Detroit Neighborhood Housing Markets

Market Study | 2016

In 2016, Capital Impact's Detroit Program worked with local and national experts to determine the residential market demand across income levels for six neighborhood centers in Detroit.

This study was designed to maximize the residential market potential and leverage the opportunities for mixed use in each neighborhood.

Introduction

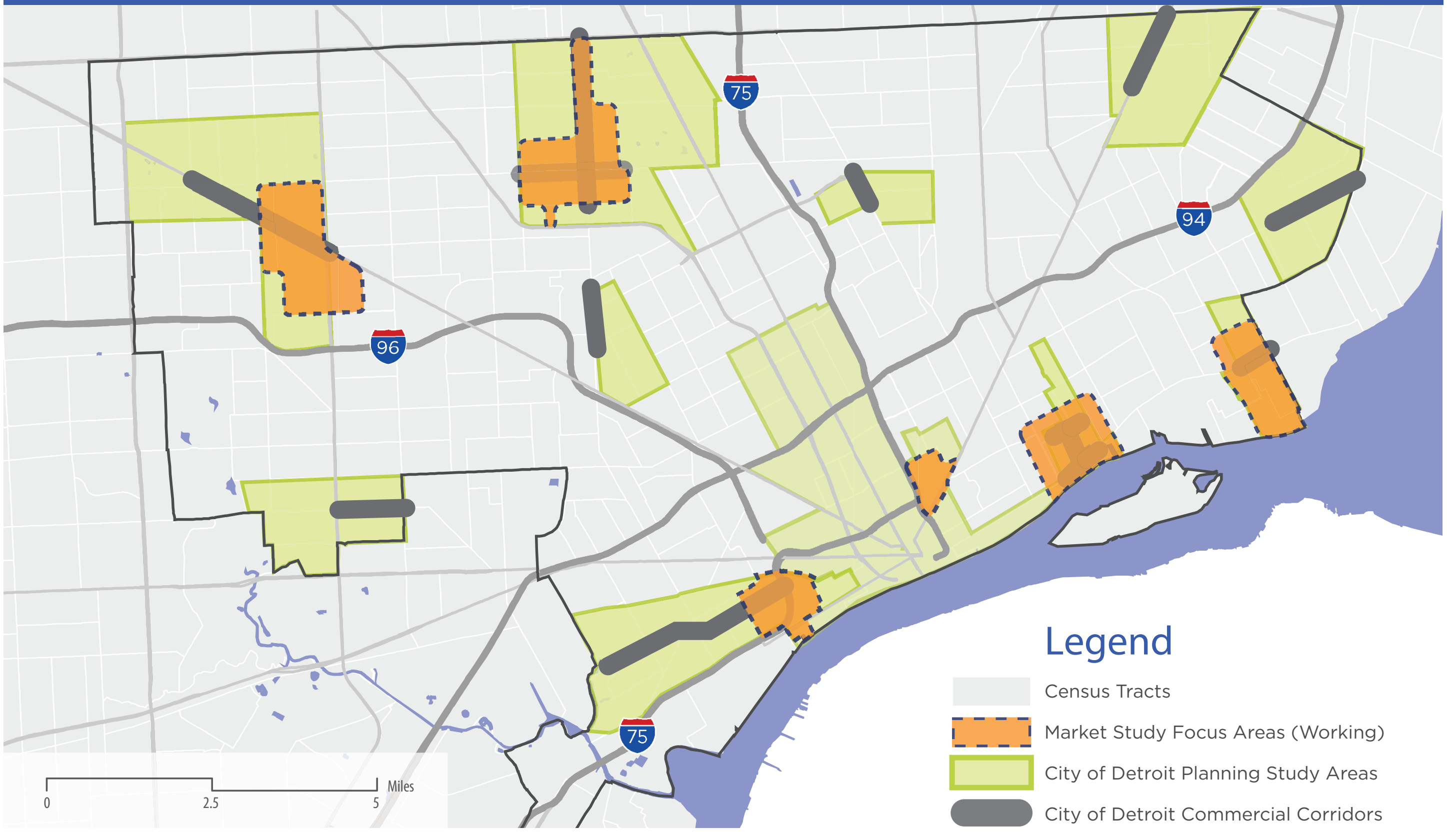
In 2016, Capital Impact's Detroit Program worked with local and national experts to determine the residential market demand across income levels for six neighborhood centers in Detroit. Capital Impact's Inclusive Growth research explored the potential for mixed-income development across some of Detroit's highest-opportunity corridors; these market studies provided supplemental information about the demand across income levels for multifamily and mixed-use development in each neighborhood center.

Capital Impact engaged Loveland Technologies, a local firm, to complete a thorough inventory of community assets as well as current demographic and housing characteristics in six Detroit neighborhoods as a step toward catalyzing investment in those areas. Loveland performed a detailed survey of properties in the mixed-use corridors of the six neighborhood study areas. They evaluated six different facets of each neighborhood, including: School Quality and Availability, Financial Stability, Land Use & Development Opportunities and Residential Housing Conditions. All of their findings are available on www.detroitneighborhoodreport.com in both raw and summary format.

Simultaneously, Capital Impact completed a Target Market Analysis for multifamily and mixed-use development within each of these six neighborhoods. As part of this Target Market Analysis, Zimmerman-Volk and Associates applied their proprietary methodology to determine annual market potential for new rental multifamily dwelling units—created through adaptive reuse of existing non-residential buildings or through new construction—that could potentially be constructed within six neighborhood centers in the City of Detroit, Michigan. W-ZHA then selected a prototype project for each neighborhood based on market, land and building availability. Initially, the development program for each neighborhood project was designed to maximize the residential market potential and leverage the opportunities for mixed use. These development programs were tested for investment feasibility without subsidy and with low-income housing tax credits and, in one case, historic tax credits.

This summary document provides an overview of the study findings.

Figure 1: **2016 Target Market Analysis – Focus Area and context**



Sources: Capital Impact Partners 2017; US Census TIGER/Line 2010-2015; City of Detroit Planning Study Areas 11/2015. Created 3/2017

Approach

We focused on these six neighborhoods based on the following criteria:

1. Recent studies, including our own research, suggest they are areas of relative residential stability in Detroit, yet they still would benefit from market stabilization efforts in order to thrive. In most cases, poverty rates and access to services are still quite high compared to locations throughout the region.
2. These areas fall into strategic alignment with the City of Detroit's investment priorities.
3. Each area contains a mixed-use commercial corridor suitable for multifamily, mixed-use development.
4. Capital Impact has financed, or is considering financing, projects within some of these areas.
5. Each area falls within the service area of a strong place-based organization, including community development corporations.

The **Eastern Market** study area contains the largest historic public market district in the United States, covering 43 acres just outside of downtown Detroit. While primarily a commercial district, the market has seen a recent surge in residential development as warehouses are converted into lofts and apartments.

The **Jefferson Chalmers** study area focuses on a riverside neighborhood on the lower east side of Detroit around the intersection of East Jefferson Avenue and Chalmers Streets. Two major commercial corridors bisect the neighborhood's primary residential areas, which consist mostly of single-family houses. The corridors connect the neighborhood to the city of Grosse Pointe, with which it shares a border to the east.

The **Villages** study area covers a set of historic neighborhoods on the eastside of Detroit. Centered around East Lafayette and Van Dyke Streets, West Village is a primarily residential community of single-family and multifamily homes that represent a broad range of architectural styles dating back to the 1920s.

The neighborhoods adjacent to the intersection of **Livernois & McNichols** feature a mix of commercial and residential uses on the northwest side of Detroit. At more than two (2) square miles and 33,000 residents, it is the largest of the study areas, encompassing areas of strong neighborhoods and major institutions, as well as pockets of high vacancy and strong development potential. The primary commercial corridors are located along Livernois Avenue and West McNichols Road and are surrounded by residential neighborhoods. This area is home to the University of Detroit Mercy campus, Marygrove College, the Avenue of Fashion shopping district and is adjacent to the Detroit Golf Club.

The **Grandmont-Rosedale** study area focuses on five smaller communities located on the northwest side of Detroit along Grand River Avenue defined by pre- and post-war single-family homes along several commercial corridors.

The **Vernor / Southwest** study area forms the core of one of the most vibrant and diverse communities in Detroit with a strong commercial corridor, large parks, proximity to Corktown and downtown, most of the city's Latino population and easy freeway access. The residential center is bordered to the north and east by industrial properties that are located along the former Michigan Central Railroad.

Key Findings

The results of the study suggest a variety of investment potential in each neighborhood. Target market analysis findings indicate that Eastern Market has the most potential for market-rate multifamily development without subsidy. Additional measures suggest high demand for new and rehabbed housing in the Grandmont-Rosedale neighborhood as well as a variety of development opportunities in the Villages and Jefferson-Chalmers neighborhoods. The following figures provide summary overviews of key neighborhood characteristics and measures of development potential.

Because some data is not available at the neighborhood level, in some cases the figures represented reflect aggregate findings from the US Census tracts adjacent to the focus areas. Unless otherwise cited, findings are sourced from one of the following three studies:

- Capital Impact Partners' Toward Inclusive Growth in Detroit, 2015
- Loveland Detroit Neighborhood Report, 2016
- Zimmerman Volk/W-ZHA Target Market Analysis for Six Detroit Neighborhoods, 2016

Population Characteristics, 2010 & 2011-2015

Population trends are largely positive by neighborhood with some showing substantial increases between 2010 and 2014, and others showing losses of less than one percent. Loveland's housing occupancy measures suggest that, given recent upticks in housing occupancy, all of the areas are likely growing or stabilizing.

	Population 2010[1]	Population 2011-2015[2]	Change	Trend, based on Housing Occupancy
Eastern Market	8,041	9,117	+13.4%	Population increase is likely to continue given sufficient developable space to absorb demand.
Grandmont-Rosedale	15,806	16,681	+5.5%	Occupancy is also increasing though may slow given limited supply of vacant properties.
The Villages	14,562	14,449	<1% decrease	Housing occupancy indicators suggest population is stabilizing, as occupied properties increased 2% from 2014 - 2015.
Jefferson-Chalmers	9,038	9,196	+1.7%	Housing occupancy indicators also suggest population loss is slowing.
Livernois-McNichols	37,763	37,651	<1% decrease	Population is likely to increase, as occupied households rose 2% between 2014 and 2016, particularly near the intersection of Livernois & McNichols
Vernor / Southwest	4,800	5,023	+4.6%	A slight increase in occupancy suggests this increase will continue.

[1] US Census via PolicyMap, accessed 4/17
[2] US Census via PolicyMap, accessed 4/17

Household Financial Characteristics, 2011-2015 & 2016

Household financial characteristics reveal some key differences between neighborhood housing markets. For instance, while Vernor / Southwest boasts the highest percentage of households with a credit score of 650 along with low foreclosure rates, households there earn less on average than in any of the other five neighborhoods. And in areas with relatively high median incomes and homeownership rates (Grandmont-Rosedale, Livernois-McNichols), average rental rates are significantly lower than in other, renter-dominated markets.

	Tax Foreclosure Rate	Average Median Household Income, 2011-2015[3]	Average Residential Rental Rates (cost per square foot per month)	Percent of Households with Credit Score > 650	Percent of Households that are Owner-occupied
Eastern Market	Low	$23,088	$1.61	n/a	25%
Grandmont-Rosedale	Moderate	$52,390	$.71	40%	74%
The Villages	Moderate	$36,758	$1.28	33%	29%
Jefferson-Chalmers	High	$26,029	$0.71	31%	50%
Livernois-McNichols	High	$43,849	$.69	40%	66%
Vernor / Southwest	Low	$25,357	n/a	48%	38%

[3] US Census via PolicyMap, accessed 4/17

Maximum Build Potential, Capital Impact Inclusive Growth Appendix, 2016

Detroit's excess of vacant land provides both challenges and opportunities. To better understand one opportunity for the city's vacant land—its potential as space for new and rehabbed housing—Capital Impact Partners used Detroit Future City's (DFC's) 10-year land use recommendations to apply growth scenarios to Detroit's developable land. Understanding what the results of DFC's recommendations look like in these six neighborhoods allows us to discover potential for new housing development and to think about which income mixes those future developments could target and which income mixes different neighborhoods could sustain over time.

Using this assessment, Jefferson-Chalmers, Vernor / Southwest, the Villages and Eastern Market all have significant land capacity for new development. Space is tighter in Grandmont-Rosedale and Livernois-McNichols, though their densities are still below those recommended in the DFC strategic framework.

	Vacant Developable Acreage	Occupied Housing Units, Inclusive Growth Study Area	New-build and Rehab Potential (housing units) Based on Existing and Potential Land Use / Density	Potential Percent Increase in Housing Units	Percent of Households that are Owner-occupied
Eastern Market	262	5,246	2,929	56%	25%
Grandmont-Rosedale	37	5,227	916	18%	74%
The Villages	227	3,466	2,341	68%	29%
Jefferson-Chalmers	330	2,421	5,138	212%	50%
Livernois-McNichols	151	7,656	2,240	29%	66%
Vernor / Southwest	61	1,595	1,182	74%	38%

Annual Market Potential by Tenure, Target Market Analysis, 2016

The Zimmerman / Volk Associates' methodology includes reviewing draw areas—from local to national—to show where those households with the potential to move to new housing units in each neighborhood center currently live. Trends from each draw area, along with migration and mobility analyses, provide an estimate of Annual Market Potential—which is comprised of those households moving from each draw area that would be likely to consider new housing in the individual study area based on their interests, preferences and financial capabilities. If no housing is available that matches those preferences and/or financial capabilities, those households go elsewhere.

The magnitude and household characteristics of the potential market for new housing units within each neighborhood center have been derived from the housing preferences and financial capacities of the draw area households identified through Zimmerman / Volk Associates' proprietary target market methodology and extensive experience with urban development and redevelopment.

Zimmerman / Volk Associates has determined that an annual capture of up to 10 percent of the potential market (Forecast Annual Absorption) for new rental housing within each neighborhood center is achievable. This housing type-specific capture rate is well within the parameters required for new development.

	Total Across Income Levels		Market-rate Rental Units	
	Annual Ownership Market Potential	Annual Rental Market Potential	Annual Rental Market Potential	Forecast Annual Absorption
Eastern Market	1,955	2,440	866 (36%)	87
Grandmont-Rosedale	1,570	1,415	566 (40%)	57
The Villages	2,130	2,765	973 (35%)	98
Jefferson-Chalmers	1,125	1,355	440 (33%)	44
Livernois-McNichols	2,635	3,045	1,069 (35%)	107
Vernor / Southwest	775	990	305 (31%)	31

Renter Household Income, Target Market Analysis, 2016

The renter households that represent the annual market potential for new rental units in each neighborhood center have been grouped by income based on the Detroit-Warren-Livonia HMFA median family income (AMI). The U.S. Department of Housing and Urban Development (HUD) in fiscal year 2016 has determined the AMI is $66,900 for a family of four. These households are summarized in the following table:

	Annual Rental Market Potential	Below 30% AMI	Affordable (30-80% AMI)	Market-rate (more than 80% AMI)
Eastern Market	2,440	26.2%	38.3%	35.5%
Grandmont-Rosedale	1,415	25.0%	35.0%	40.0%
The Villages	2,765	25.3%	39.5%	35.2%
Jefferson-Chalmers	1,355	27.2%	40.3%	32.5%
Livernois-McNichols	3,045	27.3%	37.6%	35.1%
Vernor / Southwest	990	26.8%	42.4%	30.8%

Potential New Development Base Rent & Unit Size, Target Market Analysis, 2016

The optimum market position for new multifamily rental housing units that could be developed within each neighborhood center has been derived from the housing preferences and financial capabilities of those target draw area households with incomes at or above 80 percent of the Detroit-Warren-Livonia HMFA median family income. Supportable market-rate rents, from the potential renters' perspective, have been established at 25 percent of the target households' annual gross incomes.

	Rent Range	Size Range	Potential Market Rent (cost per square foot)
Eastern Market	$925–$1,900 / month	450–1,000 sf	$1.90–$2.06 psf
Grandmont-Rosedale	$950–$1,950 / month	600–1,300 sf	$1.50–$1.58 psf
The Villages	$800–$1,650 / month	500–1,100 sf	$1.50–$1.60 psf
Jefferson-Chalmers	$850–$1,475 / month	550–1,000 sf	$1.48–$1.55 psf
Livernois-McNichols	$750–$1,500 / month	500–1,250 sf	$1.20–$1.50 psf
Vernor / Southwest	$800–$1,500 / month	600–1,300 sf	$1.15–$1.33 psf

Prototype Development Market Highlights, Target Market Analysis, 2016

A prototype project was selected for each neighborhood based on market, land and building availability. Initially, the development program for each neighborhood project was designed to maximize the residential market potential and leverage the opportunities for mixed-use development.

These development programs were tested for investment feasibility without subsidy and with Low Income Housing Tax Credits and, in one case, historic tax credits.

The subsidy required is based on market rents as defined in the Zimmerman / Volk Target Market Analysis.

	Potential Market Rent per Square Ft	Per-unit Subsidy Required to Finance Market-rate Rental Units	For a 9% IRR Development, Rent Required to Minimize Use of Subsidy
Eastern Market	$1.90–$2.06 psf	$6,100 - $29,600	$2.01 psf
Grandmont-Rosedale	$1.50–$1.58 psf	$22,900 - $50,500	$1.64 psf
The Villages	$1.50–$1.60 psf	$41,100 - $60,600	$1.83 psf
Jefferson-Chalmers	$1.48–$1.55 psf	$77,000 - $94,800	$2.04 psf
Livernois-McNichols	$1.20–$1.50 psf	$74,700 - $90,099	$1.69 psf
Vernor / Southwest	$1.15–$1.33 psf	$93,200 - $105,900	$1.72 psf

Prototype Development Subsidy Highlights, Target Market Analysis, 2016

With Low Income Housing Tax Credits, 100% of the units are assumed to be affordable to households with median incomes at or below 60% of the area-wide median income. Note that the low-income housing subsidy may be higher than the subsidy required to make a market-rate project feasible. This is because affordable housing rents are lower than rents achieved in a market-rate project.

Development programs are changed to satisfy the New Markets Tax Credit requirement that 20% of gross revenue must be from commercial use. The changes increased retail square feet and reduced the number of housing units. In some cases, the amount of land required to implement the project was reduced. Vernor / Southwest was not considered to be eligible for New Markets Tax Credit-subsidized development in this scenario because the prototype development we based the analysis on was not a strong site for commercial development.

	Market-rate Development Feasible with Historic Tax Credits only	Affordable Housing Development Feasible with 9% Low Income Housing Tax Credits only	Market-rate Development Feasible with New Markets Tax Credits only	Market-rate Development Feasible with New Markets Tax Credits & Historic Tax Credits only
Eastern Market	Yes	Yes	Yes	Yes
Grandmont-Rosedale	N/A (prototype development is new construction)	Yes	Yes	Yes
The Villages	N/A	Yes (Lower IRR)	No	No
Jefferson-Chalmers	No	No	No	Yes (Lower IRR)
Livernois-McNichols	N/A	Yes	No	No
Vernor / Southwest	N/A	Yes (Lower IRR)	No	No

Next Steps

These findings provide a detailed, market-based framework within which to consider the potential for new and rehabbed housing development across income levels in six Detroit neighborhoods. Capital Impact has used the report to help build out development assumptions for potential projects in these neighborhoods and to better understand the unique challenges and opportunities facing current and future residents in these areas. Going forward, we will continue to share findings with local nonprofit and municipal partners in order to foster a shared understanding of market potential and work to creatively meet the demand for new housing along the city's mixed-use corridors.

CAPITAL IMPACT
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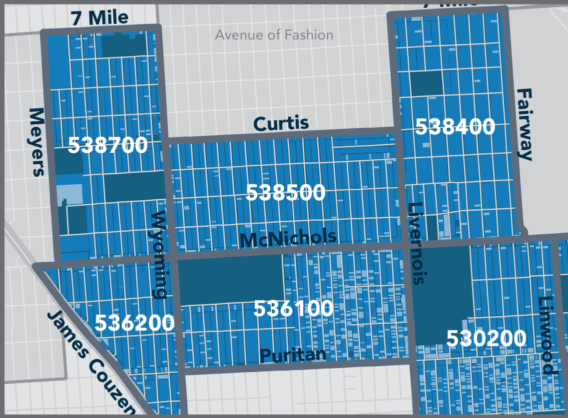
DETROIT PROGRAM

Capital Impact aims to improve economic mobility in targeted, asset-rich neighborhoods and mixed-use neighborhoods in Detroit through an inclusive growth framework. We invest in strategies that promote increasing neighborhood density with a healthy income mix through multifamily and mixed-use developments and provide financing for key community services like education, health care, healthy foods, and dignified aging facilities.



Community Partnerships

Our Detroit-based team works directly with a variety of cross-sector organizations to ensure that solutions are organically built from the ground up and account for the local realities facing residents, policy makers, philanthropic institutions, and investors.

Strategic Investments

Often overlooked by traditional banks, our mission-driven lenders' work ensures that good projects that help build healthy communities for all Detroiters receive the financing they need. We can provide a variety of loans from pre-development to tenant improvements to full scale construction.

Public Policy & Research

We examine and advocate for scenarios to help community development and finance professionals think through which development trajectories could help cultivate a healthy income mix in order to best serve Detroit neighborhoods in the long term.