas of the city. In particular, these developers are now in effect bidding against each other for properties in Midtown Detroit.

Networking. Formal large developers are well networked, including among themselves. Everyone knows everyone, and there are several instances in which developers have helped each other out, primarily by offering advice or recommending professional staff and contractors. However, the networking stretches beyond the developers themselves. Some of them are well connected to state legislators and city officials. To be sure, some of these developers are better connected than others.

Operating procedures. While these developers look for bargains just as their smaller counterparts do, the price point is much different; larger developers undertake larger projects sometimes including tens of apartments, commercial, or mixed-use development. Unlike their smaller counterparts, these formal large developers rely on in-house or readily available professional support to prepare plans, seek approvals, and apply for incentives. The modus operandi of these developers, with one notable exception, is to heavily utilize incentives. The reliance on these incentives suggests that if not for that funding, none of the large developers' projects in Midtown since 2006—and possibly going back to 2000—would have been started or completed. The only exceptions were projects started before 2000.

Reliance on incentives. Incentives that are routinely utilized or were utilized in the past include brownfield, new market, and empowerment zone tax credits. Indeed, some developers have been able to access incentives directed only to their project.

The magnitude of incentives can be significant. One developer reported the following tax credits for a single project: 20% federal historic tax credit, 5% state historic tax credit, 10% state bonus tax credit, 20% brownfield tax credit, and 30% energy tax credit. Other properties for the same developer used federal new-market tax credits. The use of similar incentives by the larger, more formal developers is routine. Without these incentives, none of the significant projects built since 2006 would have been completed.

These incentives show why it may be difficult for small, informal developers to compete with the larger, formal developers: Knowing about these incentives, applying for them, and managing the ongoing accounting can be difficult for developers without the capacity.

Brief Profiles of Small Developers.

Small developer 1: Developer 1, along with his partner and other passive investors, co-owns a number of properties in Midtown. All of these are small, multifamily rentals, and he takes advantage of the demand for rentals in the Midtown area. Some were bought in foreclosure or were in some other state of distress. This developer is cautious about long-term demand for new homes in Midtown (this interview took place late 2009). He, however, was critical of banks for not providing financing. Developer 1 and his partner also manage rental properties owned by other investors, including out-of-state investors.

Developer 1 started off as a small investor, using money on a 0%-interest credit card to get started with a partner. His partner has experience in the development business, which helped. Initially, they did some of the improvement work themselves, but over time they found it more efficient to subcontract that work, including electrical, plumbing, window-fitting, and so on.

The direct economic effects of this developer are small. He does not engage in projects large enough to have a significant employment impact.

Small developer 2: Along with a partner, this developer bought one single-family home on auction from Wayne County. The home is located outside of Midtown and had reverted to Wayne County because taxes were not paid. Like other small developers, this developer noted a lack of available financing. This developer also complained about difficulties with the City of Detroit, including obtaining permits and information about public hearings.

While this developer has done some work himself, high unemployment has allowed him to hire contractors at low rates. This developer also does not necessarily refurbish properties with new items; for instance, boilers and heaters are bought second-hand.

Small developer 3: This developer made a number of bets on properties at the height of the market. At that time, banks were “practically begging” him to borrow money. Financing has now dried up and banks will “not even talk to me.” With the real estate crash, the value of this developer’s properties has fallen sharply. But even with this fall, increased values after the properties were redeveloped left the developer with unexpectedly high property taxes. This developer still holds undeveloped properties with the hope that they will increase in value. He does all repairs and maintenance on his own and hires only for major renovation work.

Overriding Themes Among Small, Informal Developers.

A number of overriding themes emerge from the discussions with small informal developers, including those not profiled above:

1. Obtaining financing from banks for development in Midtown is extremely difficult even now.
2. These developers started off very small, using personal equity or equity from family and friends.
3. All of these developers operate on a shoestring budget, and a small number of unforeseen events can render a project unprofitable.
4. These developers have limited impacts on employment for two reasons: First, in most cases, these developers do much of the maintenance and repair work themselves, and, second, the scales of their projects are small.
5. Dealing with the City of Detroit can be very difficult at times.

Overriding Themes Among Large, Formal Developers.

As with small developers, a number of overriding themes emerge with regard to large, formal developers. (This report will not provide profiles of large, formal developers to avoid revealing the identity of these developers.)

1. Just as with small developers, obtaining financing is extremely difficult. However, large developers have much better in-house capacity and networks that allow them to tap into numerous federal, state, and local incentives. In particular,

these developers are able to take advantage of the opportunities provided by the MDI.

2. Large developers are better able to absorb losses on a project by compensating with returns from other projects or business activities that they are involved in.
3. Large developers have more impact on employment, and because of the incentives they utilize they are frequently required to pay union-level or prevailing wages. They also hire in-house staff and contract all their work, which together with the larger size of their projects means that they employ more people.
4. Like their small, informal counterparts, large, formal developers also experience many hurdles when dealing with the city.

Additional Thoughts on Developers.

While the discussion above points to the challenges of developing in Midtown, it should be noted that there are some success stories among developers. Success is not guaranteed and, indeed, many developers told stories of losses or small profit margins. Nonetheless, some projects, particularly among the larger, formal developers, have been successful. While the number of developers interviewed does not permit definite conclusions, it would appear that, in general, success varies by the project rather than by the developer. In other words, a single developer may have a mixture of successful and failed projects. It is not uncommon for the successful projects to subsidize the unsuccessful ones. The reasons for failure include overinvesting during the real estate bubble, failure to properly anticipate costs, or misreading the market. An additional consideration that cannot be ruled out is the personal commitment that some developers have to Detroit and Midtown that may lead to decisions based on this commitment rather than a more hard-nosed read of market conditions.

While it is clear that larger developers have more capacity to take advantage of incentives for development, this report does not propose that special measures be taken to "educate" small developers about how to take advantage of these incentives. The reason is that there is no evidence that doing so will somehow "help" development in Midtown. Rather, as appears to have been the case in the past, successful small developers will eventually "bubble" to the top and become larger, more formal developers.

Of some relevance is whether developers promote economic development. In general, although this report does not perform any formal analyses, the direct economic impact seems to be small. Even among the large developments in Midtown, projects are too far apart to have a sustained economic impact on the area in terms of construction jobs. Moreover, there are no requirements that construction jobs go to residents in Midtown; even if this were the case, it is seems unlikely that the area could provide the necessary skilled labor.

In the longer term, however, the economic impact of developers should not be measured in terms of employment generation among construction workers; instead, it is the indirect effects that matter. The aim of the promoters of Midtown is to achieve economic development by attracting young, college-educated professionals. Whether this is achieved will be the ultimate measure of the success of the current real-estate-led development efforts.

Where Are People Moving to in Midtown?

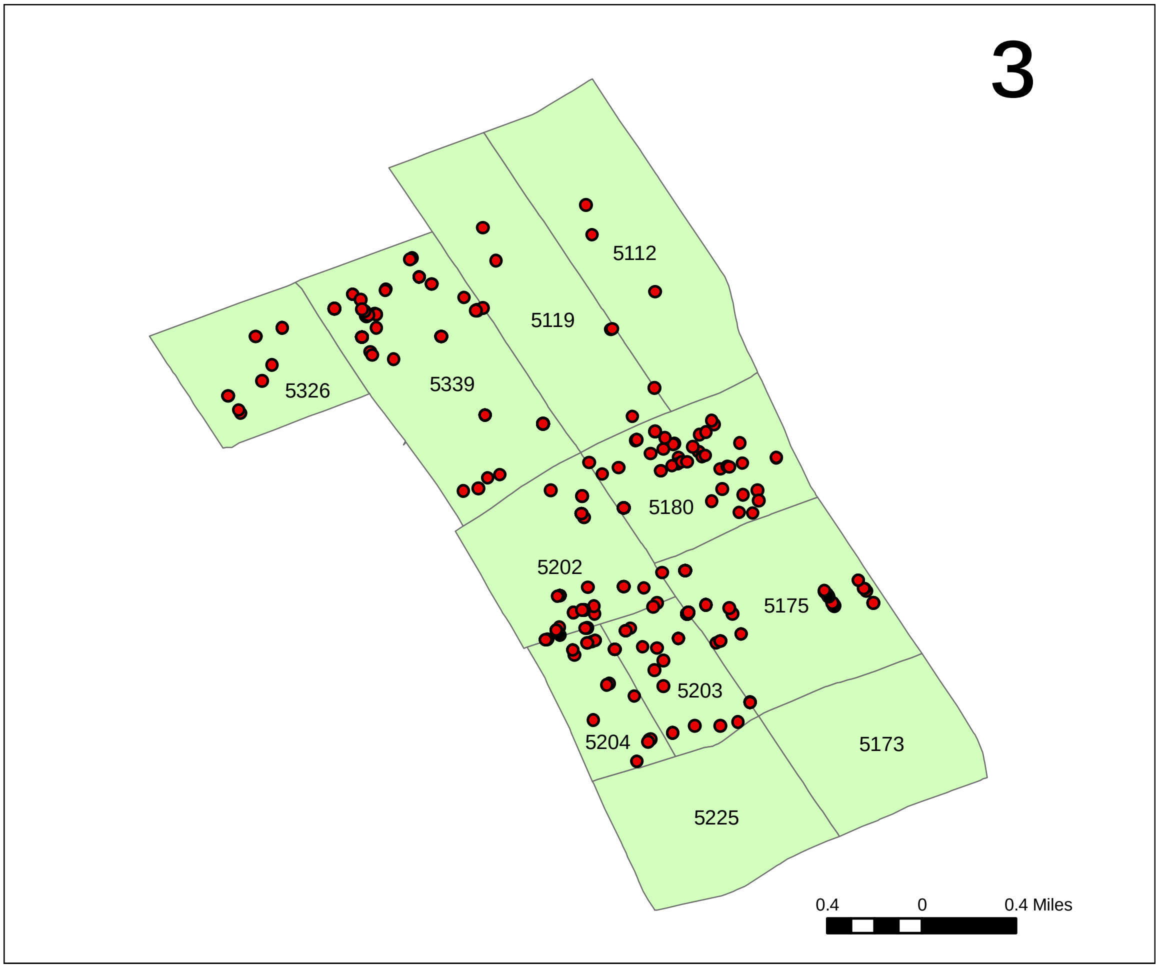
In this section, data from an incentive program designed to attract residents is used to analyze who is moving to Midtown. The program is financed by the three anchor institutions—Wayne State University, Henry Ford Hospital, and the Detroit Medical Center—and provides incentives for purchases, new and renewal apartment leases, and exterior improvements. The program is directed toward the greater Midtown area, financing some 374 transactions since its inception in 2011 to the present. Incentives include

1. $20,000 to $25,000 forgivable loan for home purchases;
2. $2,000 for a signing a new lease;
3. $1,000 for renewing a lease; and
4. up to $5,000 match for exterior improvements.

Basic information on the 374 incentives is shown in Appendix 1. (Some additional information is available and will be provided in future reports.)

In this section, analyses are restricted to incentives that were used in the Midtown area defined earlier (see Figures 1 and 2) rather than the revised Midtown area in which movers were eligible for the incentives. (The revised area includes the area west of the Midtown area defined in this report but excludes areas in the northern edges of census tracts 5119 and 5112 and also excludes census tracts 5225 and 5173.) Furthermore, this analysis excludes six properties that received incentives for exterior improvements. This leaves 344 properties for analyses. Figure 5 shows the locations where the 344 incentives were provided.

Figure 5. Location where incentives were provided in 2011 and 2012 to encourage living in Midtown.



Because incentives were not offered for moving to or maintaining a residence in the northern edges of census tracts 5119 and 5112 and in census tracts 5225 and 5173, no residents who received incentives can be found in these areas. Most recipients of incentives lived in census tracts 5326 and 5339 (close to Henry Ford Hospital) and census tracts 5180, 5202, 5204, 5203, and 5175 (close to WSU and the DMC).

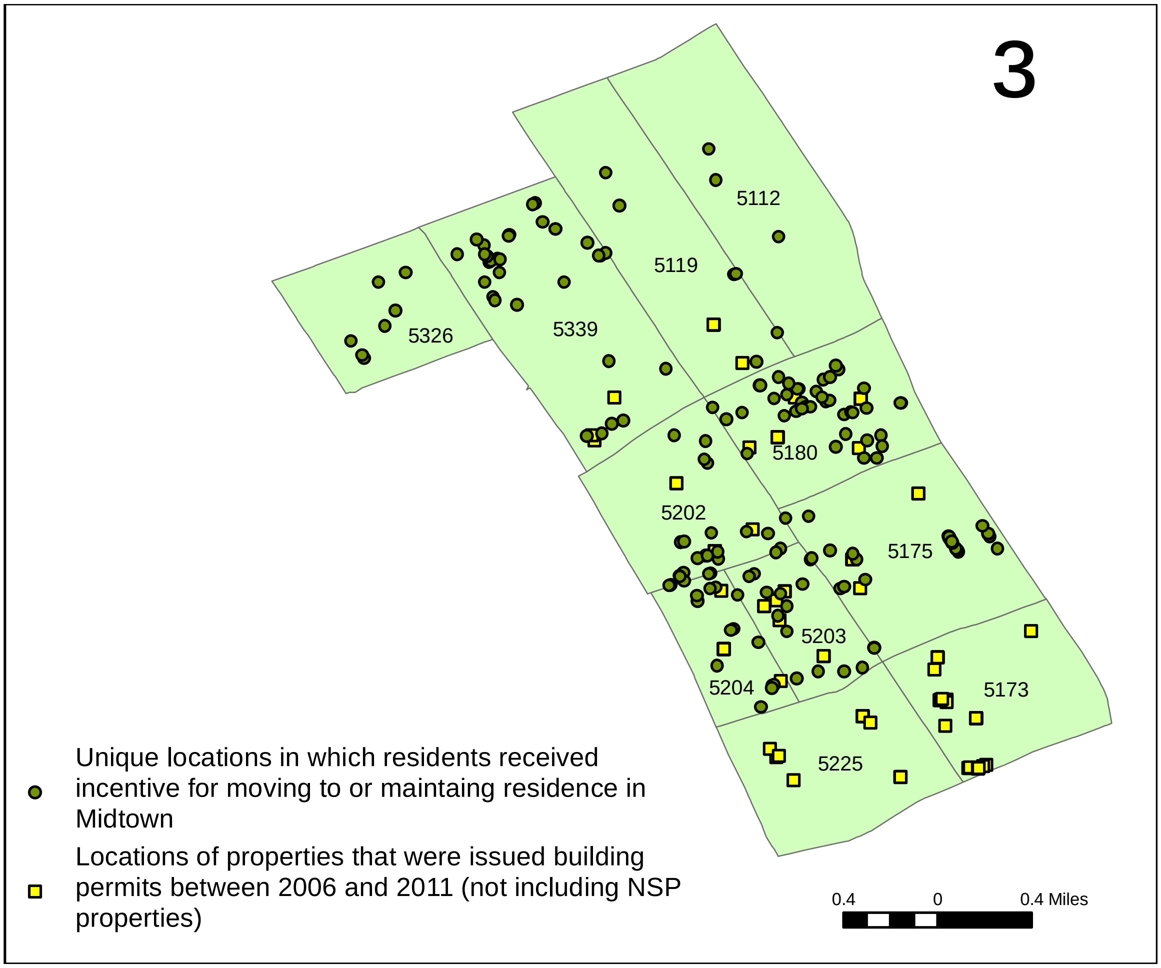
Further analysis of the data shows that many of the incentives were given to recipients living in the same building, that is, the same apartment building or condo. Counting these apartment buildings or condos as one property shows that the recipients live in 170 unique locations. (It is also possible that incentives were given to recipients living in the same complex of townhouses, but further analyses of the data are required to ascertain whether this is the case.) These 170 unique locations are shown in Figure 6, along with the locations that were issued building permits between 2006 and 2011 (not including NSP properties).

The unique locations in which residents received incentives are similar to the results shown in Figure 5 in terms of where most of these 170 unique locations can be found. However, one important feature stands out in Figure 6: There is not much overlap between these unique locations and properties that received building permits between 2006 and 2011. Of the 170 unique locations in which residents moved to or renewed leases in 2011 and 2012, only about 20 to 25 (and possibly fewer; more precise GIS analyses are required to ascertain the exact amount) are at locations that received a building permit between 2006 and 2011.

This finding is cause for some concern. It suggests that—at least up to the present—movers to Midtown and those who renewed leases between 2011 and 2012 were able to find places to live without needing new construction. It suggests that currently there is an ample supply of housing in Midtown to meet demand induced by the incentives.[5] Moreover, if the area west of Midtown as defined in this report, the northern edges of census tracts 5119 and 5112, and census tracts 5225 and 5173 are included, it would appear that there is even more housing to meet demand for employees of the anchor institutions wishing to take advantage of the incentives.

Figure 6. Location of unique properties where incentives were provided to encourage living in Midtown and the locations that were issued building permits between 2006 and 2011 (not including NSP properties)

[5] To be sure, this report does not suggest that *other* demand may not exist that may encourage new development. For example, student demand may be sufficient to warrant additional development, but this report does not examine other sources of demand.



Returning to one of the concerns of this report—how developers are coping in Midtown—it is not surprising that small, informal developers such as those profiled earlier face challenges. There appears to be limited demand for the product at this point. Larger, formal developers who cater to the student rental market may fare better if they do not depend on the incentives to create demand for their product. It is unclear, however, whether developers of different types tend to cater to those likely to receive incentives or to general markets, including students.

These findings have implications for developers who operate in Midtown, particularly small developers who may be interested in niche products that cater to employees seeking incentives to move to or stay in Midtown. It would appear—at least at this point—that there is sufficient supply to satisfy those using the incentives. Developers catering to the general market or interested in building large apartments for student housing may have some advantage, although—as discussed earlier—there are other challenges to developing in Midtown, such as receiving financing.

Conclusions

This report examined recent development trends in Midtown, Detroit and attempted to link these findings to developer activity. The report finds the following:

- Development activity measured by the number of building permits and the estimated costs of construction associated with those permits has fallen sharply since 2006. Inaccurate data might overestimate the size of the drop, but even so the downward trend is clear.
- Recipients of incentives offered by Midtown's anchor institutions appear to have taken up residence in properties built before 2006. This suggests that, at least up until early 2012, there was an existing supply of available homes for this segment of the population. Combined with the rapid drop in activities in Midtown since 2006, this suggests that developers are aware of the excess supply, at least with regard to this segment of the market.
- I did not investigate movers to or others who stayed in Midtown who did not benefit from incentives. It may be that this other population is growing and that there is as an unmet demand for housing. However, this appears to be unlikely.

- Developers, both small, informal and larger, formal developers face a number of challenges when attempting to develop in Midtown. The most noted constraint noted by developers is a lack of access to capital.

The apparent excess supply of housing in Midtown poses some challenges to a real-estate-led economic development strategy. The excess housing supply, however, also presents some possibilities.

To understand the challenges and possibilities, it is perhaps first worth noting the choice facing policy makers. Sometime early in the last decade, policy makers and intermediaries such as MDI began to subsidize development in Midtown. This has had the effect of raising the profile of the area and making it a more desirable place to live. The increased desirability of Midtown coupled with incentives offered by the anchor institutions has attracted some movers to Midtown and encouraged those already there to stay.

The choice facing policy makers is this: Should they continue to subsidize developers, subsidize movers and existing residents, or subsidize both? The results of this study, which suggests that there is currently adequate housing stock in Midtown, suggests that policy makers—at least in the short term—might find it more advantageous to direct public dollars to subsidizing movers and existing residents until excess supply is consumed. After that, subsidies may be directed to developers. In any event, with the current apparent excess supply, developers may be reluctant to build. Subsidizing these developers to the point where they build will only serve to increase supply and hold down housing prices in the future.

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APPENDIX

Basic Characteristics of Live Midtown Program

Number of incentives granted	374
Basic characteristics	
Median size	892 sq. ft.
Median Number of bedrooms	2
Median Number of bathrooms	1
New purchases characteristics	
Number	37
Mean Sales Price	$47,945
Median Sales Price	$30,000
New rentals characteristics	
Number	159
Mean lease price	$805
Median lease price	$760
Renewal characteristics	
Number	171
Mean lease price	$695
Median lease price	$664
Exterior improvements	6
Employer	
HFHS	108
DMC	114
WSU	151
Unknown	1

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