



DETROIT INCLUSIONARY HOUSING PLAN AND MARKET STUDY

Prepared for:
The City of Detroit Housing and Revitalization Department
November 2016



DETROIT INCLUSIONARY HOUSING PLAN AND MARKET STUDY

Study Summary

APPENDIX

- A. Market Analysis
 - B. Financial Analysis
 - C. Policy Recommendations
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Study Summary



Detroit Inclusionary Housing Plan & Market Study

Executive Summary

November 2016

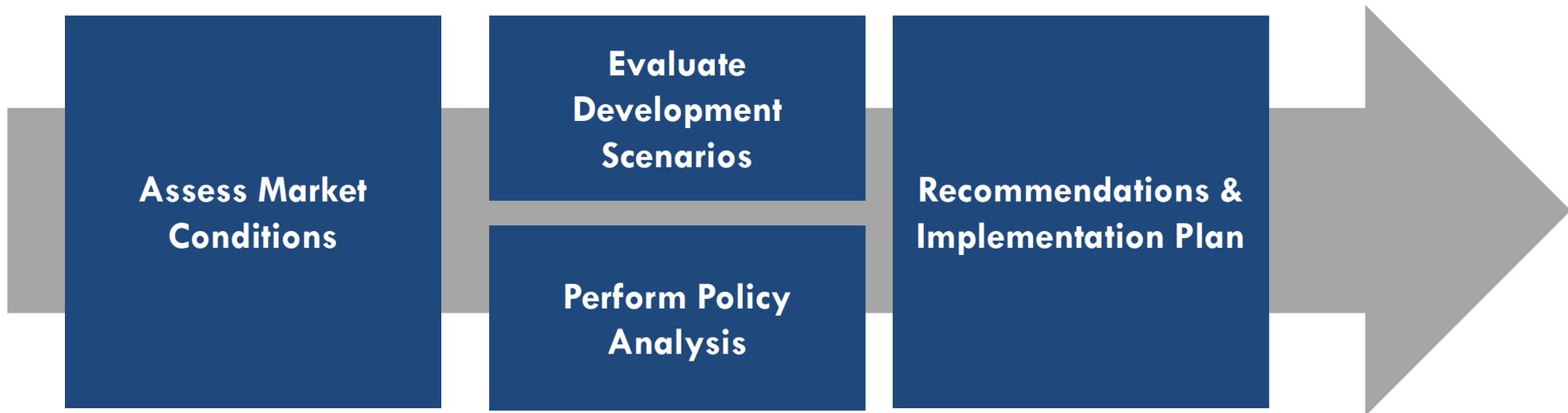
HR&A
Analyze. Advise. Act.



Inclusionary Housing Plan & Market Study Objectives

- 1** Evaluate the citywide market for multifamily housing and the potential impacts of a proposed inclusionary housing policy.
- 2** Identify best practice tools and strategies that may guide Detroit's affordable housing strategy and inclusive growth goals.
- 3** Create a comprehensive recommendation for Detroit's affordable housing strategy, considering inclusionary housing as well as other strategies.

Inclusionary Housing Plan & Market Study Approach

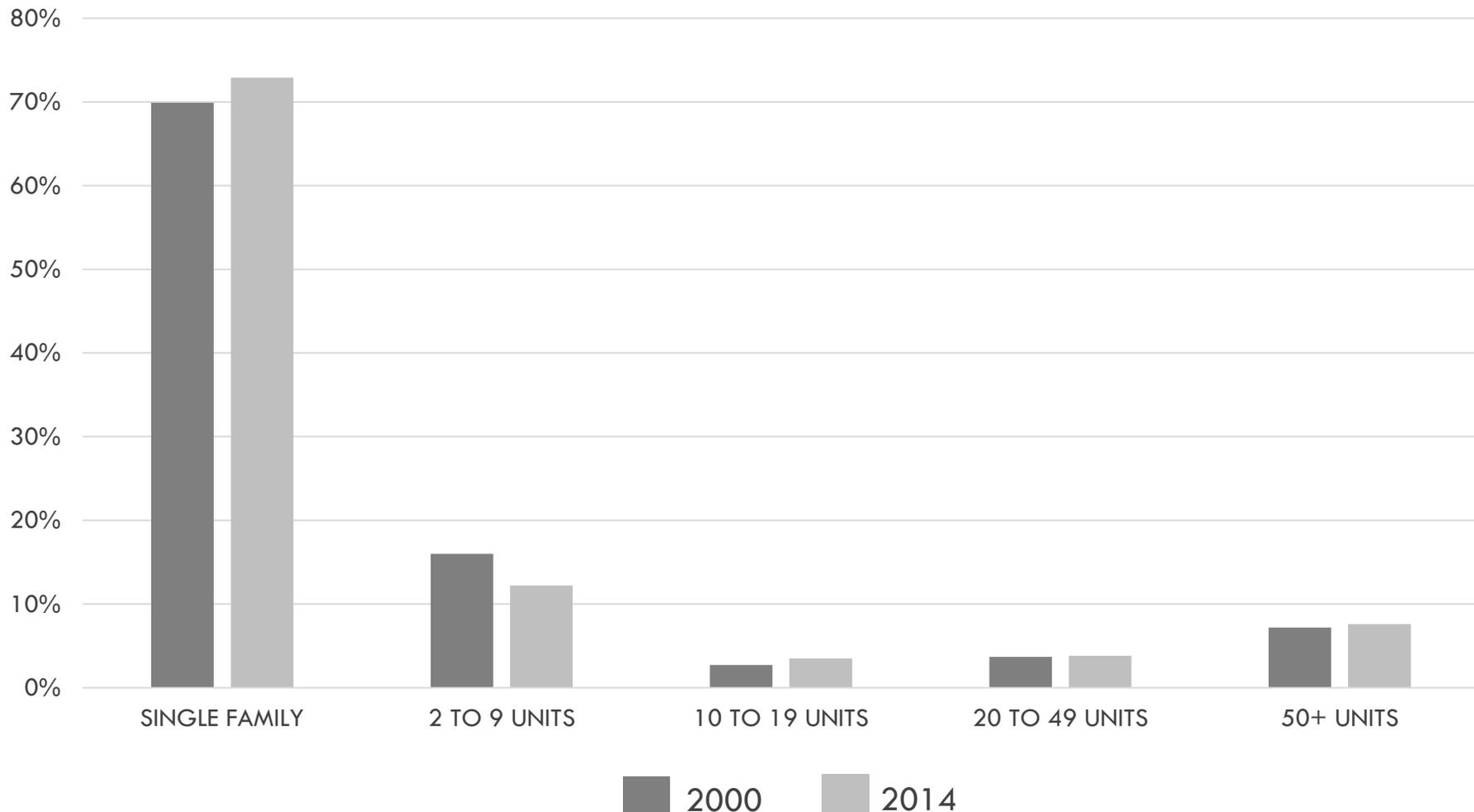


Residential Market & Housing Affordability Overview
Inclusionary Housing Feasibility Analysis
Policy Recommendations

While Detroit remains a predominantly single-family home market in terms of overall stock...

RESIDENTIAL UNITS BY UNITS IN STRUCTURE

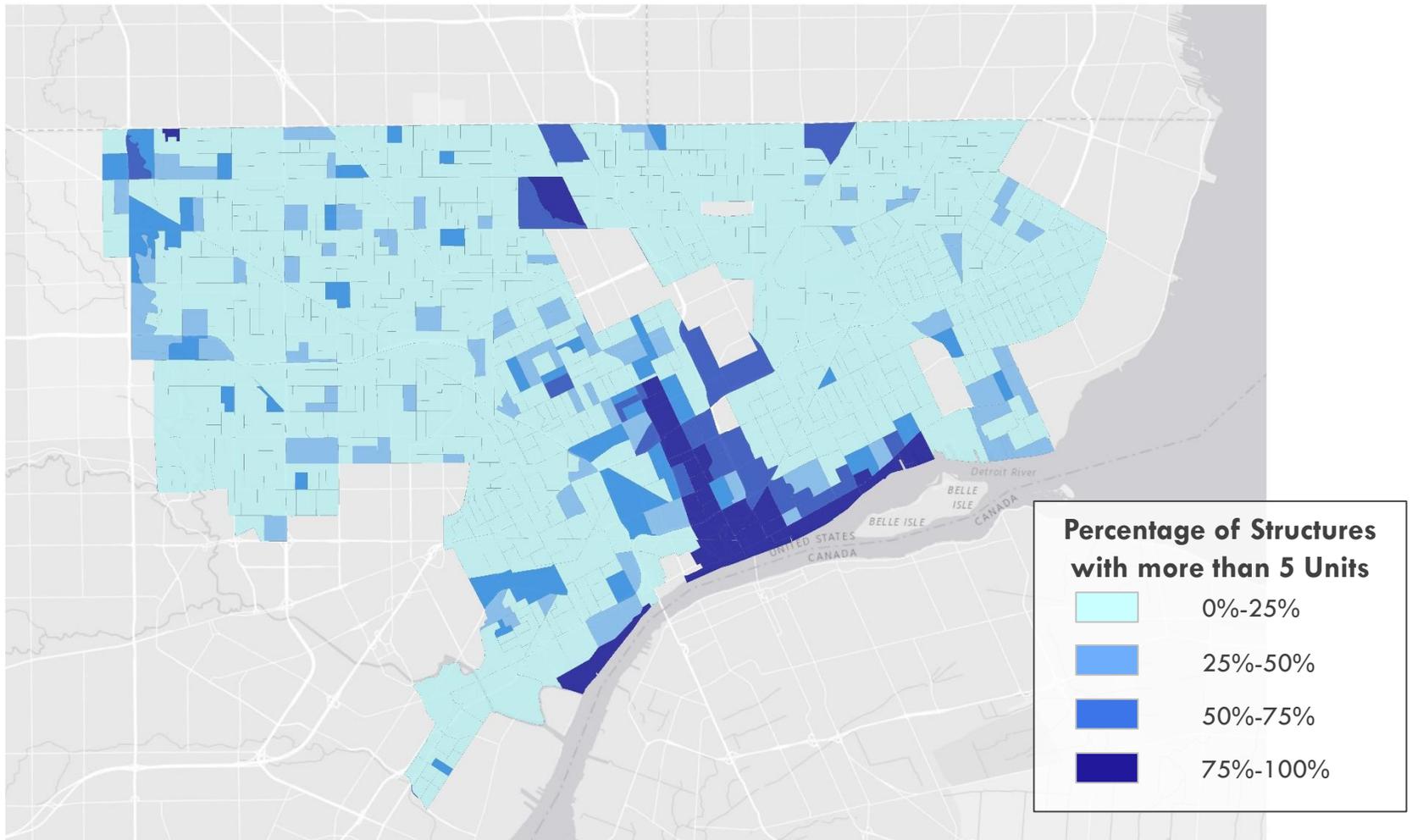
City of Detroit
2000 & 2014



Sources: Social Explorer; HR&A Advisors

...there is a significant multifamily housing stock, of over 125,000 units, particularly concentrated in Greater Downtown.

MULTIFAMILY STOCK DISTRIBUTION City of Detroit

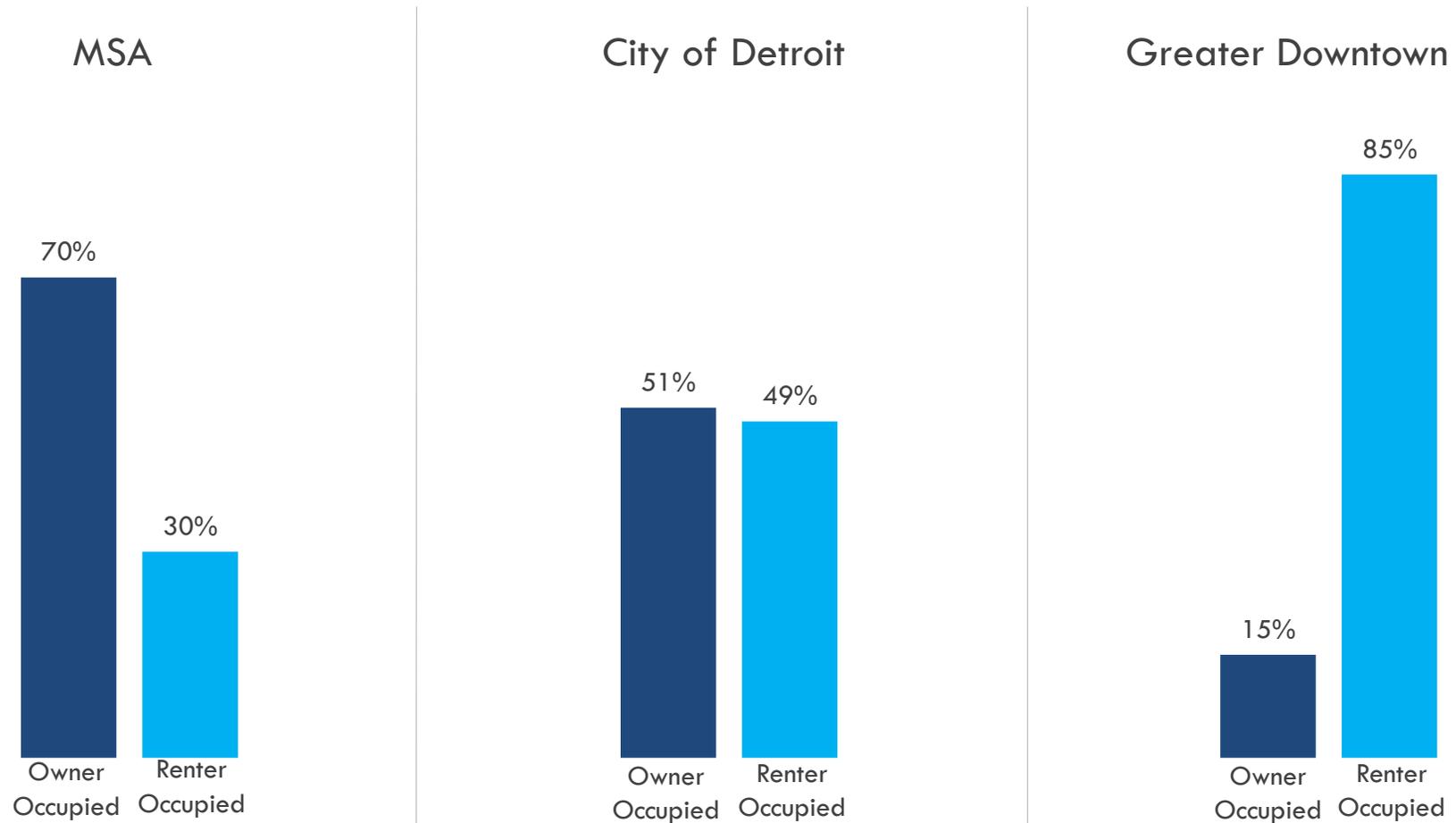


Sources: ESRI; HR&A Advisors

Tenure reflects housing stock, with a higher renter population in Detroit than the MSA, and even more concentrated in Greater Downtown.

TENURE

MSA, City of Detroit & Greater Downtown 2014

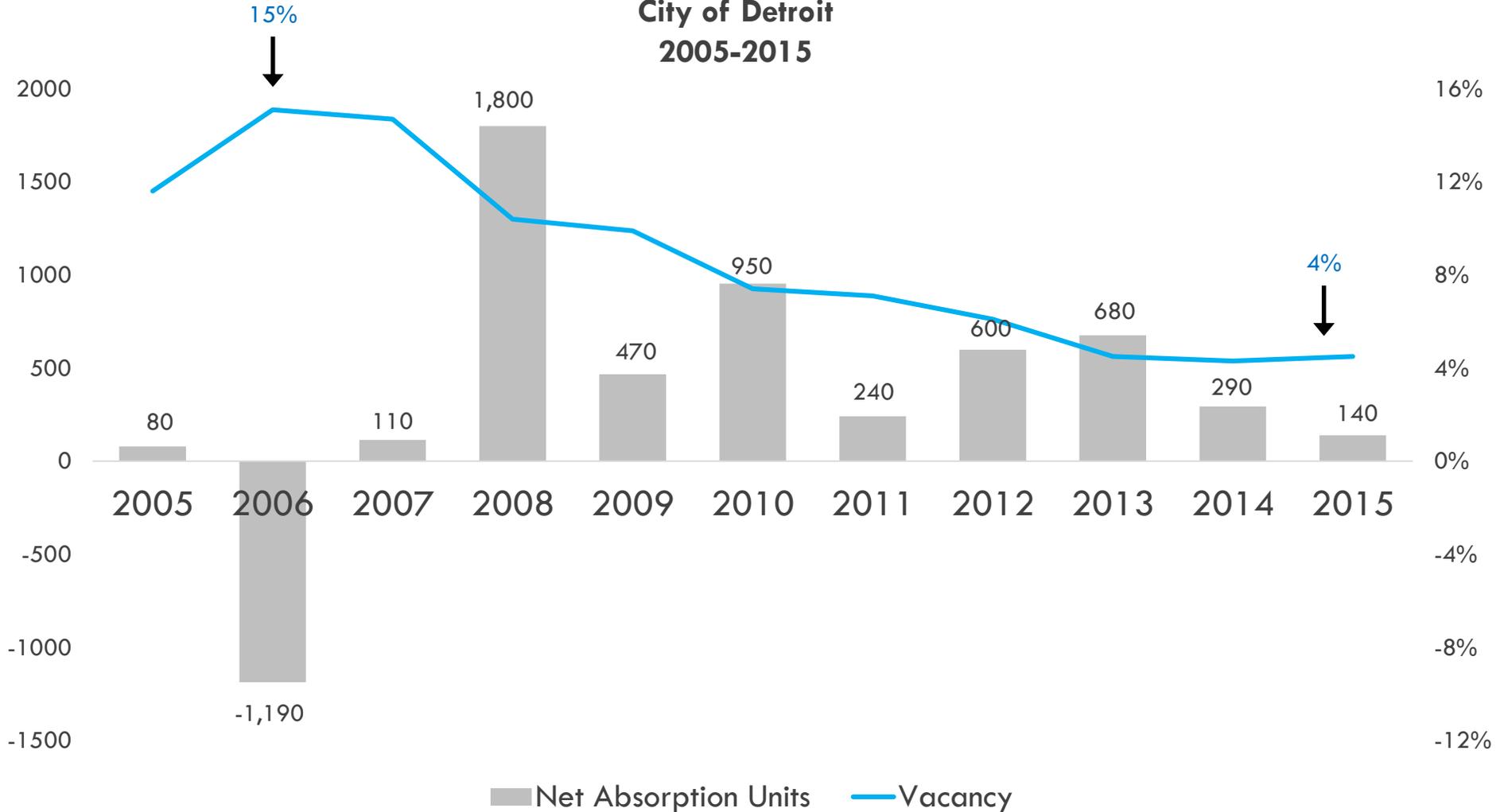


Sources: Social Explorer; HR&A Advisors

The multifamily market is evolving, showing signs of strength, including positive absorption and reduced vacancy.

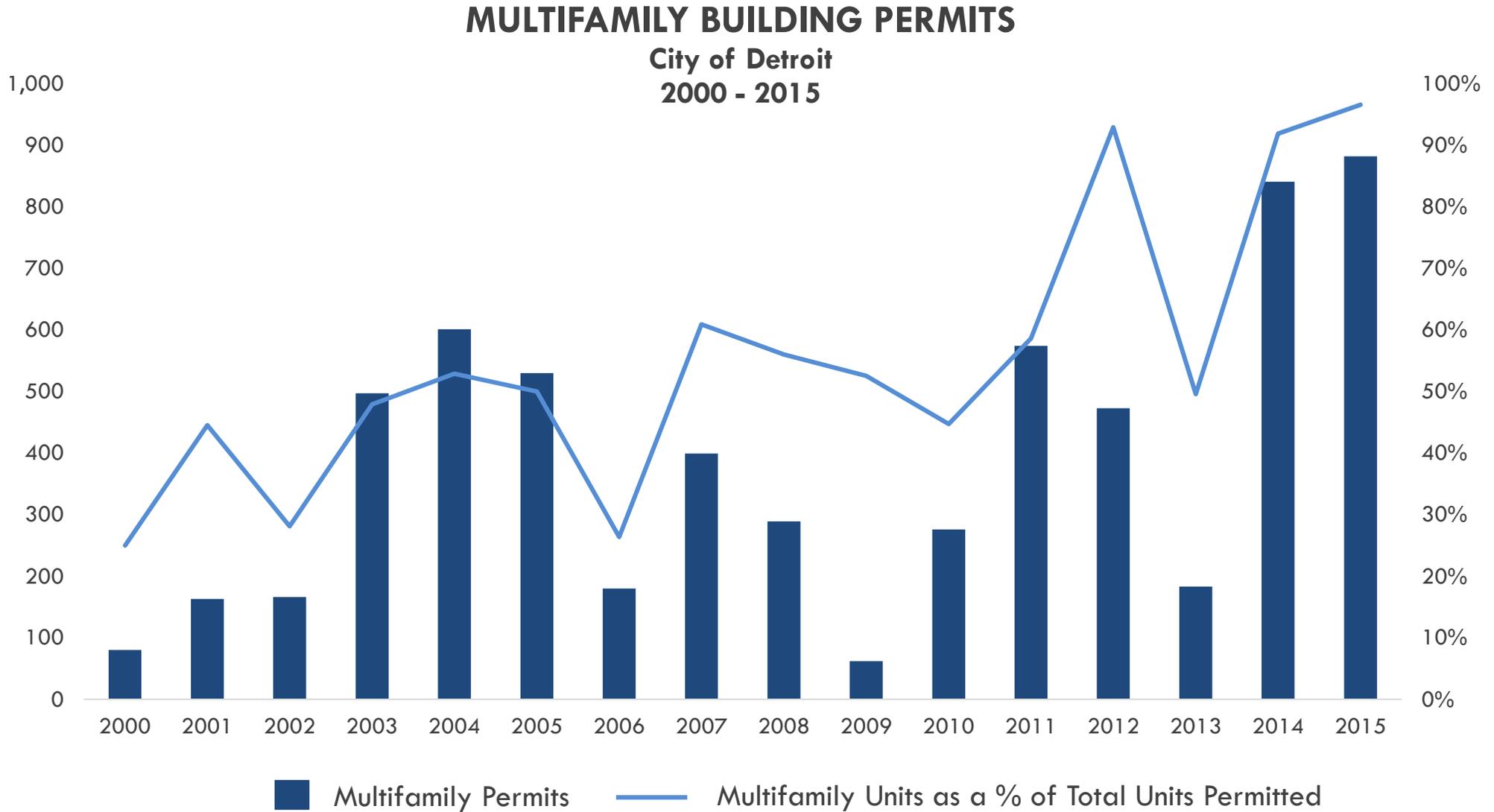
MULTIFAMILY HISTORY

City of Detroit
2005-2015



Sources: CoStar; HR&A Advisors

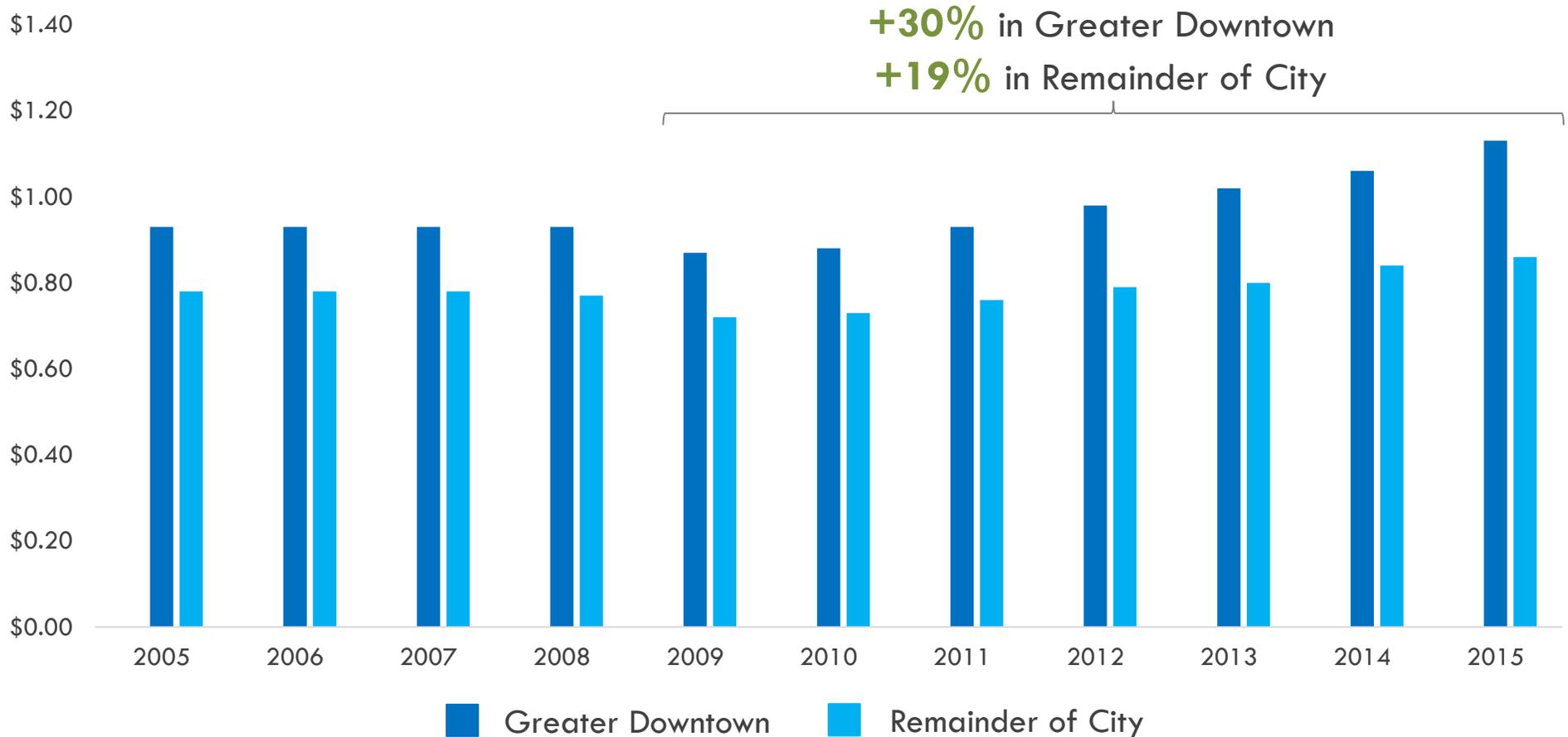
As of 2014, multifamily development had surpassed its pre-Recession peak.



Sources: SEMCOG; HR&A Advisors

As new product is delivered, rents have experienced steady growth, particularly in Greater Downtown.

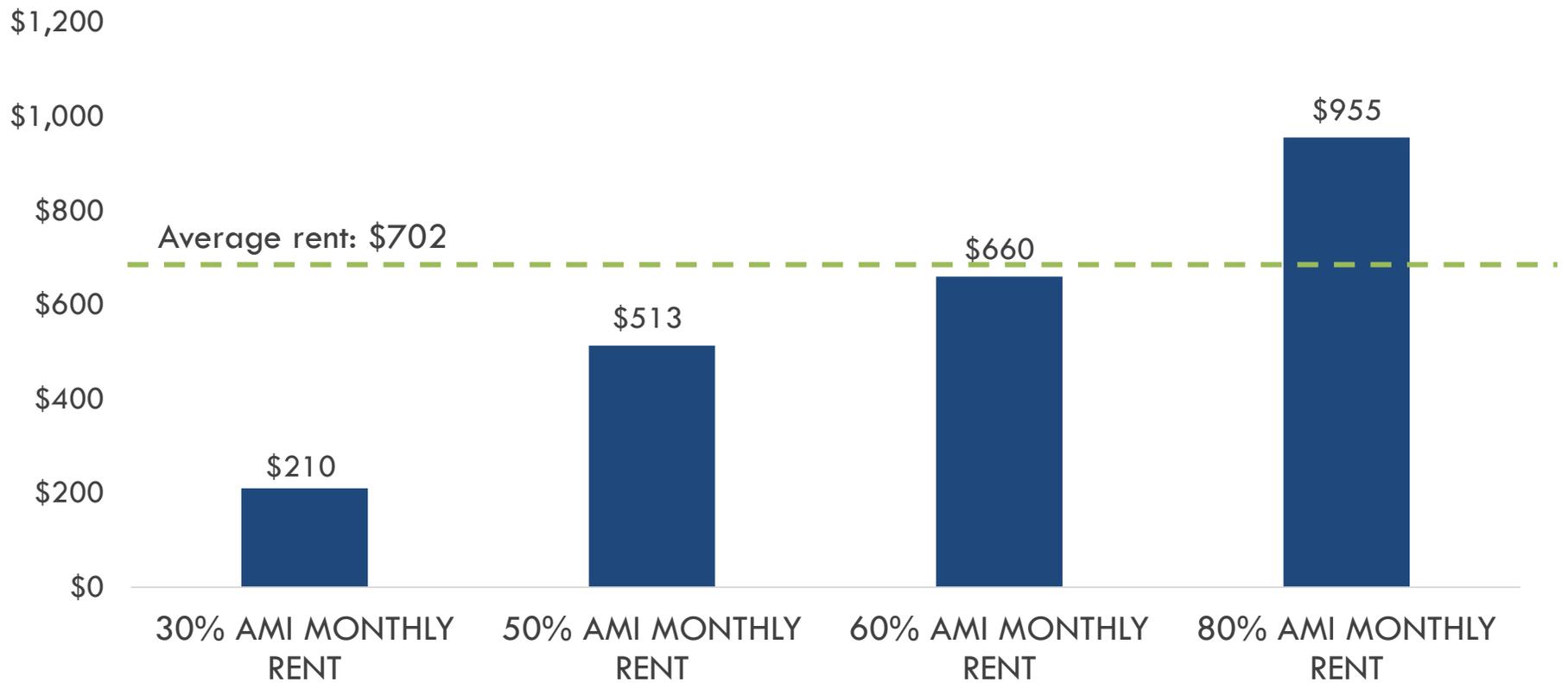
MULTIFAMILY RENT City of Detroit, Greater Downtown & Remainder of City 2005 - 2015



Sources: CoStar; HR&A Advisors

Citywide average rents remain low. Based on federal guidelines, the average monthly rent in Detroit is affordable to households making just above 60% of AMI or more.

MONTHLY RENT BY AFFORDABILITY LEVEL, ONE BEDROOM UNIT Detroit MSA



Income Limit
(2 person HH):

\$16,080

\$26,800

\$32,160

\$42,880

Note: Average rent in Detroit is based on the citywide average rent for a one bedroom unit.
Source: CoStar; Department of Housing and Urban Development; HR&A Advisors.

However, less than one fourth of units are affordable to extremely low income households.

SHARE OF RENTAL UNITS AFFORDABLE AT AMI BENCHMARKS

City of Detroit 2014

Unit Type	< 30%	50%	60%	80%	> 100%
Studio / One Bedroom	32%	78%	89%	97%	99%
Two Bedrooms	16%	64%	89%	97%	99%
Three or More Bedrooms	12%	60%	83%	98%	100%
All Units	23%	67%	86%	97%	99%

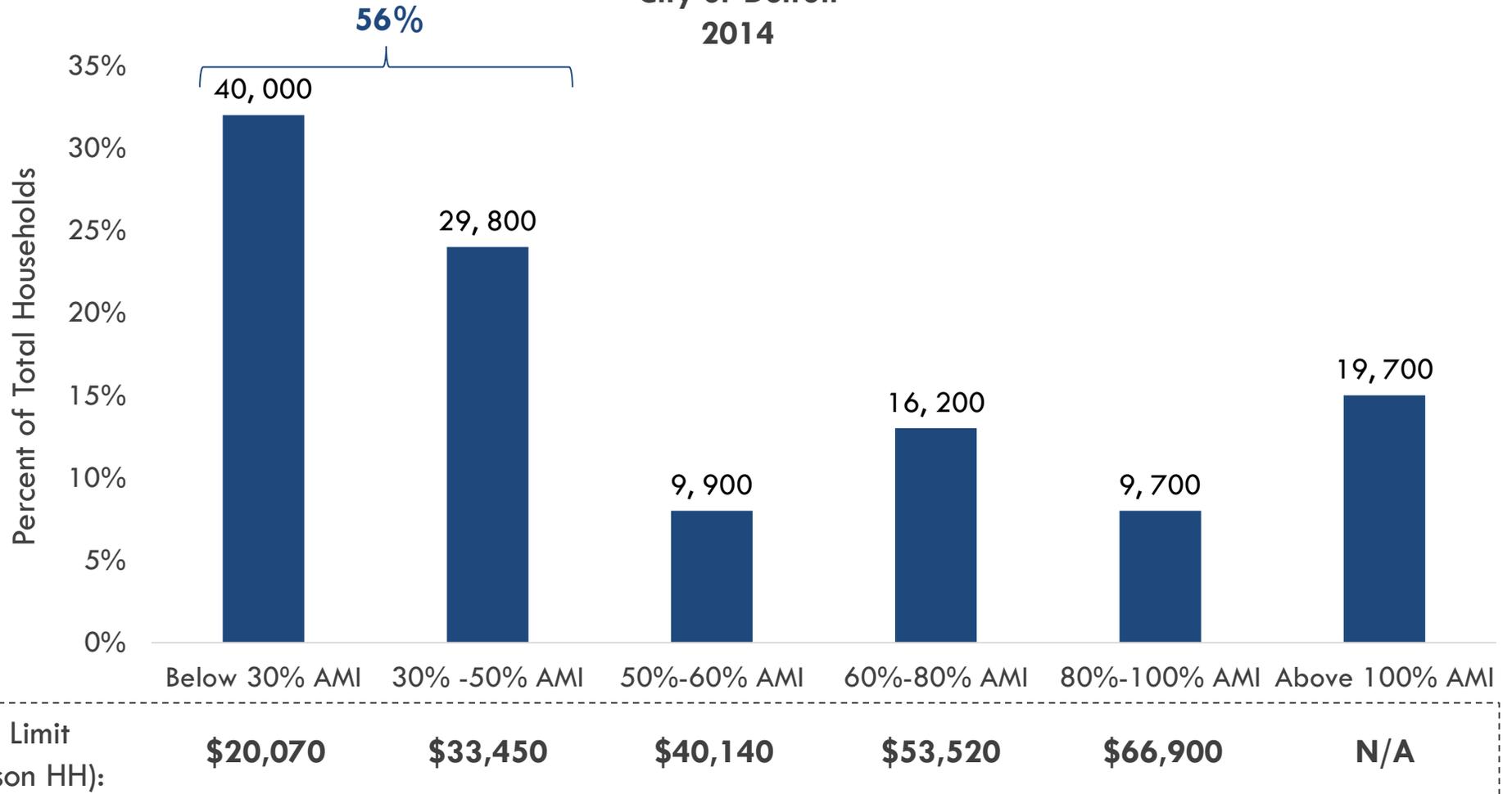
Note: "Affordable" means a household spends no more than 30% of income on housing costs (gross rent, including utilities). Per HUD guidelines, studio / one bedroom units assume a household size of two, two bedroom units assume a household size of four, and three or more bedroom units assume a household size of six.

Sources: American Community Survey PUMS Data; HR&A Advisors

Over 50% of renter households make 50% or less of the MSA's AMI.

RENTER HOUSEHOLD INCOME BY AMI BENCHMARKS

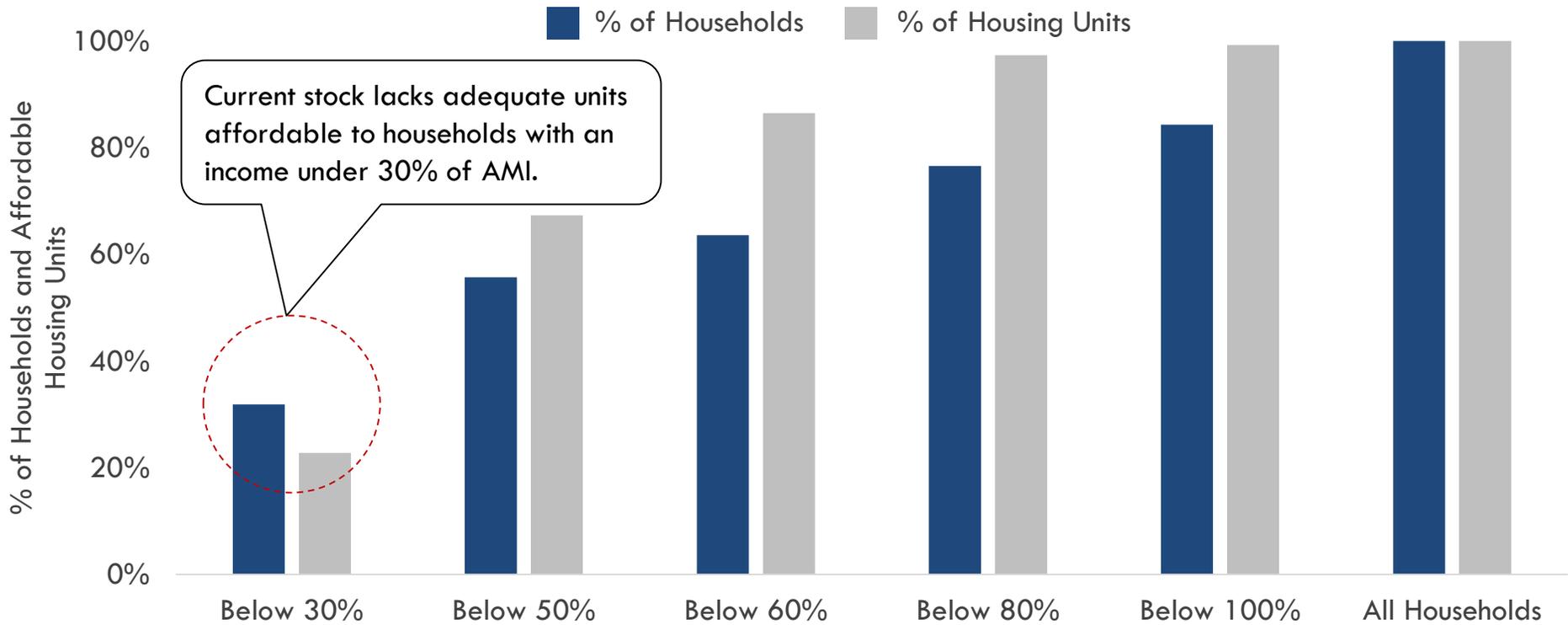
City of Detroit
2014



The gap between need vs. availability of affordable housing is concentrated at the lowest income bracket.

SHARE OF RENTAL UNITS AFFORDABLE TO DETROIT HOUSEHOLDS BY AMI LEVEL

City of Detroit
2014



Current stock lacks adequate units affordable to households with an income under 30% of AMI.

Affordable Rent
(4 person HH):

\$452

\$836

\$1,003

\$1,338

\$1,672

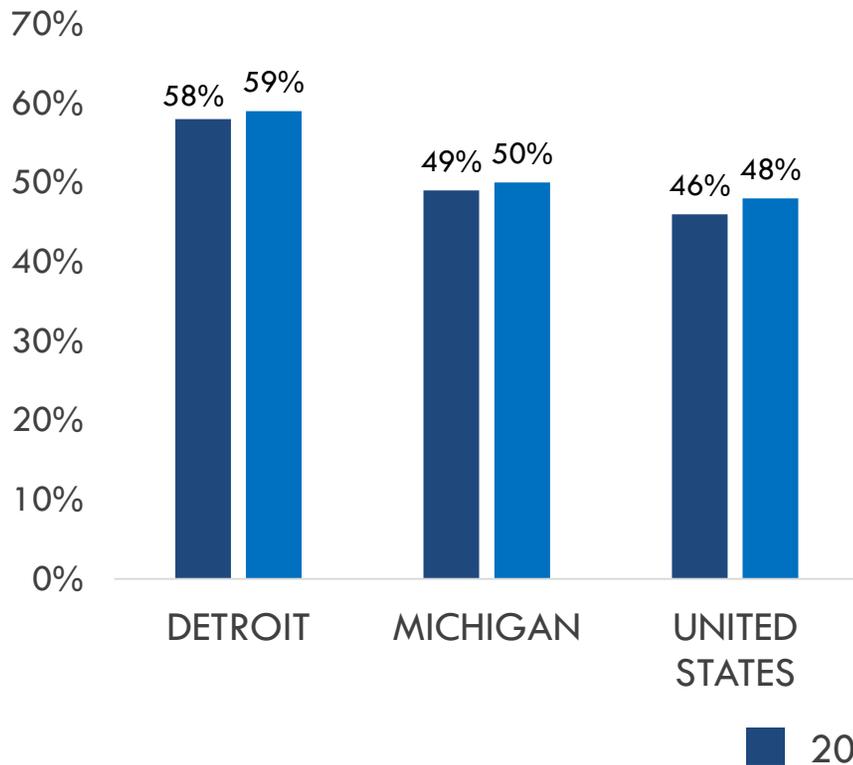
N/A

Note: Affordable rent limits are inclusive of housing utility costs.

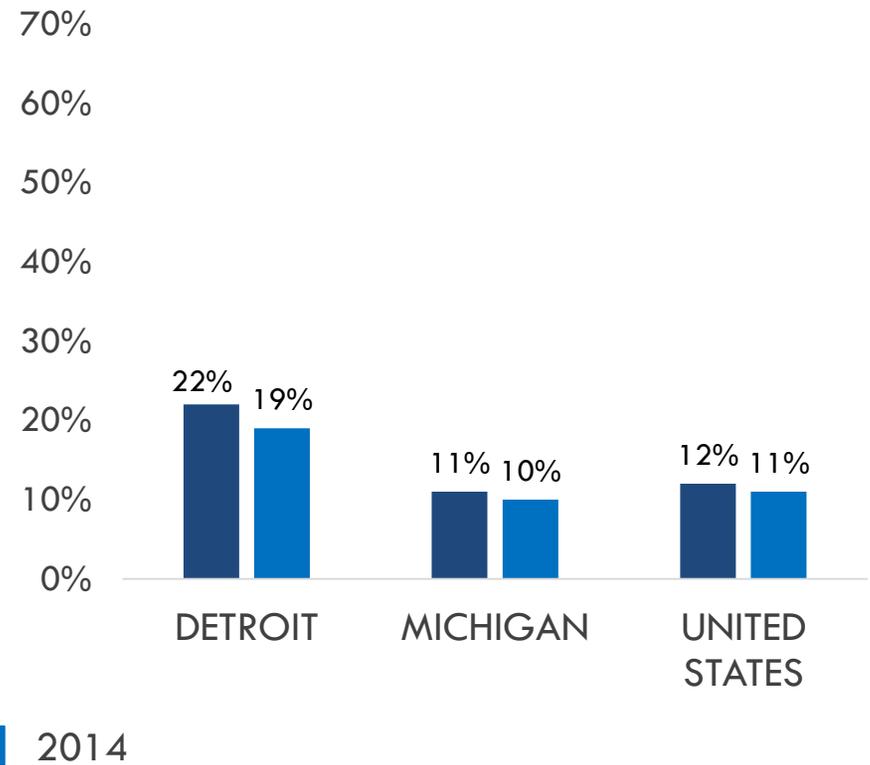
Sources: American Community Survey PUMS Data, Total rental households; HR&A Advisors

A significant portion of renters are rent burdened, spending more than 30% of their household income on housing costs.

RENT-BURDENED HOUSEHOLDS (> 30% Of Income Toward Housing Costs) City of Detroit, Michigan & United States 2009 & 2014



EXTREMELY RENT-BURDENED HOUSEHOLDS (> 50% Of Income Toward Housing Costs) City of Detroit, Michigan & United States 2009 & 2014



Note: Rent burdened households are defined as spending more than 30% of income on housing costs (gross rent, including utilities). Extremely rent burdened households are defined as spending more than 50% of income on housing costs (gross rent, including utilities).

Sources: Policy Map; American Community Survey PUMS Data; HR&A Advisors

Detroit has created opportunities for the residential market, though the market remains challenged, particularly for affordable housing.

- **The market is showing signs of growth including increasing rents and continued demand for new multifamily units in the Greater Downtown area.**
 - Greater Downtown hosts 73% of total pipeline projects.
 - Since 2009, Greater Downtown rents have increased 30%, while rents in the rest of the city have only increased 19%.
- **Supply of affordable housing, particularly for low-income and extremely low-income households, is a challenge for the City.**
 - The gap between need vs. availability of affordable housing is concentrated at the lowest income bracket.
 - Less than 1/4 of units are affordable to households earning less than 30% of AMI.
 - Despite low market rents across the city, the majority of renters are rent burdened, spending more than 30% of their income on housing costs.

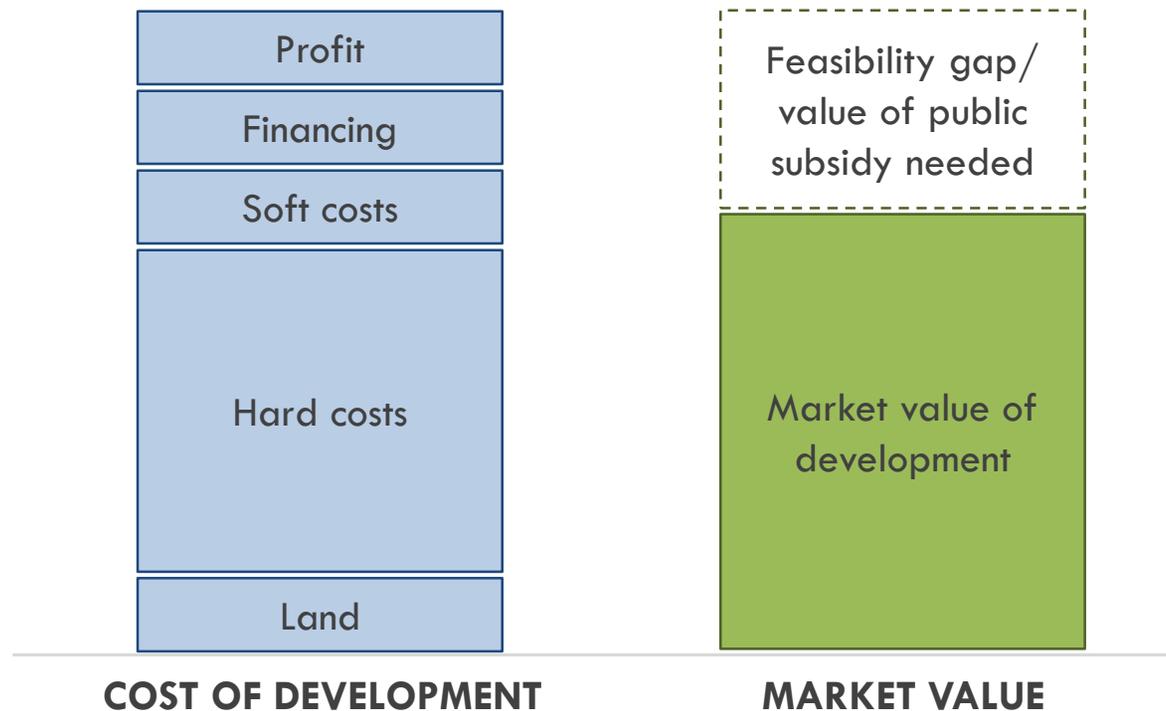
Residential Market & Housing Affordability Overview
Inclusionary Housing Feasibility Analysis
Policy Recommendations

A financial feasibility analysis for a proposed inclusionary housing policy reveals some of the challenges associated with providing affordable housing in Detroit.

For hypothetical developments in three Detroit neighborhoods, analysis addresses:

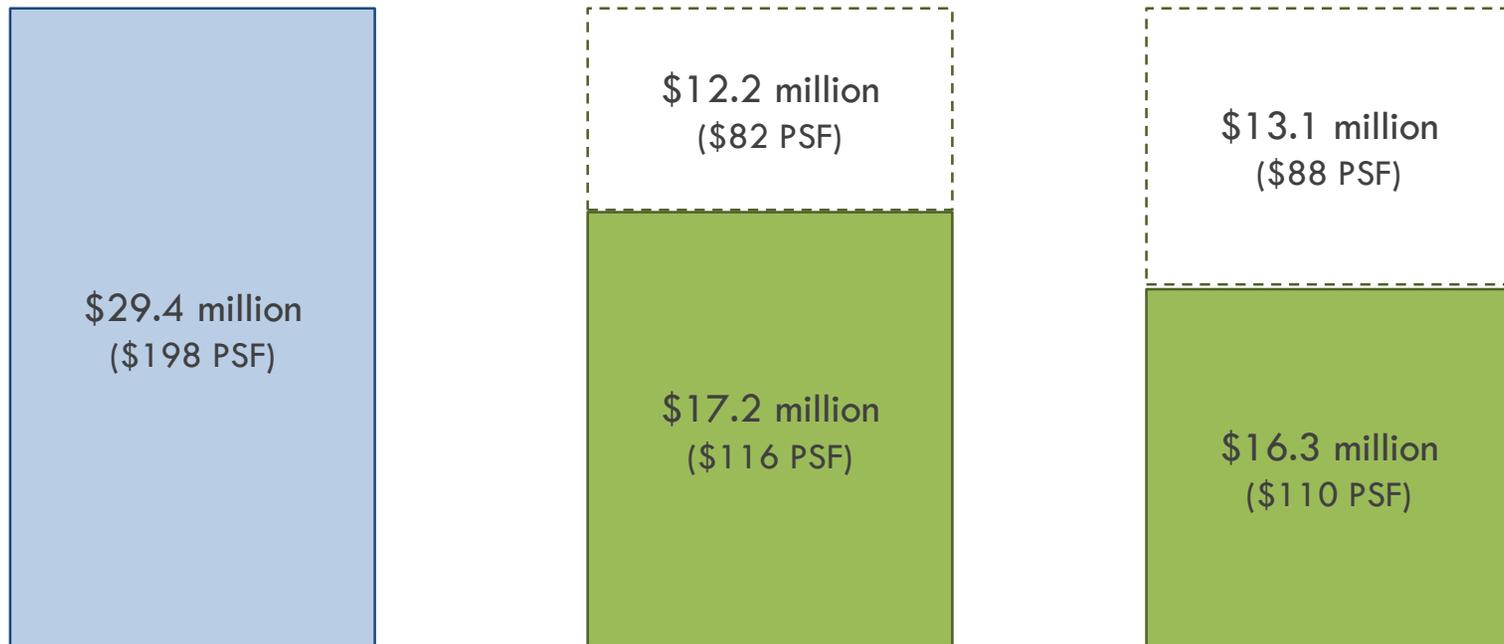
- The feasibility gap for 20% of housing units at 80% AMI
- The subsidy needed and resources available to fill this gap

HYPOTHETICAL MF DEVELOPMENT



Even in Detroit's strongest markets, like Midtown, development requires public support at market rate and additional support for 20% at 80%.

MIDTOWN MF DEVELOPMENT
180 units, new construction



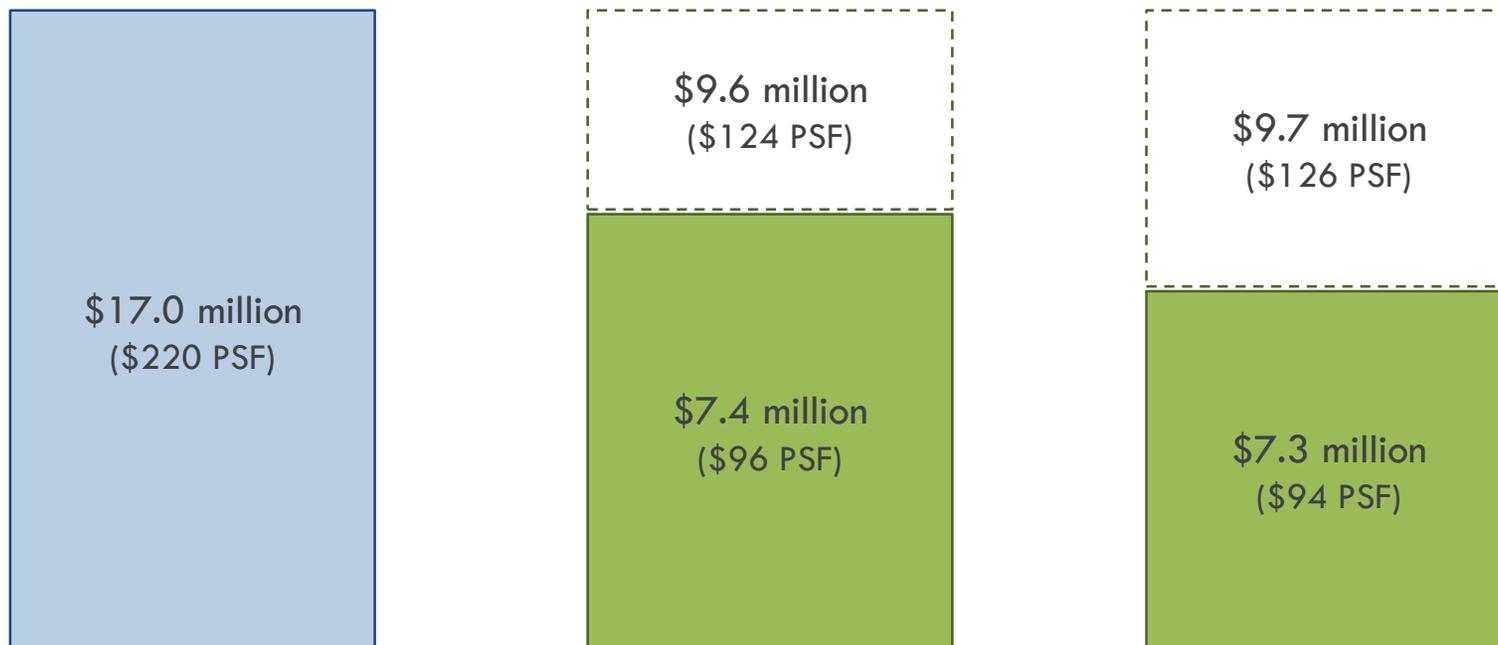
COST OF DEVELOPMENT

MARKET RATE

20% AT 80%

Markets that show signs of growth, but are not yet as mature as Midtown, will require further subsidy.

EAST RIVERFRONT MF DEVELOPMENT
80 units, rehab/renovation



COST OF DEVELOPMENT

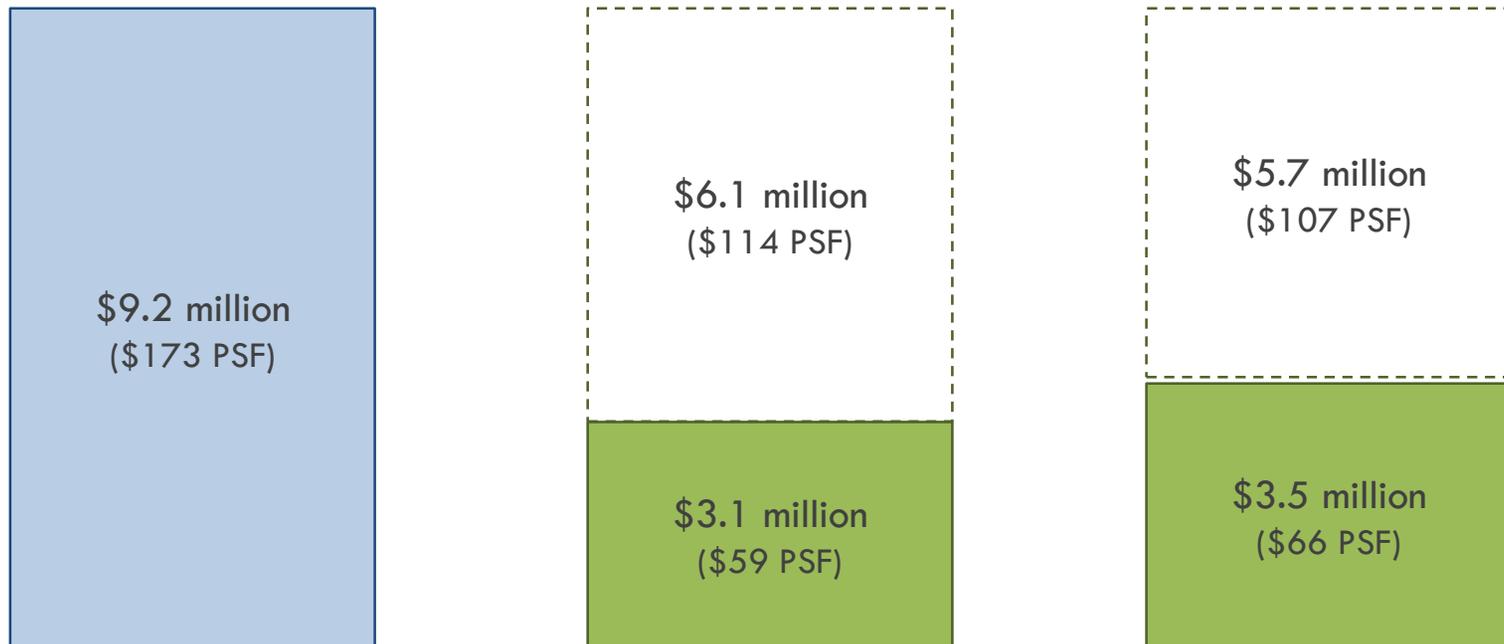
MARKET RATE

20% AT 80%

Weaker markets will require a significantly larger subsidy, though rents aligned with 80% AMI may generate more value than market rents.

LIVERNOIS-MCNICHOLS MF DEVELOPMENT

45 units, rehab/renovation

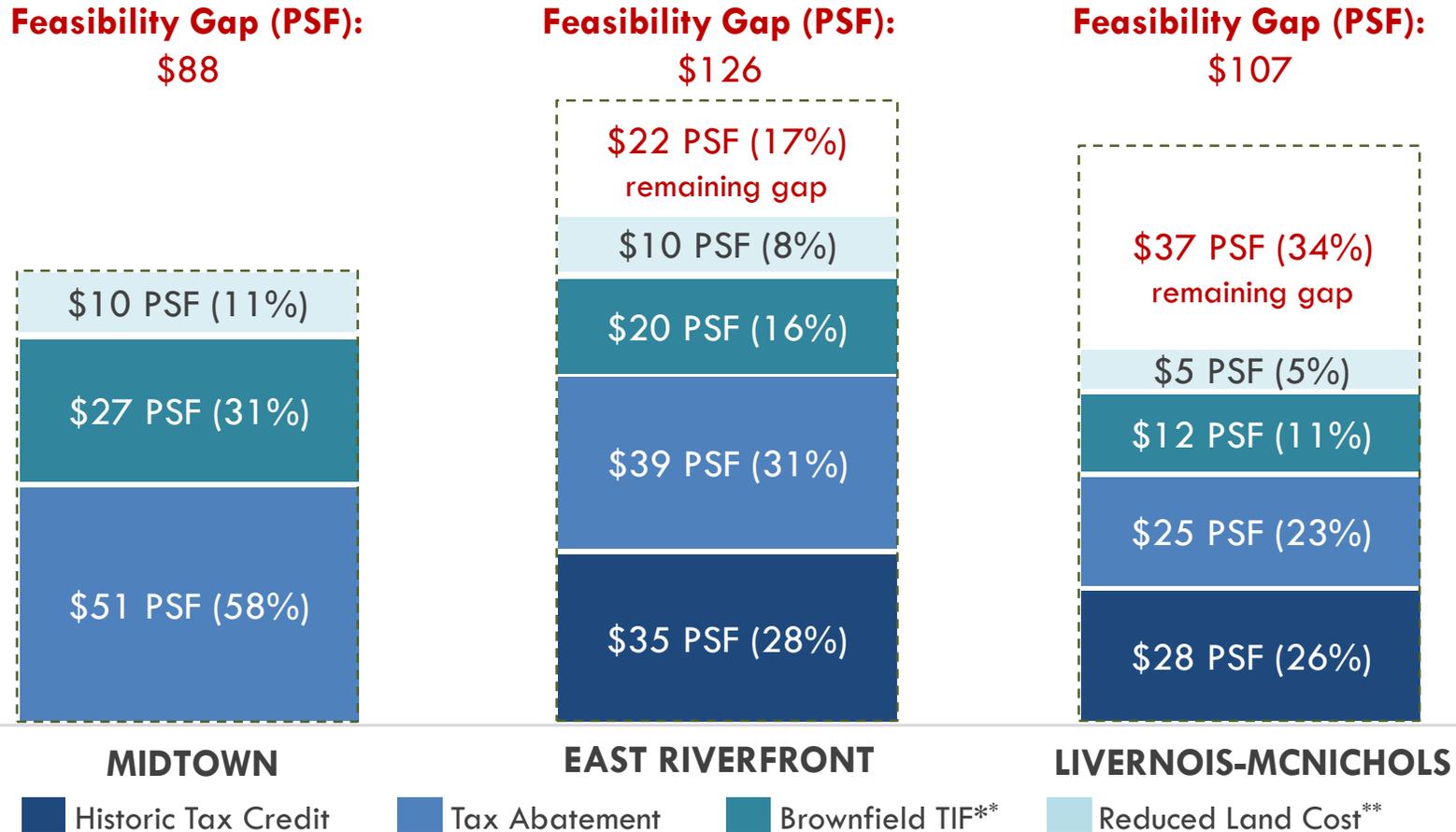


COST OF DEVELOPMENT

MARKET RATE

20% AT 80%

Creating an incentive package to support 20% at 80% development is challenging even in the strongest neighborhood markets.



*Analysis considers only sources of funding that are not limited by annual funding commitments. While additional sources may be available, they cannot be committed as policy.

** A property must meet the requirements for a Brownfield TIF in order to be eligible for TIF funding, and must be publicly-owned to be eligible for a reduction in land cost.

Analysis indicates that a broad inclusionary policy is not supportable in the Detroit market today.

- **Given low land values as a product of current market conditions, the proposed inclusionary zoning policy is not economically viable.** For this policy to be successful, there needs to be sufficient project profitability or land value to support cross-subsidization. Today, even the city's strongest markets require subsidy to support market rate development's feasibility.
- **Any inclusionary housing policy will require significant public subsidy, likely tapping into all of the City's sources that are not annually limited** – tax abatements, brownfield TIF, and reduced cost of public land – and potentially requiring the commitment of limited resources if this full incentive package cannot be arranged.
- **Variation in market conditions across the City requires carefully targeted policies that respond to individual neighborhood market characteristics.** As Detroit's market continues to grow, the most effective strategies for affordable housing will evolve. Today, the City should consider strategies that preserve existing affordable housing and support residents in the greatest need, while planning for policies that respond to future market conditions (including inclusionary housing).

The City should carefully consider where and how an inclusionary housing policy should be applied to avoid hindering development activity.

- **The geography of an inclusionary policy should be limited.** If it moves forward, inclusionary housing should be tested for a limited geography, focused only on the strongest markets, where available subsidies can make development feasible.
- **Inclusionary requirements should apply only to the sale of publicly-owned land.** Only development utilizing subsidy on City-owned land should trigger the requirements of the policy, since the necessary subsidy to support inclusionary projects with 20% of units at 80% AMI will require a reduction in the cost of land.

Residential Market & Housing Affordability Overview
Inclusionary Housing Feasibility Analysis
Policy Recommendations

This study generated five affordable housing goals...

- 1** Encourage mixed-income development without deterring development activity.
- 2** Preserve housing stock that is affordable to Detroiters today, including regulated and “naturally affordable” stock.
- 3** Generate local revenue for affordable housing investments (through an affordable housing trust fund).
- 4** Leverage public land to lay a foundation for inclusive growth.
- 5** Create systems and increase capacity for tracking the preservation and production of affordable housing to measure progress toward goals.

...and five strategies to move toward achieving the City's goals.

- Pilot a **modified inclusionary housing policy**.
- Modify **Detroit's current property tax policy**.
- Establish an **affordable housing trust fund**.
- Dedicate public resources to **preserve existing affordable units**.
- Leverage **public land** to create affordable housing.

Inclusionary Housing | To ensure an inclusionary policy that does not deter development, the City should target a small pilot area and commit public support.

Current Condition

Analysis indicates that the proposed inclusionary policy is not supportable in the Detroit market today, given low land values.

Objective

The City must carefully consider where an inclusionary housing policy would be applied and how to ensure that such a policy does not hinder project feasibility.

Key Recommendations

- 1 The geography of an inclusionary policy should be limited to the City's strongest markets.
- 2 An inclusionary policy should apply only to City-owned property that the City can give for free or at a reduced cost.
 - The necessary subsidy to support inclusionary projects with 20% of units at 80% AMI will require a reduction in the cost of land.
- 3 Any inclusionary housing policy will require significant public subsidy.
 - As modeled, development feasibility requires an incentive package including tax abatements, brownfield TIF funds, and reduced cost land.

Inclusionary Housing | Feasibility analysis suggests that a small pilot area and strong commitment of public support is needed to ensure an inclusionary policy does not deter development.

**Key Recommendations,
Continued**

- 4 If adopted, an inclusionary housing policy should contain clear guidance on implementation, administration and enforcement.
 - Implementation procedures should include guidance on affordable unit pricing, phasing, quality, for instance.
 - Administration and enforcement procedures should be clearly laid out and include guidelines for tenant eligibility, administrative responsibilities, specific mechanisms for enforcement, etc.

Property Tax Reform | The City should collaborate with local and state agencies to reform the property tax system which is currently hindering affordable housing goals.

Current Condition

Detroit's current effective property taxes are the highest in the State of Michigan, creating a burden for homeowners and residential developers.

Objective

Property tax reforms will allow the City to leverage tax abatements to incentivize affordable housing; whereas, currently all multifamily development requires abatement to be feasible.

Key Recommendations

- 1 HRD should collaborate with other agencies and levels of government to reset the property tax system.
 - Complete the reassessment of all properties
 - Reduce millage rates to implementable levels
- 2 Collaborate with key agencies to clarify and standardize tax abatements.
 - Examine existing homeownership abatements
 - Improve program education and access for homebuyers.
 - Standardize abatements offered to new multifamily development to create predictability and, in the long-term, incentivize affordability.

Affordable Housing Trust Fund | The City should establish an AHTF to support the creation and preservation of affordable housing.

Current Condition

The City has limited tools to support affordable housing, particularly as federal funding sources decline.

Objective

The City can work with external partners and introduce tools to collect revenue to expand its ability to directly support development of affordable housing.

Key Recommendations

- 1 Select the high-potential sources that can be used to fund the AHTF from those identified in this study:
 - Tax increment financing, if expanded from current district boundaries or in the future.
 - Hotel taxes, if expanded and captured by the City.
 - Short-term rental taxes, if the City can address enforcement challenges.
 - In-lieu fees generated through an inclusionary housing policy.
 - Vacancy registration fees, if enforcement challenges can be resolved.
 - Commercial City-owned property revenue.

Affordable Housing Trust Fund | The City should establish an AHTF to replace declining federal funding and leverage private financing to create affordable housing.

Key Recommendations, Continued

- 2 Align fund uses with the City's overall affordable housing needs and goals, including:
 - Preserving regulated and naturally affordable housing.
 - Developing housing for households earning less than 30% and less than 50% of AMI.
 - Administering and enforcing affordability requirements.
 - Supporting projects including affordable housing developed on City-owned land.
- 3 Select an appropriate model and structure for fund administration.
 - Designate HRD as the lead agency for the AHTF.
 - Ensure that HRD has the appropriate staff resources to administer the AHTF.
 - Facilitate public review and establish an oversight committee to strengthen transparency.

Preservation | The City should continue to build upon strategies to preserve regulated and naturally affordable housing to ensure sufficient affordable housing supply.

Current Condition

Overall, the City’s stock of regulated and naturally affordable housing is aging and in need of reinvestment. Affordability regulations on thousands of LIHTC units will expire in the next five years, leading owners to either convert units to market rate or require recapitalization to preserve affordability.

Objective

By developing tools and funds to preserve existing regulated and naturally affordable housing units, the City can prevent displacement and ensure adequate maintenance and safety, as well as sufficient quantity, of affordable units.

Key Recommendations

- 1 Develop and implement systems for tracking the physical condition and financial sustainability of affordable housing.
 - Build capacity within HRD to consistently monitor all aspects of the existing affordable housing stock.
 - Establish specific processes for tracking scattered site LIHTC developments.

Preservation | By developing preservation tools and funding, the City can prevent displacement and ensure adequate maintenance and safety of affordable units.

**Key Recommendations,
Continued**

- 2** Create a Preservation Fund, in coordination with the AHTF, that combines loan and grant capital to supply flexible preservation funding.
 - Uses should include the preservation of naturally affordable rental housing and the recapitalization of deed restricted properties, in particular expiring LIHTC projects.
 - Funding should draw from the AHTF and private capital.
 - Designate HRD as the administrator, with input from key stakeholders.
- 3** Lengthen affordability periods for housing that receives public assistance and make affordability permanent when possible.
 - Require lifecycle underwriting, including long-term deed restrictions for newly-created or preserved affordable multifamily properties that receive public assistance.
 - Create shared equity homeownership opportunities as commonly seen in community land trusts, for affordable homes on the market.

Public Land | The City should build on its ongoing efforts to leverage public land to ensure affordable housing development in targeted geographic areas.

Current Condition

The City is currently initiating planning efforts in neighborhoods throughout its targeted multifamily housing areas, which should include strategies for responsible planning and development of public land.

Objective

Detroit's stock of publicly-owned land provides a significant opportunity for the City to shape future affordable housing development in targeted geographic areas.

Key Recommendations

- 1 Make affordable housing a priority for public land slated for residential development.
 - With HRD oversight, and through a formal partnership with the Land Bank, integrate this strategy into the Planning & Development Department's ongoing and future neighborhood planning efforts.
 - Communicate this commitment through the Mayor's Office and ensure consistent messaging to the real estate community from all departments.
-

Public Land | The City should build on its ongoing efforts to leverage public land to ensure affordable housing development in targeted geographic areas.

**Key Recommendations,
Continued**

- 2 Residential developments receiving public land at a free or reduced cost should be required to meet an established affordability requirement.
 - Develop neighborhood-level criteria for evaluating a publicly-owned sites' potential to incorporate affordable housing
 - Prioritize publicly-owned land by development type, disposition strategy, and timeframe.
 - Incorporate requirements for level and length of affordability within RFPs and give preference to developers committed to affordable housing

