

RESEARCH REPORT

The Detroit Housing Market

Challenges and Innovations for a Path Forward

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Executive Summary

A healthy housing market is an important component of a healthy city. It enables residents to build wealth and respond to opportunities, gives a city resources to provide services for its residents, and fosters community by supporting a mix of residents.

In this report, we examine three interdependent elements of a healthy housing market in the context of Detroit: demand, supply, and credit access. For each element, we discuss relevant data, key trends, and the interplay among these elements in Detroit. This synthesis serves our primary goal of providing a foundation for identifying promising policy and program responses that Detroit could implement to improve its housing market. The report provides local stakeholders with data about Detroit's challenges and discusses innovative practices that local leaders from across sectors can apply and adapt to Detroit's dynamic and diverse neighborhood conditions. We supplement our analysis with stakeholder interviews and discussions to capture local insights and ideas as Detroit's leadership, institutions, and residents work toward a sustainable, healthy housing market. Our secondary goal is to document the considerable innovation under way in Detroit so that leaders in other cities facing some of the same challenges can learn from these emerging efforts. Finally, our report can serve as a call to action for Detroit leaders to consider convening a special Housing Compact to develop a specific action agenda that would tailor interventions, prioritize resources, and help Detroit continue "a path forward" to strengthening its housing market. This report's framework and suggested strategies could be a starting place for the Housing Compact to develop and refine more specific policy and program interventions.

Key Observations

Due to decades of disinvestment, population loss, and exclusionary housing policies, Detroit's housing market had experienced distress before the Great Recession. Since then, persistent poverty has helped perpetuate the market's distress and contribute to the concentration of neighborhood poverty, which has profound and long-term effects on residents' outcomes. Notwithstanding Detroit's affordability, nearly 70 percent of Detroit renters pay more than 30 percent of their incomes for housing because of their relatively low incomes. Detroit's bankruptcy and the recession have further disrupted the housing market. Demand, supply, and credit access all pose barriers to residents and other parties involved in the housing market.

Demand

Demand involves the ability to keep existing homeowners and attract new residents. Homeownership in Detroit has fallen significantly, losing 37,000 units in 10 years: the homeownership rate was 55 percent in 2000 (185,000 owners of 336,500 occupied units) compared with 51 percent in 2010 (138,000 owners of 269,500 occupied units). This decline occurred for several reasons:

- Detroit continues to experience population loss. Since 1970, the city's population has steadily declined. Detroit's population loss has outpaced that of similar Rust Belt cities, including Flint, MI; Cleveland, OH; and Syracuse and Rochester, NY. Most notably, Detroit's population between the ages of 25 and 44, the age group with the greatest transitions to homeownership, steadily decreased between 1990 and 2014.
- Unemployment rates and incomes for the residents who remained in Detroit have not kept pace with regional and national trends. Unemployment rates in Detroit continually exceed the national average: in April 2016, Detroit's unemployment rate was 9.1 percent, 4.4 percentage points higher than the national unemployment rate of 4.7 percent. Additionally, the median household income in Wayne County (including Detroit) was more than \$15,000 greater than that of Detroit (\$26,095), according to the most recent US Census estimates. The national household median income exceeded that of Detroit by over \$27,000. Poverty rates also remain high in the city, growing from 25.3 percent for white residents and 32.4 percent for black residents in 2005 to 39.6 and 40.1 percent, respectively, in 2015.
- Many other factors have contributed to the decline in Detroit's homeownership rates, including conditions that encourage residents to move to the suburbs. These factors include high taxes, compared with regional and national rates, for low-quality government services; low-performing schools; high automotive and homeowners insurance premiums; and safety concerns. This shift is especially seen among African Americans, who are increasingly relocating to the now more accessible suburbs, such as areas in Oakland and Macomb Counties and the rest of Wayne County.

Supply

Detroit's total housing supply continues to shrink: more than 45,000 units were lost between 1990 and 2013. More strikingly, the number of occupied units in Detroit decreased precipitously by 228,303 units, or 46 percent, between 1970 and 2010. Despite decreases in supply, demand is still falling at a

faster rate, leaving much of the housing supply vacant and, eventually, abandoned. Additional factors have contributed to the decline of Detroit's livable, or move-in-ready, housing supply:

- Low home values create little incentive for owners to improve their homes. The mean sale price of units in Detroit is well below the national average and lower than the rest of Wayne County. However, select areas of the city, particularly downtown Detroit, have high mean sale prices.
- Old housing stock means that homes may need significant repairs and may not meet the housing preferences of current homebuyers. Eighty percent of Detroit's housing supply was built before 1960. Moreover, the city's housing supply is 67 percent single-family units, but many interviewees noted that many residents prefer multifamily structures for both rental and ownership. Overall neighborhood deterioration and abandonment of commercial strips and retail also inhibit investments and market demand.
- Low rents and high property taxes prevent landlords from investing in improvements, leaving many rental units inadequately maintained.

Credit Access

The lack of access to credit in Detroit prevents homeowners from purchasing the oversupply of housing. Home purchase loan originations fell from 8,480 in 2005 to 490 in 2014. This steep decline led to historically high shares of cash sales: 97 percent in 2014. Similarly, home improvement loan originations fell from 3,475 in 2001 to 21 in 2014. Multiple factors have contributed to this lack of credit:

- Property appraisals are distorted in Detroit from a lack of comparable properties and a high number of distressed sales, making it difficult for potential homebuyers to receive loans for the amount they need.
- Only 21 percent of Detroit households have credit scores that are prime (661 or higher); 62 percent of households have subprime credit scores (600 or lower). The average credit score in Detroit is 585, compared with 670 nationally.
- Past debt constrains residents' access to credit: 66 percent of Detroit residents have debt in collections. Residents with debt in collections owed a median amount of \$1,847, which is \$400 more than the median amount owed by residents in the rest of the Detroit metropolitan statistical area.

- Additional factors that affect residents' access to credit include high debt-to-income ratios and difficulties obtaining title and homeowners insurance.

Key Strategies

Weak demand, an oversupply (and potential mismatch) of aging and dilapidated housing stock, and lack of sufficient income and access to capital for those who wish to buy or repair a home (or both) require interdependent strategies and collective, coordinated actions for the recovery of Detroit's housing market. Implementing an array of actions that addresses specific problems related to multiple and intertwined characteristics of the city's housing market may enable local stakeholders to create a more cohesive and balanced housing ecosystem that will allow residents to realize their desired outcomes as tenants, homeowners, landlords, or sellers.

This report offers a portfolio of strategies to alter the current trends and barriers to the supply of decent, safe, and affordable housing (homeownership and rentals) and improve access to credit. Table ES.1 outlines the primary problem that each strategy would address, noting that many strategies can affect more than one challenge to Detroit's housing market.

Our recommendations attempt to improve the City of Detroit's housing demand in the short and medium term, recognizing that some broader barriers, such as the quality of schools and lack of jobs, are likely to change more slowly and remain obstacles for long-term demand. Several of the strategies we discuss are based on successful models from other cities. Detroit would need to tailor and adapt aspects of these policies and programs to fit local market and neighborhood dynamics. A few might even require changes to state law and local ordinances.

The following recommendations outline our innovations for a path forward in Detroit. Some of the promising programs we identified in Detroit need to be scaled up. Others could be refined to incorporate elements of programs from other jurisdictions that demonstrate signs of success. Although many of these programs and ideas need to be evaluated for their impact and sustainability over time, they offer promising approaches and indicate a local willingness and capacity to develop and refine programs. However, a coordinated implementation of complementary programs will be more effective than implementation of a single program without consideration of neighborhood and community context. A shared housing compact can bring components together and modify them to meet the needs of residents and their communities.

TABLE ES.1

Solution Matrix: Building Blocks for a Path Forward

Core issue	Challenge	Program					
		Foreclosed inventory repositioning	Home equity protection	Land bank	Lease to purchase	Shared equity homeownership	Targeted mortgage products
DEMAND	Falling property values	*	✓	*			*
	Property taxes			*			
	Tenure mismatch			✓	✓		
SUPPLY	Dilapidated stock	✓		✓			*
	Blight or vacancy	✓		✓	✓		
	Foreclosure pipeline	✓		✓			
	Credit availability				✓	✓	✓
CREDIT	Appraisals	*					✓
	Negative equity		*			✓	*
	Homeowner preparation or credit worthiness				✓	✓	✓

Note: A check indicates a direct effect of the program; an asterisk indicates an indirect effect.

Demand

Many of Detroit's residents do not have enough assets or income to purchase or rent homes. Meeting their immediate needs requires maintaining sufficient affordable rental housing while providing resources to help them prepare for homeownership. A different set of strategies is needed to attract new buyers now and in the future.

- Home equity protection would increase demand for homes with falling property values. Syracuse implemented a Home Equity Protection program in the early 2000s that helped ease the concerns of buyers who thought their investment might yield negative returns. The City of Detroit should consider a similar program to increase investments in rehabbed (i.e., rehabilitated) homes.
- High property taxes are a significant barrier to maintaining homeownership for many residents. Tax foreclosure due to residents' and landlords' failures to stay current with tax payments contributes to the blight pipeline. The Detroit Land Bank Authority needs increased capacity

and capital to continue offering and expanding programs such as its Buy Back pilot, which helps households occupying tax-foreclosed properties purchase the property and become current on property taxes. The land bank can help residents become or return to being homeowners while reducing housing instability for those families and avoiding more vacant properties.

- According to existing data, the supply of rental units is generally decreasing while the need for affordable and safe rental housing grows. Per the US Census, Detroit lost more than 20,000 rental units from 2000 to 2010, but recently the rate of loss seems to be stabilizing: just over 2,000 units were lost from 2011 to 2015. Many low-income residents lost their homes in the foreclosure crisis and are now unable to buy. In addition, millennials and baby boomers are increasingly interested in renting multifamily housing instead of owning single-family structures. These trends indicate that Detroit will likely need a blend of policies and programs that build new rental housing while preserving existing stock. Develop Detroit, although still new, shows early signs of attracting the capital to develop affordable multifamily units in certain target markets. However, the supply of subsidies is too small for developments to “pencil out,” especially for extremely low income households.

Supply

Detroit’s housing stock is old and much of it has been poorly maintained, resulting in a large number of dilapidated or vacant houses. Pilot programs are exploring ways to rehab some of these homes, but rehab costs make the homes unaffordable to a large share of city residents. Programs that provide habitable homes at prices affordable to low- and moderate-income residents would return properties to use and families to homeownership. Sufficient funding and an ample supply of contractors would be needed. Further, urban development concepts for a sustainable city should be implemented during this massive rehab effort.

- The HOME Rochester program could be a model for larger-scale rehab work that repositions foreclosed inventory. A community development corporation (CDC) could use elements of this program to strengthen the Detroit Land Bank’s Rehabbed and Ready program. Additionally, HUD’s Asset Control Area Program offers a federal solution by facilitating the process of putting foreclosed properties back on the market in targeted areas.
- The extensive need for housing rehab enables nonprofits or unions to provide job training, such as through Young Detroit Builders or a program like the one implemented by the AFL-CIO that is designed to benefit residents and increase the pool of skilled contractors.

- City stakeholders should continue pursuing the “node” strategy of developing housing in connection with activity centers and the “20-minute neighborhoods” concept. Future targeted neighborhoods should continue to include housing for long-term, low-income residents, even though they have lower market activity and may require more resources before the market is fully revived.
- Other strategies to decrease the oversupply of single-family homes could include a lease-to-purchase program or the previously mentioned tax foreclosure buyback pilot that could help convert the oversupply of single-family homes into rental units.

Credit Access

Developing a pipeline of financial resources would make it possible for future homeowners to acquire the necessary capital to purchase a home.

- Far-from-ready and near-ready homebuyers need ways to increase their credit worthiness and homeowner preparation. As a starting point, increasing financial literacy is critical; many residents would benefit from financial coaching. Additionally, CDCs and nonprofits could replicate elements from various existing programs (such as the Cleveland Housing Network Lease Purchase Program and the Community Resources and Housing Development Corporation’s Learn, Earn, Own program) to implement well-structured lease-to-purchase programs that prepare the city’s residents for homeownership at different rates. Private capital would be needed to increase the scale of such a program to make it cost-effective.
- Mortgage-ready homebuyers need mechanisms to close the gap between low home appraisals and low sale prices so they do not begin from a position of negative equity. A starting point is to build upon the Detroit Home Mortgage program and the approach of Chemical Bank’s (formerly Talmer Bank and Trust) in-house appraisal team. Additional pilot programs to reduce the mismatch between appraisals and home prices include Liberty Bank’s home restoration and acquisition program.
- For homebuyers to complete the purchase of a home and existing homeowners to make improvements to their homes, capital must be available. Detroit could implement elements from existing targeted mortgage products into a more standard product that could apply to areas across the city in which lenders are willing to invest.

- CDCs and nonprofits in the city should explore how shared equity models might work in the context of Detroit's housing market as an alternative type of ownership for low-income families to close the gaps between appraisal and price. Detroit may want to draw elements from successful programs like the Austin, TX, HomeBase Program or Vermont's Champlain Housing Trust Program and adapt them to the dynamics of Detroit's housing markets, neighborhood conditions, and local civic and government capacities.

A Call for a Collaborative Forum: The Detroit Housing Compact

One of the greatest lessons from Detroit's current efforts to promote a healthy housing market is the value of collaboration within an environment that supports innovation. As this report illustrates, a wide variety of small- and large-scale collaborations in Detroit have produced different mortgage loan products and housing strategies, such as the Community Reinvestment Fund's Homebuyer Ecosystem working groups. However, the strategies and many of the entities that manage them are not connected under a common framework that drives toward broader housing market outcomes, nor is there a current vehicle that brings together a broader set of actors that touch the interdependent challenges confronting the city.

As illustrated in figure ES.1, Detroit's housing market operates within a complex ecosystem that includes a myriad of actors, each with important roles and responsibilities, who administer programs and policies that address individual element of the housing puzzle. Detroit's housing ecosystem is influenced by an assortment of regional, city, and neighborhood drivers, such as regional politics, racial disparities, poor city services, and a continuous pipeline of blighted properties. Additionally, Detroit's housing ecosystem still suffers from the effects of the Great Recession, an acute event that compounded longer-term problems with the city's housing market. Although it may seem overwhelming to fix a dysfunctional housing ecosystem, our report's short- to medium-run strategies can jumpstart that process by addressing the core elements of the Detroit housing market—demand, supply, and credit access. Operating effectively within such a complex ecosystem will require a regular forum in which the key actors can meet to consider solutions and put innovative ideas into action.

FIGURE ES.1

Detroit Homeownership Ecosystem Challenges



Source: Homebuyer Ecosystem Working Group. 2016. *Strategies to Rebuild Detroit's Homebuyer Ecosystem*. Minneapolis, MN: Community Reinvestment Fund.

We recommend convening a Detroit Housing Compact composed of city officials, lenders and business leaders, real estate agents, housing counselors, community organizations and residents, planning organizations, other nonprofits, and philanthropy that could facilitate the implementation of these more immediate strategies and turn short- and medium-run recommendations into long-term solutions. At the core of this recommendation is the recognition of the collaboration and innovation shown by local leaders in responding to Detroit's current housing crisis. For instance, a multisector group, similar to the Detroit Blight Removal Task Force, could facilitate the design, development, and implementation of this report's recommendations and continue to explore other innovations that further the city's recovery. The Housing Compact would provide a regular forum for collaboratively solving housing issues, such as when the city and federal government convened the private sector, nonprofits, and philanthropy to create the Detroit Home Mortgage program. Although other groups have done in-depth diagnostic work on strategies for improving local homeownership, such as the Homebuyer Ecosystem Working Group coordinated by the Community Reinvestment Fund,¹ a Detroit

Housing Compact would examine the interrelationships of various market segments as they simultaneously calibrate policies that address the core issues of demand, supply, and credit access.

During our discussions stakeholders from various sectors made it clear they want more information, a deeper data dive and in-depth analysis of the city's housing market than we could provide. For example, by using smaller units of analysis, such as individual neighborhoods, for evaluation of the housing market and mapping this analysis against where current assistance is directed, local stakeholders could better assess and recalibrate programs and resources to address the special circumstances and context found in Detroit's diverse neighborhoods.

A deeper dive would be the next logical step as solutions need to be tailored to individual communities. The Detroit Housing Compact could be the platform for this analysis and the mechanism that turns short-term ideas into long-term changes. Such a collaborative effort would need solid data in designing and developing these policies and programs as well as data for evaluation and assessment. In this report's conclusion, we offer several ideas and principles that could guide the Detroit Housing Compact's design and development.

Errata

This report was updated on March 7, 2017.

On page 5, “over 316,000 foreclosures occurred from 2007 to 2015” was changed to “The number of mortgage loans in the foreclosure process reached a high of 5,090 in 2009 following the housing crisis, accounting for 8.3 percent of all outstanding mortgages at the time. On top of that, about 62,000 properties in Detroit were headed for tax foreclosure in 2015.”⁶

On page 9, “One source estimated that in 2015, of the 62,000 properties in Detroit headed for tax foreclosure, 36,800 were occupied.”¹⁵ was deleted.

On pages 6–8, notes 6 through 14 were renumbered as 7 through 15. Similarly, on page 70, note 15 was moved to note 6, and notes 6 through 14 were renumbered as 7 through 15.

Sustaining a Healthy Housing Market

A healthy housing market requires families who want to live in the community, homes for them to live in, and the flow of capital to support supply (constructing and rehabilitating homes) and demand (obtaining a home purchase loan). Detroit has faced sustained challenges on each of these fronts.

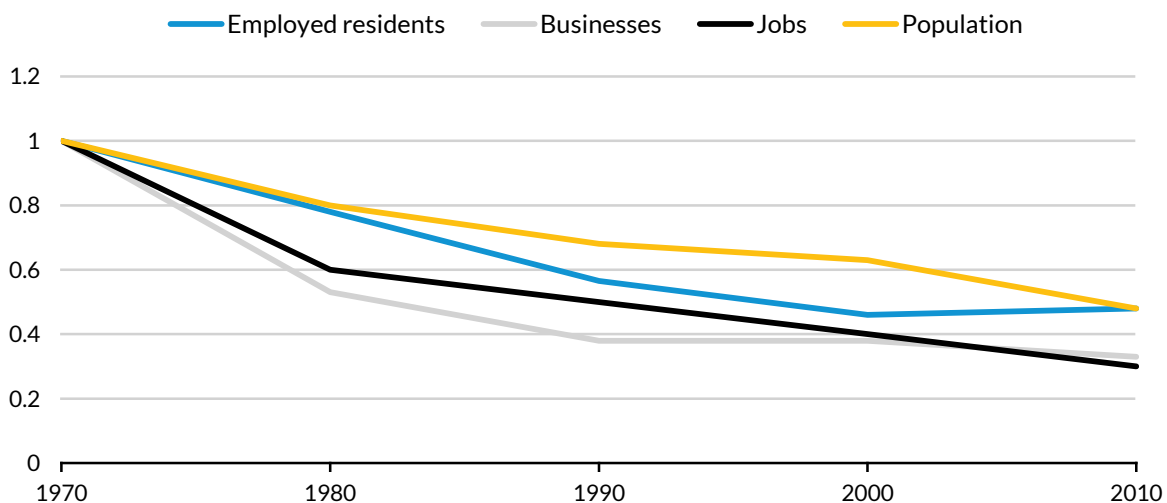
To prepare this report and its recommendations, we examined data on the three core issues of demand, supply, and credit. We supplemented the data with interviews with over 20 people working to support the housing market and the well-being of residents in Detroit. Our interviewees included city staff, nonprofits, developers, lenders, and community representatives.² Additionally, we convened a group of approximately 30 stakeholders from across sectors to provide feedback to refine our synthesis and recommendations.

Demand

The City of Detroit has experienced population loss since 1960, resulting in large part from the loss of jobs and accompanying disinvestment in the city (figure 1).

FIGURE 1

Index of Detroit's Decline since 1970



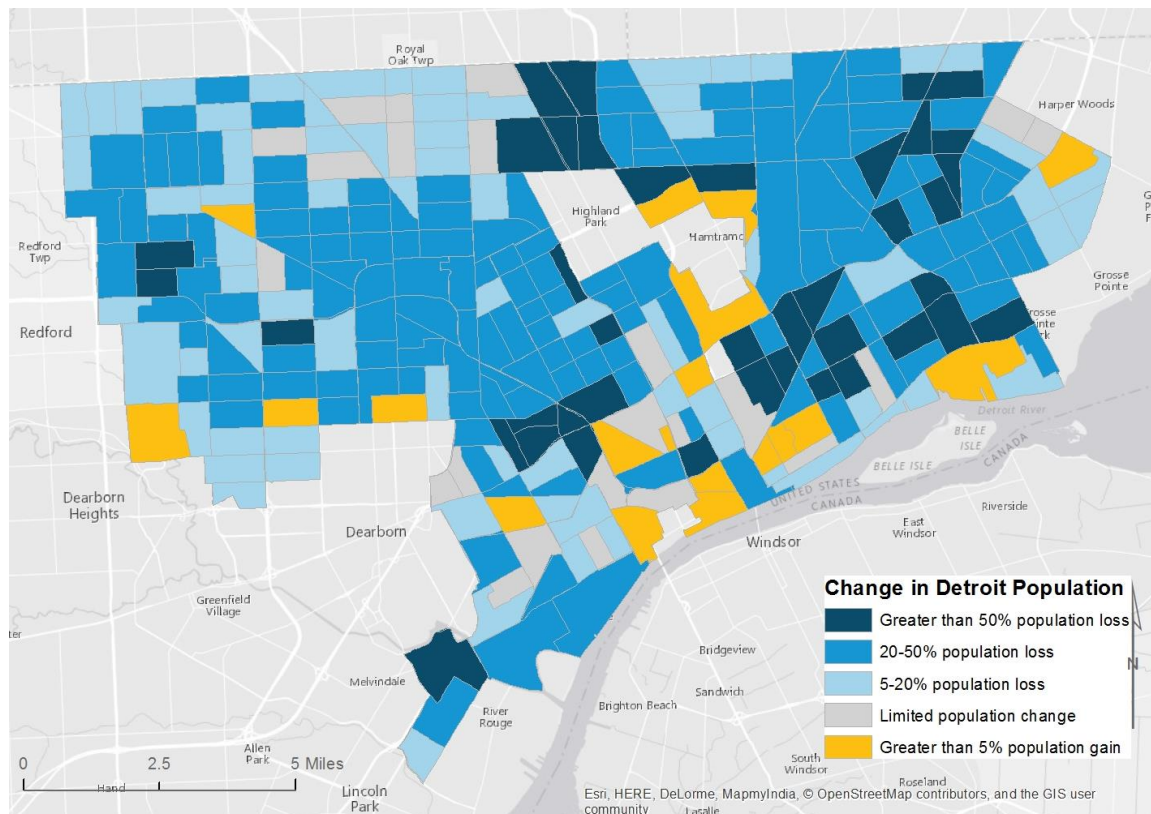
Source: Alm and colleagues (2014), figure 1.

As deindustrialization progressed, Detroit experienced a steady, precipitous decline in population — 31 percent between 1990 and 2010 alone. This trend stands in stark contrast to the population of the United States, which increased 24 percent during the same period. Between 1950 and 2010, Detroit lost 52 percent of its people, 55 percent of its jobs, 29 percent of its homes, and 60 percent of its property tax revenue (Galster 2012, 238). From 2010 to 2014, this trend continued with declines in population, labor force, jobs, and employed residents; however, the number of employed residents and jobs started to increase in 2015.

The population loss was not uniform. Loss was severe in most neighborhoods, yet a few neighborhoods have gained population since 2000 (figure 2).

FIGURE 2

Change in Detroit Population, 2000–12



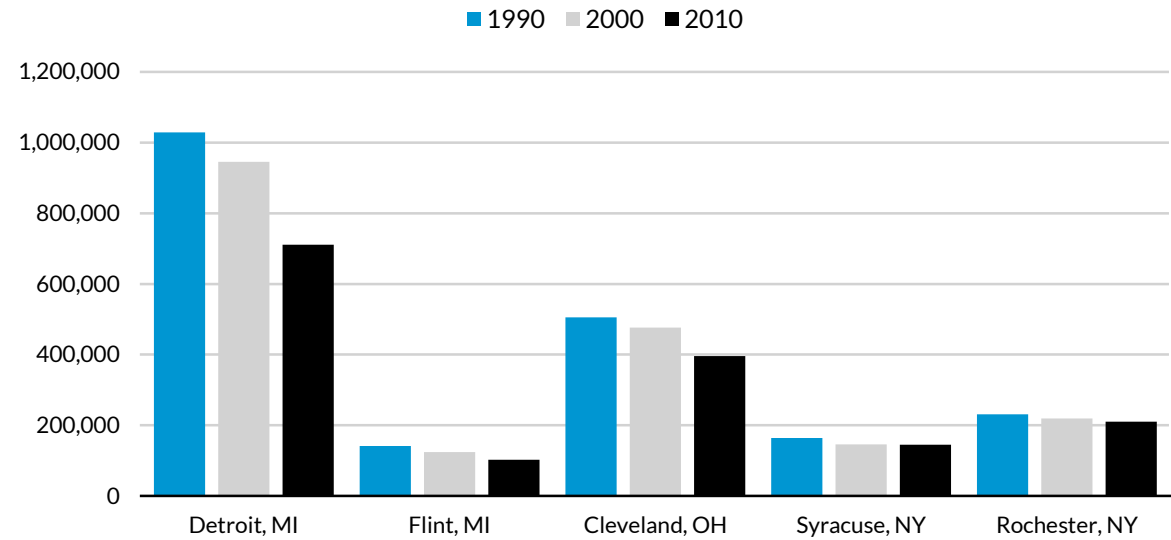
Sources: US Census Bureau, 2000 Decennial Census; American Community Survey (2010–14 tract-level average).

Note: 2012 refers to the American Community Survey 2010–14 five-year estimates.

Detroit is not the only city in the nation to face long-term population loss and economic stagnation. Flint, MI; Cleveland, OH; and Syracuse and Rochester, NY, for example, share a similar experience with

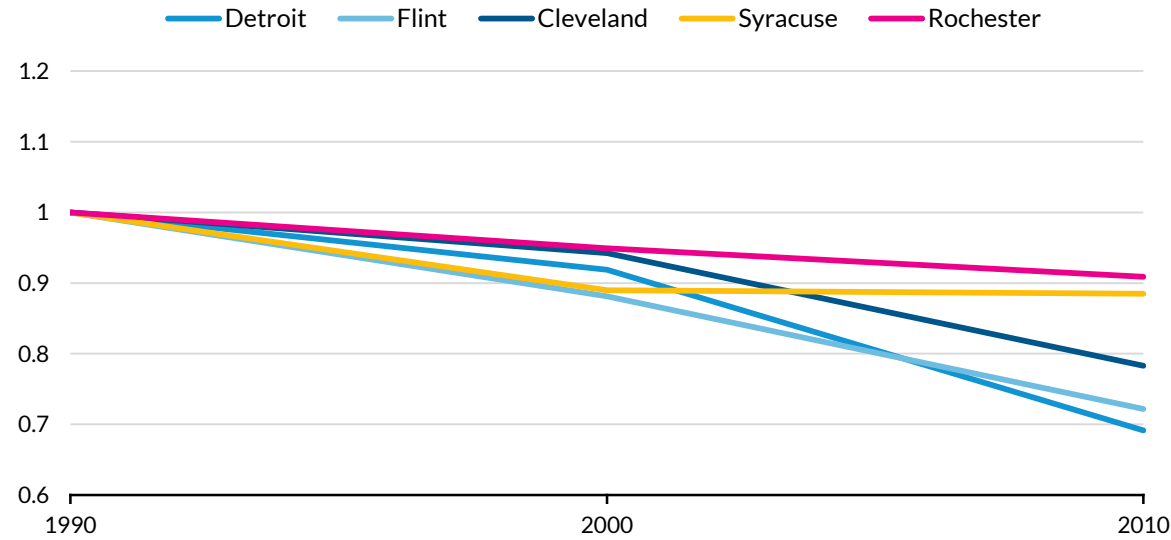
Detroit, although their population declines are not as extreme (figure 3), even when indexing the values to adjust for population size (figure 4).

FIGURE 3
Population by City, 1990–2010



Sources: US Decennial Census 1990, 2000, and 2010.

FIGURE 4
Index of Population Loss by City, 1990–2010



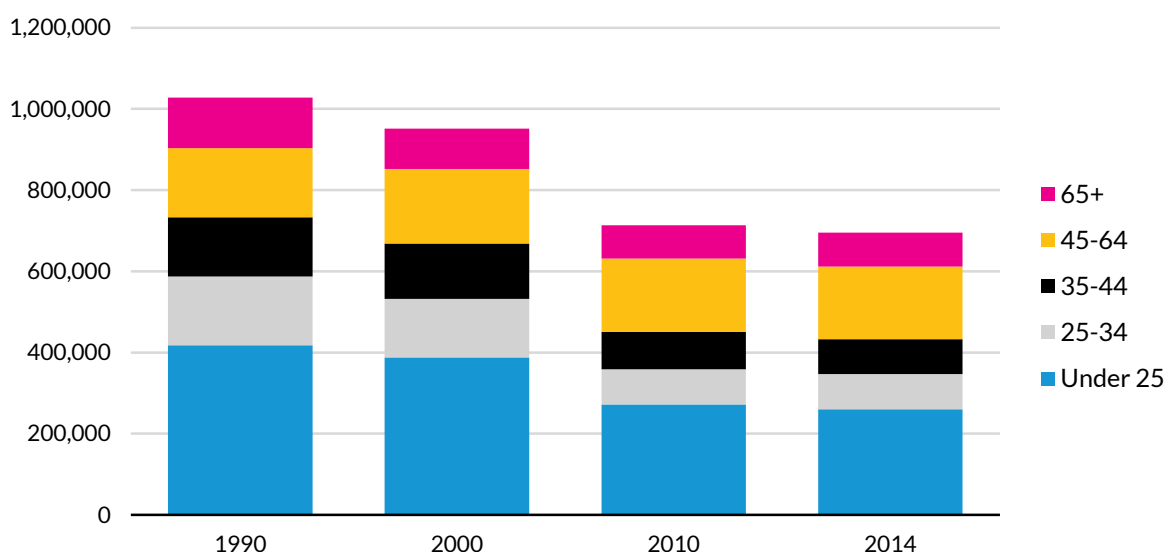
Sources: US Decennial Census 1990, 2000, and 2010.

Population loss has slowed recently in Detroit, decreasing from 713,777 in 2010 to 695,437 in 2014. As one interviewee explained, “Detroit continues to experience population loss. The same number of people are leaving, but new people are moving in, slowing the net loss” (8). Another person noted, “Slowing down the loss is a big victory for the mayor” (3).

The postindustrial Midwest economic shifts have been much studied and explored (see, e.g., Wolman et al. 2008). To better understand the demand challenges facing Detroit’s housing market, we need to examine the demographics of its residents. For example, housing preferences differ along the life cycle, so age distribution will affect demand. People typically form households most rapidly in their twenties and early thirties. These new households often become renters, transitioning to homeownership in their mid- to late thirties and forties (Goodman, Pendall, and Zhu 2015).³ These transition rates have been slowing nationally, with children living at home longer and renters delaying home purchases. Detroit’s decrease in residents ages 25 to 44 (figure 5) indicates a weak demand for housing units.

FIGURE 5

Population by Age, Detroit, 1990–2014



Sources: US Census Bureau, Decennial Census 1990, 2000, and 2010; American Community Survey Demographic and Housing estimates, 2014.

Another demographic component is the increase in the foreign-born population. Immigrants were seen by several interviewees as a potential source of new demand in Detroit. This observation reflected a small but growing immigrant population, particularly Latino, with “pockets of Hmong and others” (13).

The more than 35,000 foreign-born residents constitute a bit more than 5 percent of the city population, placing Detroit 138th nationally in its share of immigrants (Cruz 2014). One interviewee considered immigrants particularly beneficial because they tend to be cash buyers and “are interested in pockets in the city that are not the expected pockets, where the housing market isn’t as strong” (1). Attracting immigrants from the Middle East refugee crisis was another opportunity (14). However, Tobocman (2014, 6) noted, “The same factors that have driven other groups to leave Detroit’s city center... also tend to keep new immigrants away, although the city remains attractive to some working-class populations from Mexico, the Middle East, Africa, and Asia.”

Residents’ incomes and employment also contribute to housing demand. Detroit’s unemployment rate exceeded 28 percent in June 2009, compared with 9.7 percent nationally; it had fallen to 9.1 percent by April 2016, closer to the national rate of 4.7 percent.⁴ Median household income was only \$26,095 in Detroit, compared with \$41,421 in Wayne County, \$49,087 in Michigan, and \$53,482 in the United States.⁵ Low incomes and high unemployment rates make homeownership financially infeasible for a large portion of Detroit residents, as reflected in falling homeownership rates (table 1).

TABLE 1
Homeownership Rates, 1990–2014

Year	Detroit	Michigan	United States
1990	53%	71%	64%
2000	55%	74%	66%
2010	51%	72%	65%
2010–14	51%	72%	64%

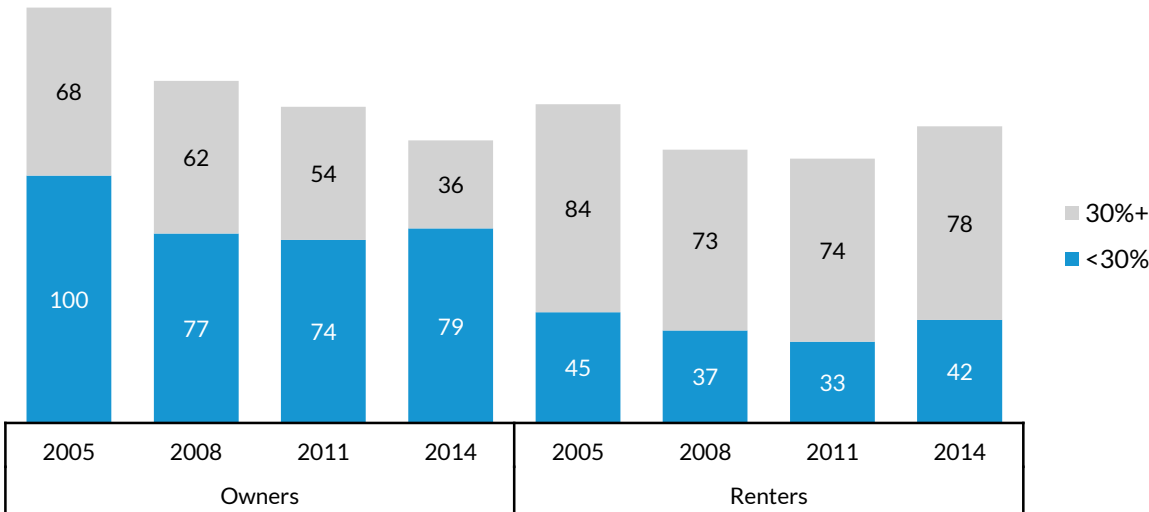
Sources: Neighborhood Change Database, 1990; US Decennial Census, 2000 and 2010; American Community Survey 2010–14 five-year estimates.

The decrease in homeownership resulted in part from an increasing number of homeowners who lost their homes to foreclosure during the last decade. The number of mortgage loans in the foreclosure process reached a high of 5,090 in 2009 following the housing crisis, accounting for 8.3 percent of all outstanding mortgages at the time. On top of that, about 62,000 properties in Detroit were headed for tax foreclosure in 2015.⁶ The housing market in Detroit experienced a significant change during this period as it became a city with almost as many renter (125,300) as homeowner (128,900) households. Detroit’s experience is consistent with the national pattern in which a larger share of households is expected to become renters than homeowners (Goodman, Pendall, and Zhu 2015). Although the demand for rental housing will be stronger than that for owner-occupied housing throughout the Detroit metropolitan region through 2020, a gradual return of homeowners after 2020 is projected to

accompany a substantial drop-off in rental households in Detroit as millennials age into their prime homebuying years. Detroit must satisfy rental demand in the intermediate term to prevent these potential homebuyers from moving to the suburbs.⁷

Housing cost burden, which examines housing costs relative to income, is one measure of households' financial situation. In 2008, about 45 percent of Detroit homeowners paid over 30 percent of their income on housing (figure 6). By 2014, that share had declined to just 31 percent, although the total number of homeowners had decreased. Cost-burdened renters, however, are a fairly constant share of all renters, peaking in 2011 at 69 percent and receding to the 2005–08 level of 65 percent in 2014. The large number of cost-burdened renters reflects potential demand for affordable homeownership but creates concern about sufficient income to save for a down payment and otherwise transition to and sustain homeownership.

FIGURE 6
Cost Burden for Owners and Renters, Detroit, 2005–14
Thousands of households



Source: American Community Survey one-year estimates for 2005, 2008, 2011, and 2014.

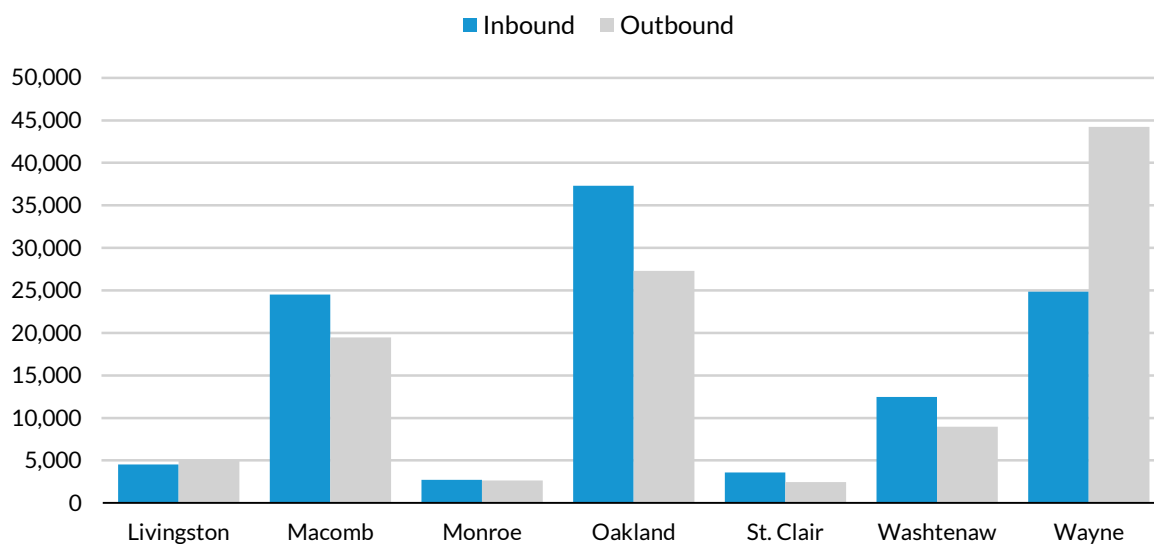
Housing demand reflects the choices of residents living in the city as well as the desire for others to move to Detroit. The availability and quality of city services plays a significant role in both household choices and house prices, as features like good schools are capitalized into house prices (Nguyen-Hoang and Yinger 2011).

Tiebout (1956) posited a model in which households select the combination of government taxes and spending they prefer by “voting with their feet”—that is, by moving to the jurisdiction with the combination that most closely matches their preferences. The current mismatch in Detroit between the high property taxes residents pay and the low-quality services they receive may further dampen demand as people leave Detroit for better tax and service packages. This decrease in demand is becoming particularly true among African Americans.⁸ Between 2000 and 2010, Detroit experienced the sixth-largest gain among metropolitan suburbs as 133,488 African Americans moved to the city’s suburbs. Simultaneously, Detroit’s black population decreased by 185,393 (Frey 2011).

Among seven counties in southeast Michigan, only Wayne County experienced a significant loss of residents to its neighboring jurisdictions (figure 7).

FIGURE 7

Average Annual Migration into and out of Counties in the Detroit Region, from and to Other Counties within the Detroit Region, 2009–13



Source: American Community Survey 2009–13 county-to-county migration files.

Interviews with stakeholders in Detroit identified several challenges to attracting and retaining residents in the city, including low-quality schools, high property taxes, expensive homeowners insurance (when available), expensive car insurance, and safety concerns. As one interviewee commented, “If you don’t have decent schools, police, fire response, safety, basic amenities that 90 percent of Americans expect in their communities, I don’t understand how allowing people to buy property is going to fix all of that. You need people that want to buy in the city” (12).

A common refrain among the interviews was the effort required to live in the city: “It’s a labor of love to live in Detroit” (16). Attracting and retaining families with children was seen as particularly challenging, as “the biggest obstacle [to building demand] is getting people with school-aged kids, because the schools are unacceptable” (2). Another stakeholder commented, “The middle income is having the most difficult time in Detroit... those families have fewer and fewer choices for where they can live affordably, safely, and in quality housing” (15). The 38 percent decrease in the number of children in Detroit between 2000 and 2012 (from 229,800 to 142,000)⁹ may reflect the difficulties families have remaining in the city. As one person noted, “The revitalization has attracted young professionals, prefamily stage, and empty nesters in the midtown and downtown area. That’s fine, but it doesn’t give you longevity—you need to create space where families can thrive in Detroit. The city can’t rebound without that” (13). Public safety and education require long-term changes and are being worked on, according to one interviewee; other challenges may be more amenable to quicker change (11).

Many interviewees mentioned expensive auto insurance premiums in Detroit as an example of the higher cost of living, which can serve as a barrier to entry. The high premiums are the outcome of Michigan law, which requires unlimited medical coverage under its mandatory no-fault insurance plan.¹⁰ The state law protects drivers and their passengers in catastrophic accidents. Detroit residents experience the same rate of accidents as those in the suburbs, but they file more and larger medical claims, leading to higher premiums for Detroit residents.¹¹ The high insurance cost leads residents to drive without car insurance, register their car at the suburban addresses of friends and family, or do without a car, which is challenging in Detroit. Mayor Mike Duggan has proposed creating a “D-Insurance” plan that would exempt city residents from paying for mandatory unlimited personal injury coverage and reduce premiums by limiting benefits to \$250,000 for hospital coverage and another \$25,000 for out-patient coverage.¹² Duggan’s proposal is currently stalled in committee in the Michigan legislature.¹³

Property tax-related issues also make living in Detroit expensive. Detroit’s homestead property tax rates are 3.257 percent of value, the highest in the United States, although owners who occupy their property are exempt from paying local school taxes (Alms et al. 2014). It has been estimated that many properties are overassessed by a factor of five or more (Alms et al. 2014, 4).

The high tax bills, particularly in relation to the low value of the homes due to a disequilibrium between sale prices and assessed values¹⁴ (at the median, Detroit’s homeowners estimated their home value was \$45,100 in 2012),¹⁵ have likely contributed to the large number of tax-delinquent properties. Detroit’s property tax revenue fell from \$240 million in 1995 to \$90 million (in constant dollars) 20 years later (Sands and Skidmore 2015). With numerous reports recommending tax reform to levy lower taxes and collect them from a larger share of the population, the city has begun considering and

implementing changes to its property tax system, including lowering assessments, to make the tax system fairer and more effective.

Property taxes were also seen as a potential constraint on internal migration. Michigan law limits property tax increases through the Headlee Amendment and Proposal A. An analysis of Proposal A found that it reduced effective tax rates for existing homeowners but not new homebuyers (Skidmore, Ballard, and Hodge 2010). Interviewees noted that Detroit's higher property taxes "not only prevent people from buying in Detroit, but also prevent people who live there already from moving to a different neighborhood and buying. Taxes jump on the sale" (4). One person noted the tax law creates opportunities for Detroit as "the vacant land starts at a zero-taxable value, so when it goes into land bank, there's new money for the city" (8).

Tax-foreclosed properties were mentioned frequently in interviews. Concerns were raised about irresponsible or predatory landlords, households occupying the property, and speculators. The most egregious stories about tax foreclosures involved entities that purchased a property in a tax foreclosure sale, received rent from tenants, paid no property taxes, then lost the property to unpaid taxes. Structured as limited liability corporations, the entities could terminate that corporation, form a new one, and purchase the same or another property. One person explained the process: "People are paying their rent but they get kicked out of their homes, and then landlords buy the same property again. That's destabilizing to a lot of people in the city" (13).

In those cases, residents who paid their rent (and may continue paying it during and after the foreclosure process) were often unaware that the landlord no longer owned the property. A less common scenario involved owners who may have inherited the property but were unaware they needed to pay taxes and thereby lost their homes. In both cases, people live in homes that, if not purchased at the foreclosure sale, are transferred to the Detroit Land Bank Authority (DLBA).

The local press has published several stories about individuals affected by tax delinquencies and foreclosures. For example, a man who had been experiencing homelessness purchased a tax-foreclosed house for \$500 and invested in repairs. Unaware that he could apply for a poverty tax exemption, he now faces foreclosure because he was unable to pay the annual \$1,300 taxes.¹⁶ The interviewees commented on the need for a strategy to help owners who are unable to pay their taxes: "How do people pay property taxes when they lose their jobs or jobs don't pay enough? We need an effort to keep people in their homes who are experiencing tax delinquency or foreclosure" (1). Another, more powerful framing of the issue put the challenges facing these residents in the larger context: "They were

incentivizing white working professionals to live in midtown and downtown, giving them \$5,000 or \$10,000, and then we are throwing black families out for \$5,000” (16).

Speculators, who purchase properties from tax sales, may choose to hold the property for years.

The biggest problem is tax foreclosure prevention, that’s where the speculation happens, where the horror story of the overseas speculator who buys 500 homes at the auction that sit vacant, in limbo, for years and years and years. You can’t figure out who the owner is because it’s an international organization. We need to focus on tax foreclosure prevention and how to prevent the speculators from entering the market. (10)

The tax foreclosure policies made it easy for speculators to sit on properties, not invest in them, and continue to own that property without paying taxes because of how the auction was structured. (17)

The vacant buildings can harm neighborhood revitalization efforts. Only when they constitute nuisances can DLBA act under its Nuisance Abatement Program, which began in 2014 and allows the land bank to file lawsuits against vacant properties that are open to trespass, neglected, or dangerous. Since its inception, over 3,600 claims have been filed.¹⁷

Demand generation is further complicated by a regional housing dynamic in which the suburbs offer better amenities and quality of life; some even provide what one interviewee described as “urban refugee enclaves in the suburbs” (13). Residents with options will move if the living conditions become bad enough. As one person pointed out, “A lot of Detroiters have chosen to move out of Detroit to areas surrounding the airport and downriver communities which have better schools, better housing, and newer housing” (7). Regional market dynamics include inner-ring cities having similar problems with high vacancy rates and lower-quality housing and exurban former farmlands offering better tax rates and newer housing.

Supply

An integral part of Detroit’s story of demand is the city’s housing supply. A healthy market requires building demand while reducing oversupply (Boehlke 2011). Detroit’s supply story includes the following components:

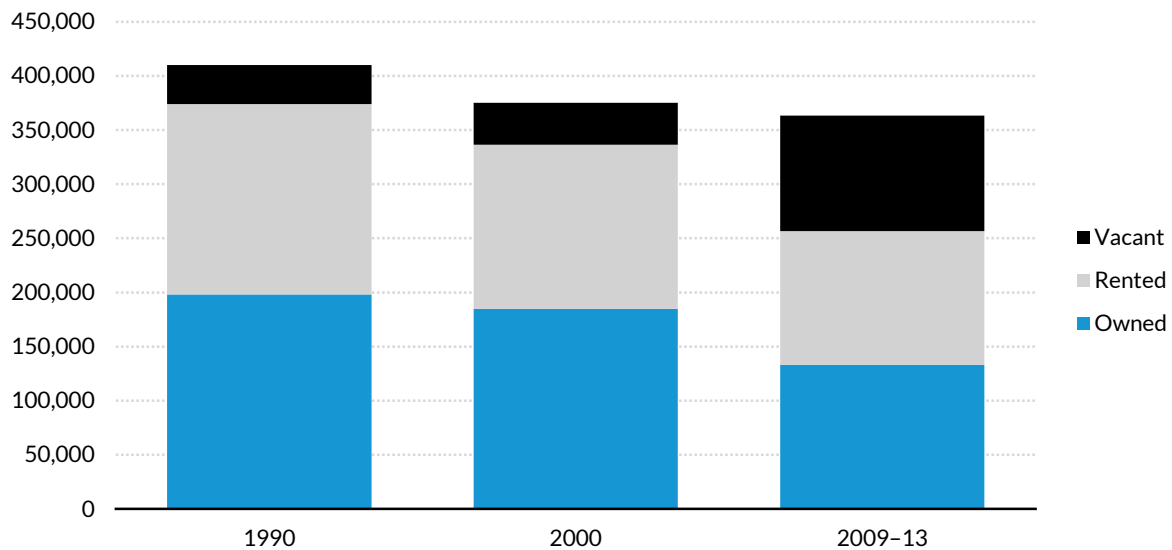
- more units than households, leading to abandonment
- a continuous increase in the supply of vacant homes from mortgage and tax foreclosures

- units falling into disrepair as low prices and rents provide few incentives or resources for maintenance
- mismatch between available units and desired supply as the stock ages and preferences change

We began by looking at an overview of the housing stock (figure 8). Between 1990 and 2011, the total number of units decreased while the portion of vacant units increased.¹⁸

FIGURE 8

Housing Stock by Tenure and Vacancy, Detroit, 1990–2011



Sources: US Census 1990 and 2000; American Community Survey 2009–13 five-year estimates.

Since 2000, housing supply has decreased in Detroit from over 375,000 units to over 349,000 units. But the number of occupied units has fallen more, from 336,400 to 269,400 (data from US Census 2000 and 2010, QT-H1). “Thousands of single-family units are being taken out of the market each year, not because of disrepair, but because there is no demand for them,” a respondent noted (17). Looking back further, Detroit lost 228,303 occupied units between 1970 and 2010, a 46 percent loss (table 2). Although many other postindustrial cities lost population and saw a decrease in occupied units, Detroit’s experience was on a much greater scale.

Detroit currently has 109,000 vacant properties, nearly tripling the number of vacant units since 2000. Both Flint and Cleveland have experienced similarly sharp population declines (28 and 22 percent, respectively) over the past 25 years. Since 2000, vacant units have nearly doubled from approximately 7,000 to 13,000 in Flint and from 25,000 to 45,000 in Cleveland. These trends also have

been observed in Syracuse and Rochester, which have experienced population declines of 12 and 9 percent, respectively, and continue to host large numbers of vacant properties. Though Detroit is exceptional in some ways, its housing market still bears a striking resemblance to the markets of many other postindustrial cities (figure 9). These other cities are a possible source of solutions as they have experimented with new programs and policies.

TABLE 2

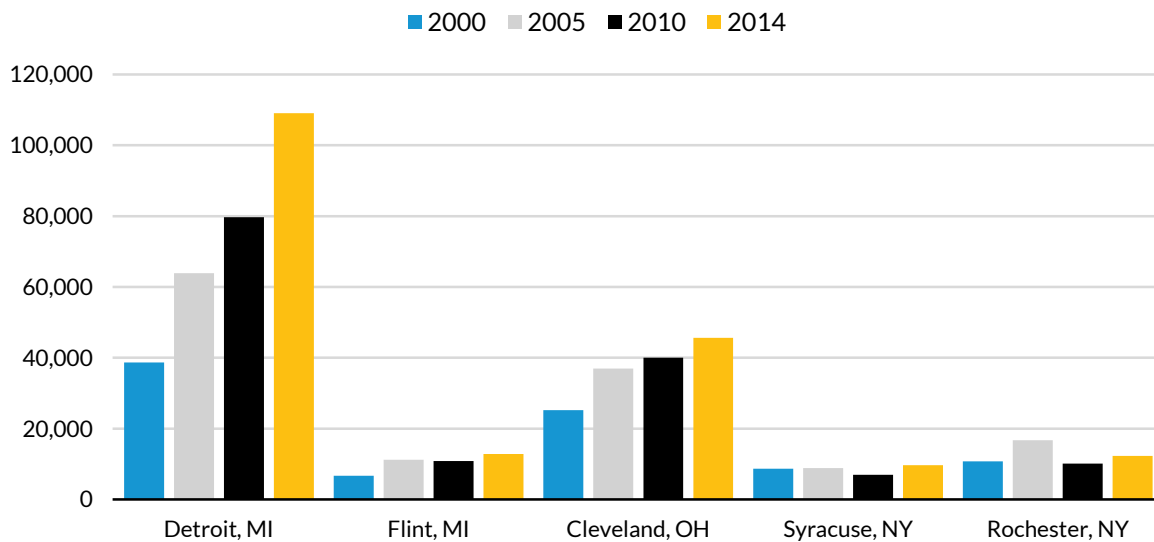
Changes in Occupied Units, 1970–2010

City	1970–80	1980–90	1990–2000	2000–10	Sum	Change (%)
Detroit, MI	-64,260	-59,431	-37,629	-66,983	-228,303	-45.9
St. Louis, MO	-37,431	-13,117	-17,855	-5,019	-73,422	-34.1
Cleveland, OH	-30,106	-18,510	-9,149	-23,148	-80,913	-32.6
Buffalo, NY	-16,998	-4,518	-13,716	-10,184	-45,416	-28.7
New Orleans, LA	15,072	-18,200	16	-46,093	-49,205	-25.7
Pittsburgh, PA	-11,952	-12,584	-9,744	-7,522	-41,802	-23.5
Newark, NJ	-10,113	-19,360	-170	3,160	-26,483	-21.9
Cincinnati, OH	-2,125	-3,335	-6,247	-14,675	-26,382	-16.5
Rochester, NY	-6,641	-990	-4,608	-1,972	-14,211	-14.0
Baltimore, MD	-7,589	-4,930	-18,488	-8,093	-39,100	-13.5
Birmingham, AL	7,384	-1,822	-6,634	-9,400	-10,472	-10.5
Akron, OH	-1,016	-653	193	-6,404	-7,880	-8.6
Chicago, IL	-43,228	-68,236	36,754	-16,368	-91,078	-8.0
Philadelphia, PA	-22,364	-16,706	-13,004	9,665	-42,409	-6.6

Source: Goodman (2013, table 2).

FIGURE 9

Total Number of Vacant Units, 2000–14



Sources: US Decennial Census 2000 and 2010; American Community Survey Demographic and Housing Estimates, 2014.

Vacant homes can become abandoned homes that can quickly become blight, particularly in a poorly functioning housing market. The Detroit Blight Removal Task Force defines blight as “properties that are exposed to the elements, are not structurally sound, are in need of major repairs, are fire damaged, or have essentially been turned into a neighborhood dumping ground” (2014, 13). The Task Force has identified more than 40,000 blighted structures in Detroit.

Blighted properties lower the property values of neighboring homes. An analysis of vacant properties in Philadelphia found that blight reduced neighboring property values by about \$8,000 per property, though lower-value homes may have a smaller dollar loss but a higher percentage impact (Econsult Corporation 2010). Detroit’s Blight Removal Task Force developed a plan to reduce blight, and DLBA has already begun implementing some of the recommendations. Blight elimination raises home values and catalyzes investment in the city. However, many of the blight task force’s recommendations require funds, which are limited.

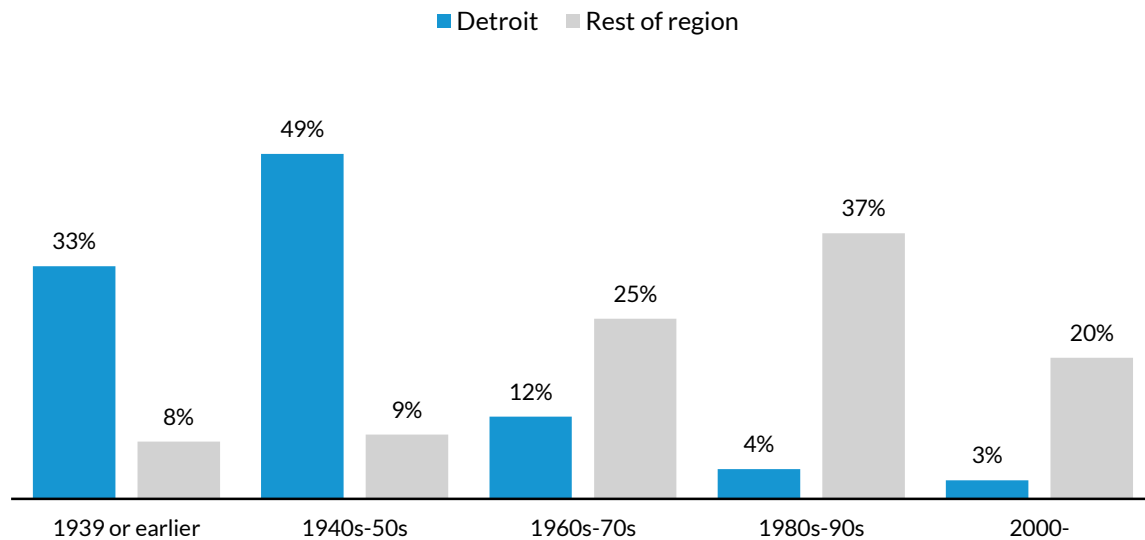
The foreclosure pipeline also negatively affects supply. When a property is in the foreclosure process, which can be lengthy, the owner has little incentive to maintain the property. Foreclosed units may be owned by an investor with no interest in returning the property to use. As noted above, speculators are a significant concern. DLBA prevents speculation by requiring purchasers to return the property to use within a specified period (six months generally, nine months for a historical property). However, if the property is purchased through a tax-foreclosure auction, it transfers from the county to the purchaser and is not subject to similar requirements. If the property is not purchased at the auction, it may transfer to the land bank.

Additionally, owners may not find it cost-effective to invest money in a house that has a low value if they do not believe they can recoup that investment when they sell the property, whether the home is rented or owner occupied. Other owners may not have the resources to repair their homes. We were told that given the high costs of rehabilitation, which can run from \$40,000 to \$75,000, it may not be economically feasible (10). The result is houses that need significant rehabilitation before new households can occupy them.

Another challenge to Detroit’s supply is the age of the structures. Eighty percent of housing units in Detroit were built before 1960 (figure 10). In contrast, 63 percent of housing units in Wayne County and 44 percent of units in the Detroit metropolitan area are that old.

FIGURE 10

Housing Stock by Era of Construction, Detroit Region, 2011



Source: American Community Survey 2009–13 five-year estimates, DP-4.

Our housing stock is old. We have “senior citizen” homes. The majority was built in the 1950s or before. (10)

This housing stock is ancient. By and large, nobody has done any serious work on these homes in 30 or 40 years. The only investment made in these units is done on an emergency basis to keep these units habitable. (11)

Age signifies not only a structure that may need significant repairs, but the size, layout, and amenities of the unit. As housing preferences change, available housing types also need to be considered. One person remarked that the “lack of the right supply [of housing] is causing people to move out” (9). Detroit offers a significant amount of single-family housing, with 66 percent of its housing units single-family detached structures and another 7 percent townhouses (a total of 73 percent). In comparison, the US stock consists of 62 percent single-family detached and 6 percent single-family attached (a total of 67 percent). Several interviewees noted a growing preference for multifamily homes, both for homeowners and renters: “The big barrier is the housing stock consists primarily of single-family homes. New people, black or white, don’t want single-family homes” (13); “There’s more demand for multifamily housing” (9). However, we also heard that increased multifamily demand has not been at the expense of the single-family housing market.

The lack of move-in-ready homes was seen as a competitive disadvantage for Detroit by several respondents: “When the vast majority of us purchase real estate, we look for product that’s a type, style, and location we desire that we can move into. And then we look forward to painting it. That’s the menu.

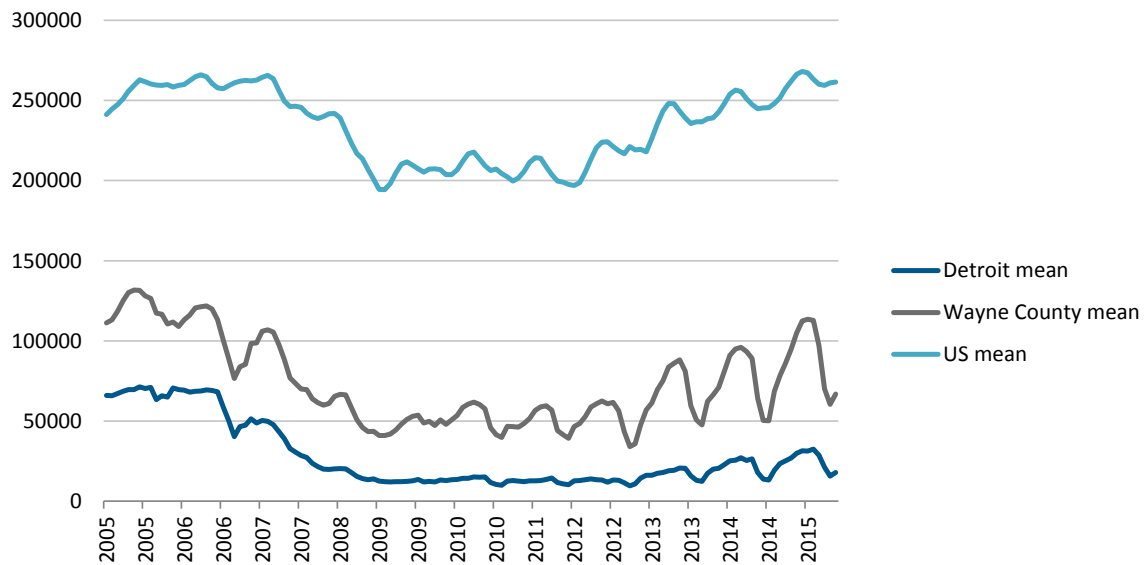
Enhancements, not habitability” (11). There was consensus that the city needed a model that enabled buyers to purchase already-rehabbed (i.e., rehabilitated) houses. As one interviewee pointed out, working with a contractor can be difficult: “The working-with-a-contractor model doesn’t work. People can’t just buy homes and then work with a contractor to rehab them. If you have never worked with a contractor before, that’s very intimidating” (5).

The current stock results in a lack of housing options for buyers and renters across the housing spectrum. One person noted that the quality (not quantity) of available housing is the main issue: “It’s not a lack of housing units; it’s just that the units aren’t habitable, or not available, or you don’t know who owns them. What is available, reasonably habitable, and in neighborhoods that are safe, desirable, and stable is expensive” (6).

The combination of old stock, excess units, and insufficiently maintained homes contributes to Detroit’s low house prices. The city’s mean house prices were lower than prices in other parts of Wayne County in 2007; though Detroit prices are slowly recovering, they are not keeping pace with the recovery in the rest of the county (figure 11). Having bottomed out at less than \$10,000 in 2009, the mean home price had increased to over \$19,000 by 2015. One respondent viewed Detroit’s low prices as a benefit: “What does this market offer that others don’t? One is cost of housing. It’s significantly less than other markets that would compete with us. The other advantage is the urban environment, walkability, historic nature, entrepreneurial spirit, diversity—these are things you can’t get in other places” (11).

FIGURE 11

Mean Home Sale Prices in Detroit, Wayne County, and United States, 2005–15



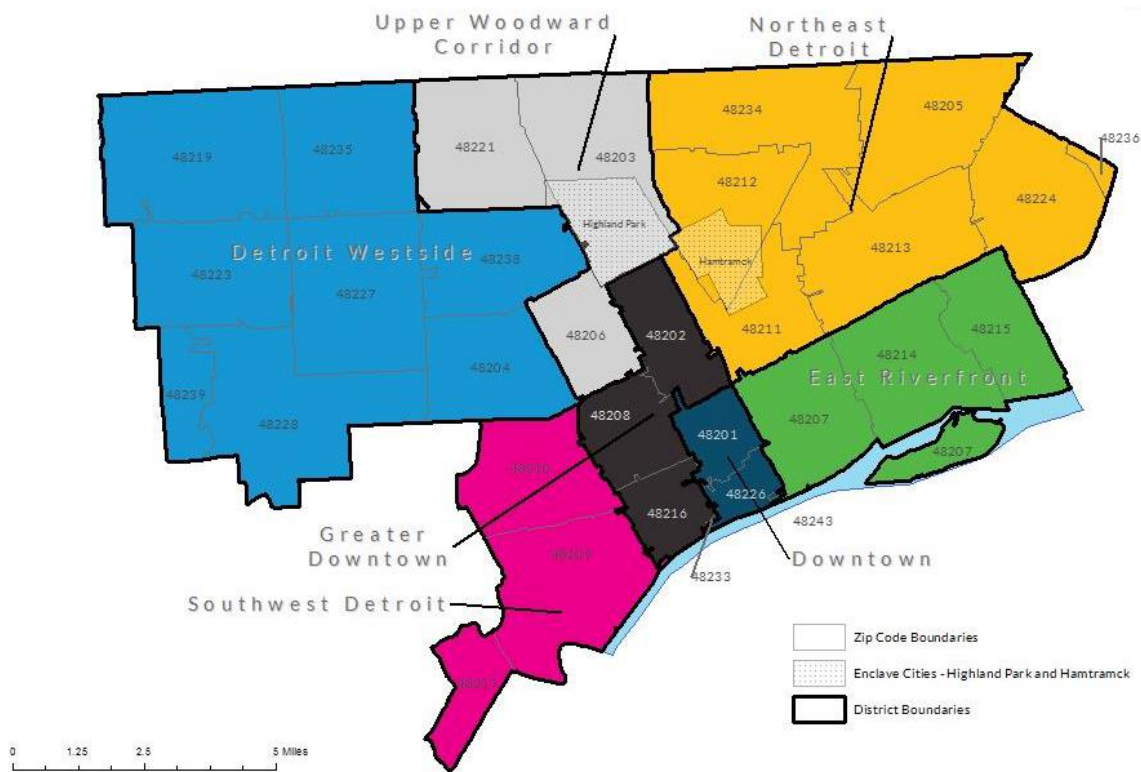
Sources: CoreLogic and Urban Institute.

Note: All series are based on three-month moving averages.

The mean sales price reflects the average for the entire city. Within the city, prices vary greatly by neighborhood (see figure 12, which divides Detroit into seven districts). Although many areas continue to struggle, some are experiencing a surge in demand (figure 13).

FIGURE 12

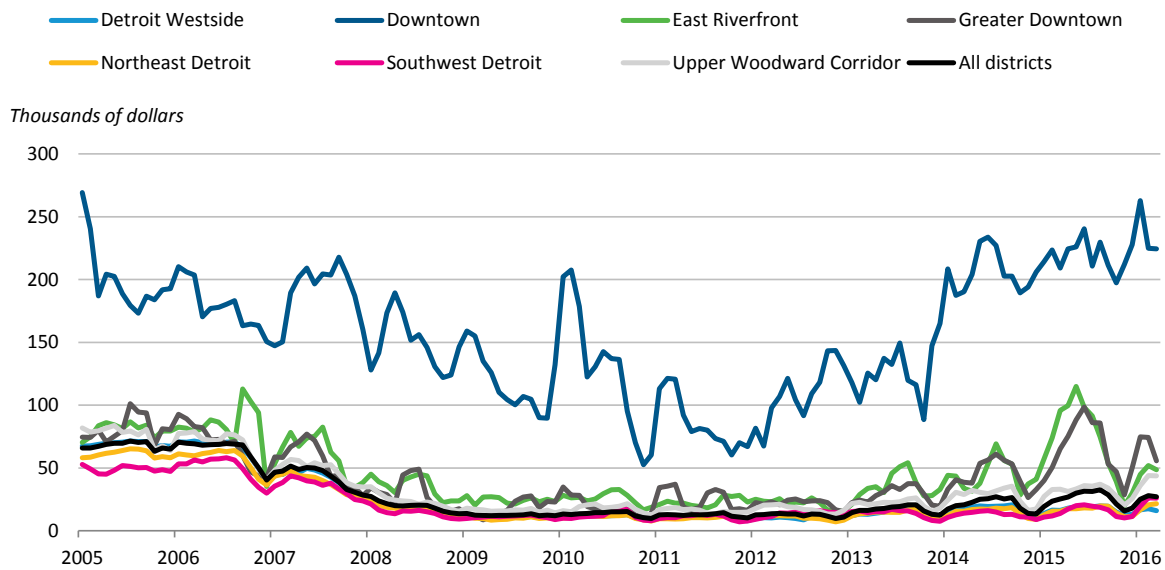
Detroit Zip Code-Defined Districts



Source: Bai and colleagues (2016).

FIGURE 13

Mean Home Sale Price by District



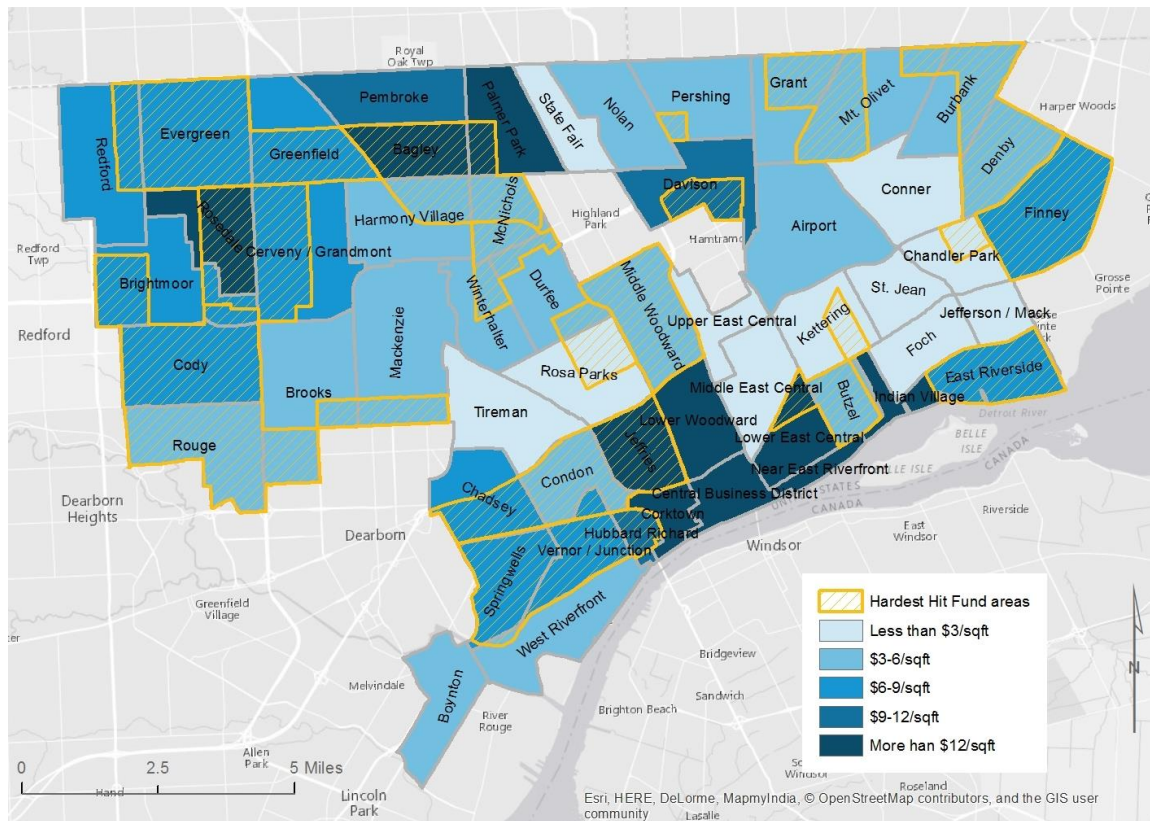
Sources: Bai and colleagues (2016).

Note: All series are based on three-month moving averages.

Tract-level data show even greater variation (figure 14). We found widespread awareness of the uneven recovery among and even within Detroit’s neighborhoods. A few neighborhoods have strong demand with bidding wars for homes in good condition (4). Other neighborhoods are stabilizing; Bagley, Corktown, parts of Southwest Detroit, and areas near Indian Village were among the ones mentioned (6). Even in those neighborhoods, some families remain underwater, nearby homes are being sold at tax auctions, and vacant lots may be across the street. Many neighborhoods still struggle. One observer noted that although “people are now mostly clustered towards the neighborhoods that are stable or strong, other big swaths are hollowed out” (6). Another described the result as “overheated micromarkets with a glut of space in between” (18).

FIGURE 14

Median Price per Square Foot of Single-Family Homes in Detroit, 2014–15



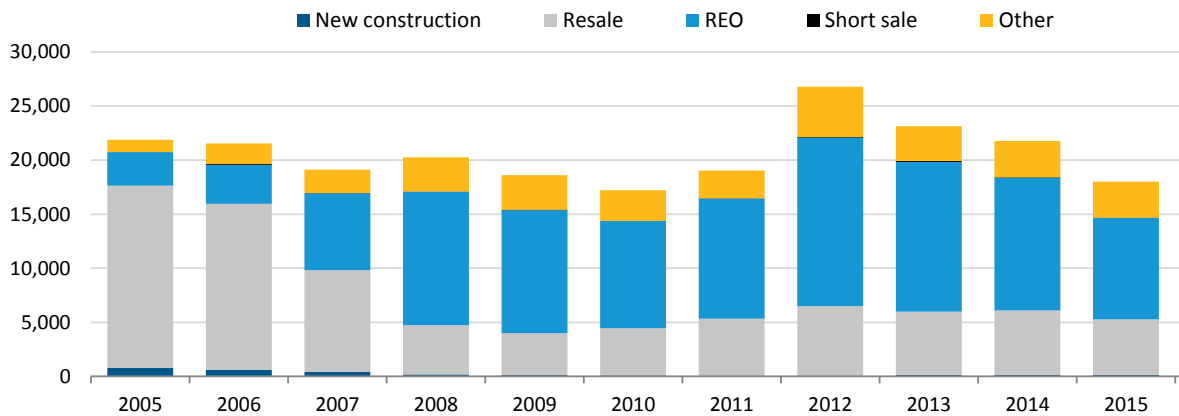
Sources: CoreLogic and City of Detroit Assessor's Office.

Note: 2015 data go through November 30, 2015.

Looking at the types of sales transactions, we found new construction has almost disappeared since 2008 (figure 15). Resales fell sharply in 2007 and 2008, but they have slowly increased since then. The majority of transactions since 2007 have been REO (real estate owned, which typically refers to foreclosed properties repossessed by lenders), a category that captures the transfer of property as a result of foreclosure. The large number of REO properties creates additional risks for the local housing market. Although some REO properties are being transferred to developers and put back into service, many homes purchased through foreclosure remain vacant and over time deteriorate or are stripped, becoming blight. Meanwhile, vacant and blighted properties decrease neighboring property values (Econsult Corporation 2010).

FIGURE 15

Number of Sales by Type, Detroit, 2005–15



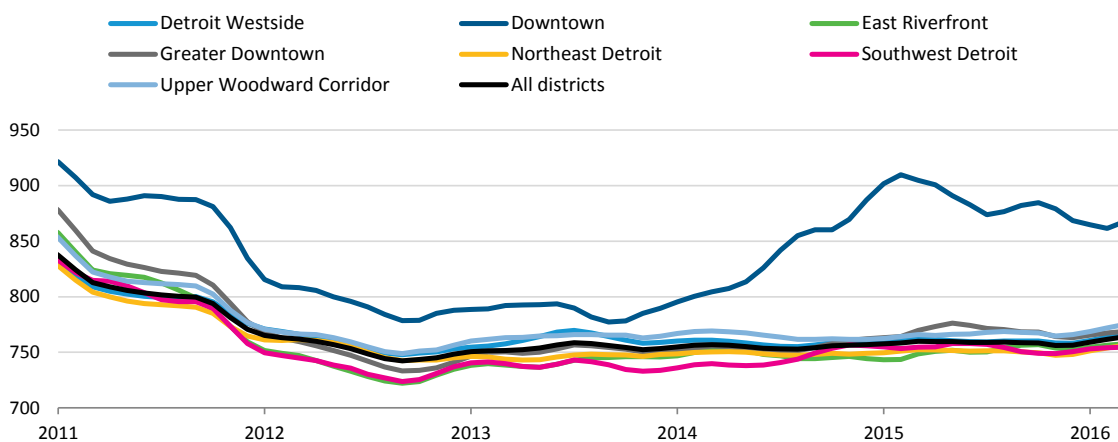
Sources: Bai and colleagues (2016).

Note: "Other" consists of home sales that are not accounted for by REOs, short sales, or resales (e.g., non-arms-length sales).

The disparity in sales prices is similarly evident with rents. Median rent in Detroit in March 2016 was \$764 a month. However, downtown and midtown rents can exceed \$1,000 for one-bedroom apartments or \$1,800 for two-bedroom units, making news headlines,¹⁹ while rents in other areas remain more stable (figure 16).

FIGURE 16

Median Rent by District



Source: Bai and colleagues (2016).

The low rents make it difficult to maintain units. One respondent estimated half of low-income renters live in substandard housing (11), and another suggested that large numbers of seniors and lower-income households (especially households with children) are likely living in substandard housing (15).

Although the inventory may attract landlords who make very little investment, there was consensus that market rents (between \$700 and \$800) don't enable landlords to invest in the property and pay property taxes (1). One person walked us through the dollars:

Your first \$300 to \$350 [of the rent received] goes to property tax, monthly. Your next \$200 goes to debt service. You have \$150 in capital expenditures every month to maintain that unit, get the grass cut. Now you are at \$700. You have barely broken even. Now what am I supposed to do, put a new roof over the place? The numbers don't line up. (11)

In addition to the difficulty of maintaining existing rental units are the challenges of developing new housing. The lack of product, according to one respondent, reflects that the numbers don't work (3). We consistently heard that you can't develop without subsidy in Detroit, whether the development is for affordable or subsidized or market-rate housing (17). At a minimum, a property will have a tax abatement or tax credit (6). However, the market is improving, one respondent claimed, so deals are "a lot closer to traditional financing than they used to be" (4).

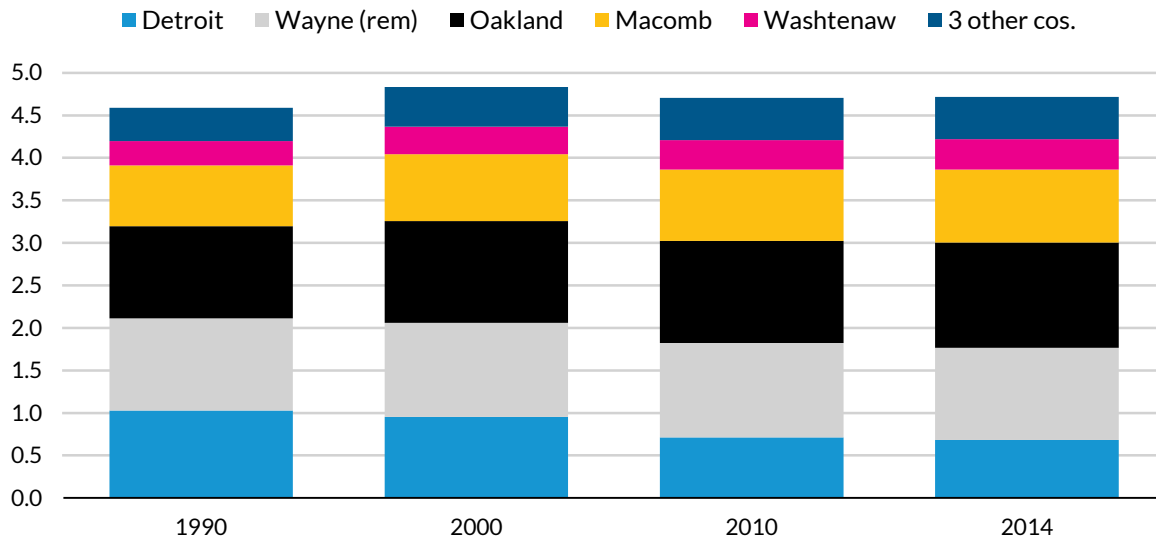
Development requires stack financing, and the city processes are difficult. One developer noted that "the city is constantly changing processes, and usually they are making them more cumbersome. Time keeps getting added to development, and time is money" (3). Another respondent hoped for a more predictable operating environment and more efficiency with the city's building department processing, planning department, and subsidy programs: "It's all very one-off, not pragmatic" (6). Another respondent noted that despite the current mayor's work to rebuild capacity within the permitting agencies, the development community is still adapting to the new processes and systems.

Many observers attributed Detroit's challenges partly to the regional dynamics of the metropolitan housing market. As surrounding jurisdictions have built newer homes in communities with good public services, Detroit has had a hard time competing. Galster (2012, 216) calls it "reverse musical chairs"; as more units are added, the inner, older units are abandoned. While Detroit has been losing residents and Wayne County's population has stayed fairly consistent, neighboring counties have been growing substantially (figure 17).

FIGURE 17

Population by City of Detroit and Detroit Region Counties, 1990–2014

Millions



Sources: US Decennial Census 1990, 2000, and 2010; American Community Survey Demographic and Housing estimates, 2014.

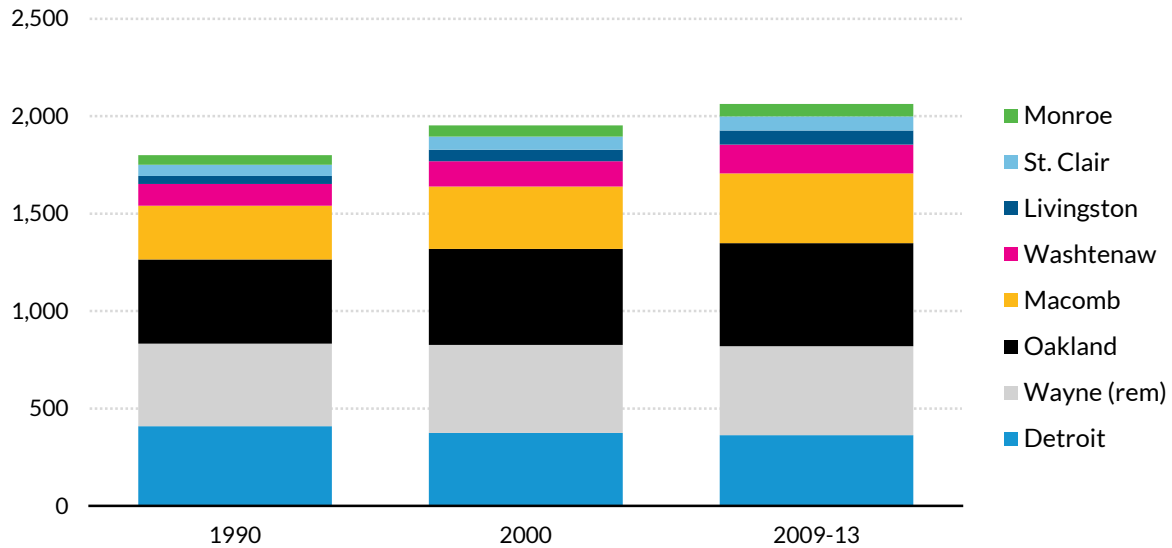
Notes: 3 other cos. = Livingston, Monroe, and St. Clair Counties. Wayne (rem) indicates the remainder of Wayne County (i.e., without Detroit).

As the region’s population reached its highest point in 2000, the housing stock continued to grow (figure 18). Galster (2012) estimated that by 2010 the region had 600,000 more housing units than households. Consequently, the least competitive units became vacant and were abandoned, the surrounding neighborhood began to decay, municipal fiscal capacity weakened, and public services eroded—a process he identified as the “disassembly line” (Galster 2012, 237).

FIGURE 18

Total Housing Units by County, Detroit Region, 1990–2013

Thousands



Sources: US Census 1990 and 2000; American Community Survey 2009–13 five-year estimates.

Detroit's supply challenges center on the type and age of its stock combined with the need for many units to undergo significant rehab before they are habitable and desirable. Even when such houses are available, financing can present additional barriers. One observer described the problem this way: "If the goal is to not just own land and own a rough structure, but to have safe and quality affordable housing, it comes down to capital to either acquire a property that is already done, or capital to rehab" (8).

Credit Access

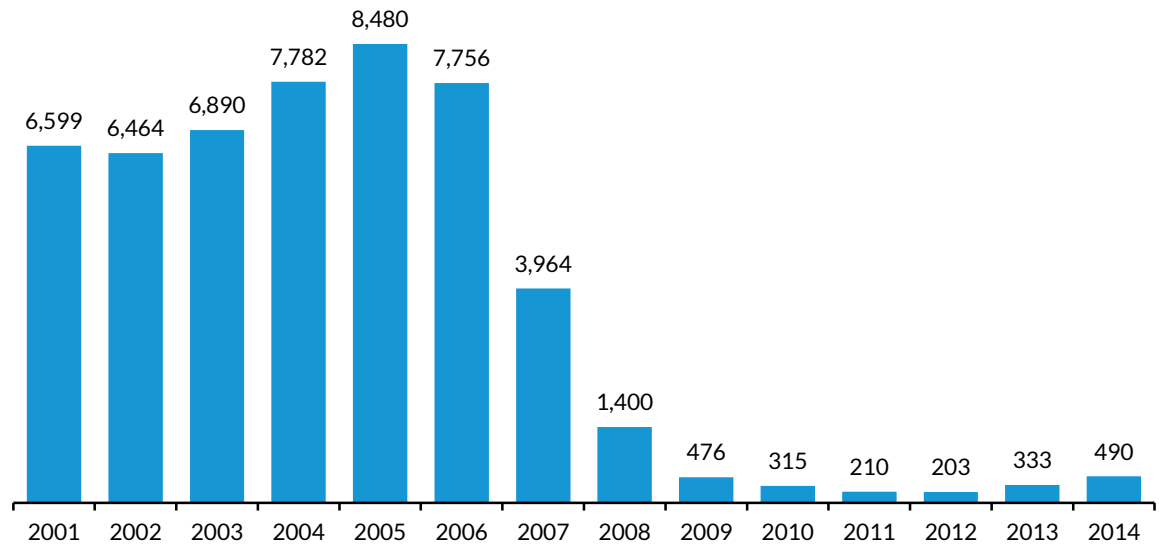
A flow of capital is critical to a healthy housing market to fund homebuyers looking for new homes, homeowners wanting to make home improvements, contractors trying to keep their small businesses afloat, and developers redeveloping an older site into a mixed-use project.

Credit has been constrained nationally since 2007,²⁰ but the lack of credit in Detroit far exceeds the national experience. "When it comes to housing challenges in Detroit, it's about getting the money necessary to purchase the home and do repairs," said one interviewee (8). Fewer than 500 home purchase loans have been made annually since 2009 (figure 19). Originated loans tend to be clustered in a few neighborhoods, such as East English Village, Boston Edison, Sherwood Forest, Palmer Woods, and

perhaps Grandmont Rosedale. One stakeholder commented, “The vast majority of the city is an ocean of underfinanced [places]” (1).

FIGURE 19

Home Purchase Loan Originations, Detroit

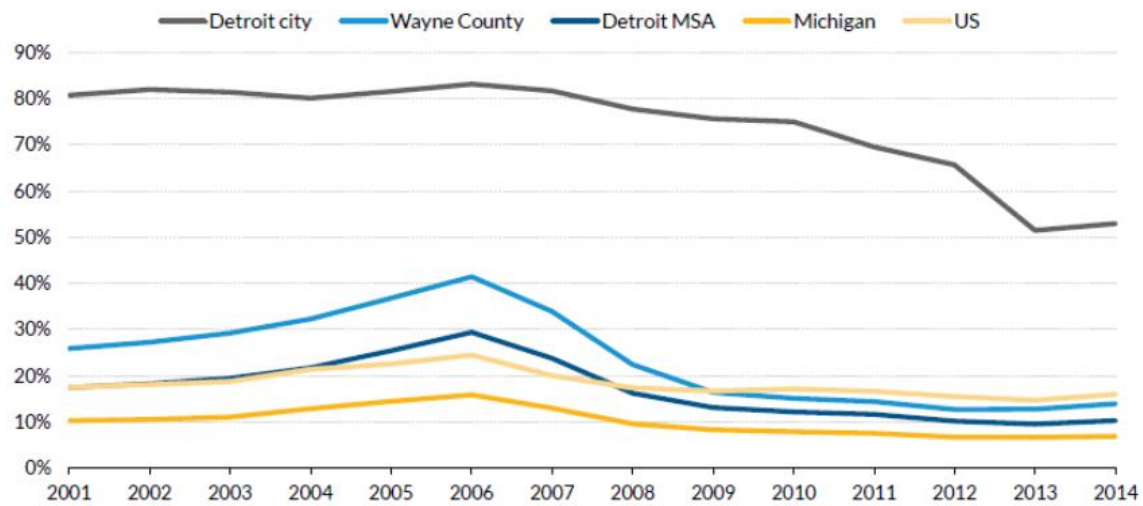


Source: Urban Institute calculations from Home Mortgage Disclosure Act data.

Simultaneous with the reduction in the number of originated loans, the share of loans being made to African Americans fell (figure 20), reflecting that tight credit disproportionately affects minority borrowers. A similar pattern occurred regionally; between 2006 and 2012, the number of loans in the Detroit metropolitan area fell 79 percent for African Americans compared with 11 percent for whites.²¹

FIGURE 20

Home Purchase Loans Originated by Minority Borrowers



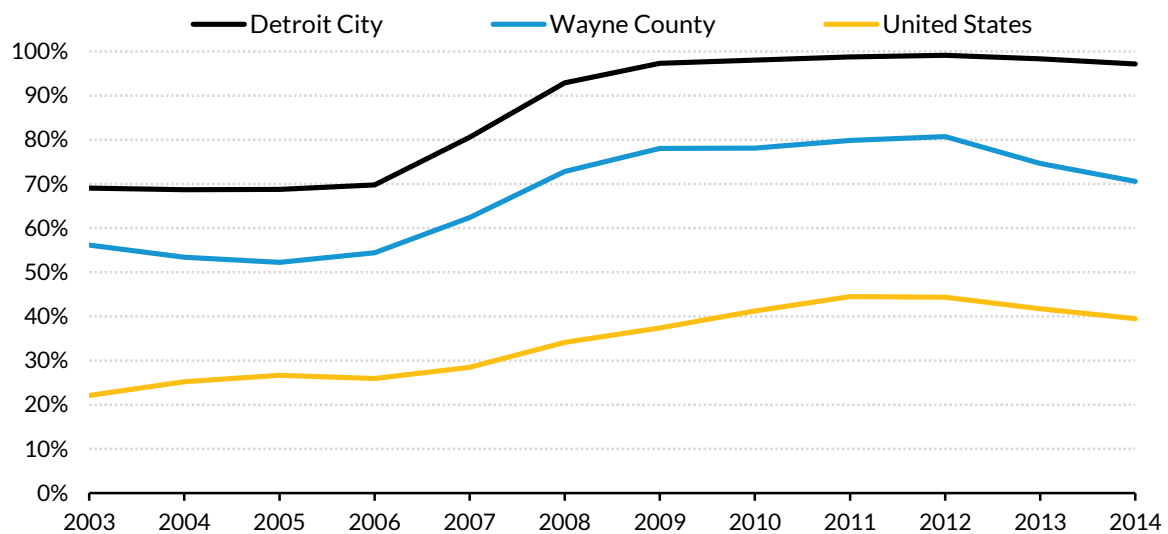
Source: Urban Institute calculations from Home Mortgage Disclosure Act data.

Note: Minority households are those with African American or Hispanic heads of household.

Not surprisingly, given the low number of home purchase loans, cash sales make up a large share of purchases (figure 21). The percentage of cash sales in Detroit has been high relative to other areas, but it increased after 2006, reaching 97 percent in 2014. The interviews indicated two types of cash buyers. Some buyers can come up with \$100,000 or \$200,000 in cash, which enables them to move quickly as they compete for the small supply of available quality houses in desirable neighborhoods (4). Others are forced to pay cash for the home and then draw from their retirement accounts or run up credit card debt to repair the home (10). These homes are often purchased from the land bank for \$1,000 and require \$30,000, \$40,000, or \$60,000 in rehab costs (2).

FIGURE 21

Cash Sales Share of Home Purchases



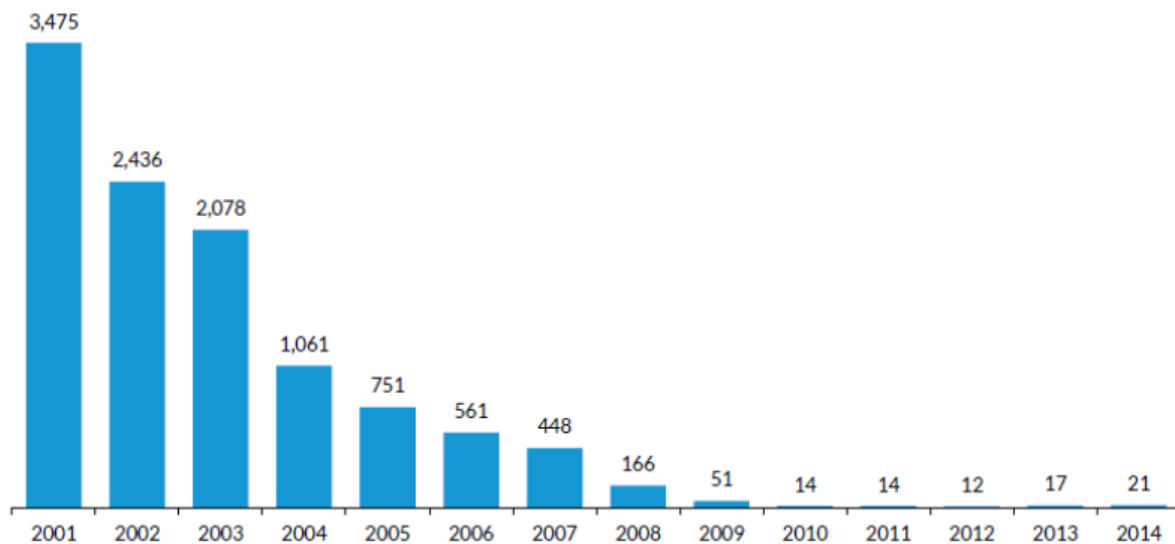
Source: Urban Institute calculations from CoreLogic and Home Mortgage Disclosure Act (HMDA) data.

Note: Cash sales share = CoreLogic cash sales/(CoreLogic cash sales + HMDA purchase mortgages).

Home improvement loans have become almost nonexistent in Detroit as many homeowners forgo improvements, and others cannot obtain financing given their low home values (figure 22). Given the extensive need for repairs mentioned by interviewees, residents' inability to fund repairs and rehab further reduces Detroit's stock of habitable, desirable homes. The lack of financing has prevented people from being able to maintain their homes, according to some interviewees: "People have repairs to their homes that they haven't been able to address. In another city, if you need a new roof you could go to the bank. In the last few years, 80 percent of home improvement loans have been declined—it's a cash market" (10).

FIGURE 22

Home Improvement Loan Originations, Detroit



Source: Urban Institute calculations from Home Mortgage Disclosure Act data.

The data above on purchase and home improvement loans cover through 2014. Since then, a number of lenders in Detroit have developed programs to address financing needs (see the section below titled “Targeted Mortgage Loan Products”). These programs include down payment assistance, high loan-to-value loans, and forgivable loans to fund renovations. Some programs also offer help working with a contractor during rehab. Most require financial counseling. Although programs initially focused on enabling residents to purchase properties from DLBA, they have expanded to help existing homeowners to refinance or fund home improvements and people purchasing homes from sellers other than the land bank.

The low loan volume has resulted, in large part, from the low home values as well as dysfunction in the housing ecosystem.

Interviewees identified appraisals as one of the greatest credit challenges.²² The concentration of distressed sales and lack of comparable properties distort market appraisals,²³ making it hard for potential homebuyers to qualify for the loan amount they need.²⁴ A home that was purchased for \$30,000 and rehabbed for an additional \$30,000 may be appraised at \$50,000. Even if someone is willing to buy it for \$60,000, he or she would traditionally be unable to obtain a mortgage loan for that amount. This difference between prices and appraisals creates a vicious cycle: rehabilitating is not profitable, so there is little incentive to invest in a home. With a shortage of homes in good condition, it

is difficult to find comparable properties for appraisals. As a result, the rehabbed home is generally appraised for less than the purchase price plus the cost of the rehab. Even if a home becomes a comparison property later on, the next home will be undervalued as well. Similar dynamics apply to home improvement loans.

Several people claimed appraisers were choosing poor comparisons, such as cash sales or distressed sales, and should be held responsible for “encouraging disinvestment” (1). However, a person provided the regulatory context under which appraisers were given more responsibilities and paid less, encouraging them to be extremely conservative in their appraisals, which is both faster and safer.²⁵ As a result, the lending industry “stole value from homeowners nationwide” (4). Lenders in Detroit have implemented several programs designed to raise appraisal values, and these were generally viewed as moving appraised values in the right direction: “Today, prices are coming closer in line with appraisals. There were no comps back in 2013–2014; we have more comps now” (5). A lending expert asserted, “Values are increasing and appraisals are rising. We’re solving yesterday’s problems” (4).

Title insurance is another challenge to obtaining home loans, according to one interviewee.²⁶ Detroit has the common challenges of homeowners who inherit property and don’t update the title, making the chain of ownership harder to establish. Foreclosures have further complicated titles. As a result, “it is hard to get clean title. We’ve had decades of poor tax keeping” (2). For a brief period, we were told, one title insurance company stopped offering title insurance for tax-foreclosed properties, meaning purchasers could not obtain mortgage loans. The issue has been resolved, but the ability to obtain title insurance “could end at any moment. If [the title insurer] has a couple more losses, they’ll back out of the business again, and you won’t be able to close on any properties in the city” (2).

Homeowners insurance, which can be difficult to obtain in Detroit, could also affect lending, as insurance is a condition of most home loans. People mentioned the high cost and unavailability of homeowners insurance: “In some areas, you can’t get [homeowners insurance] because it’s so expensive, and in some cases they won’t write a policy, period, because of the blight and crime in the neighborhood” (8). However, no one directly linked homeowners’ insurance to lending.

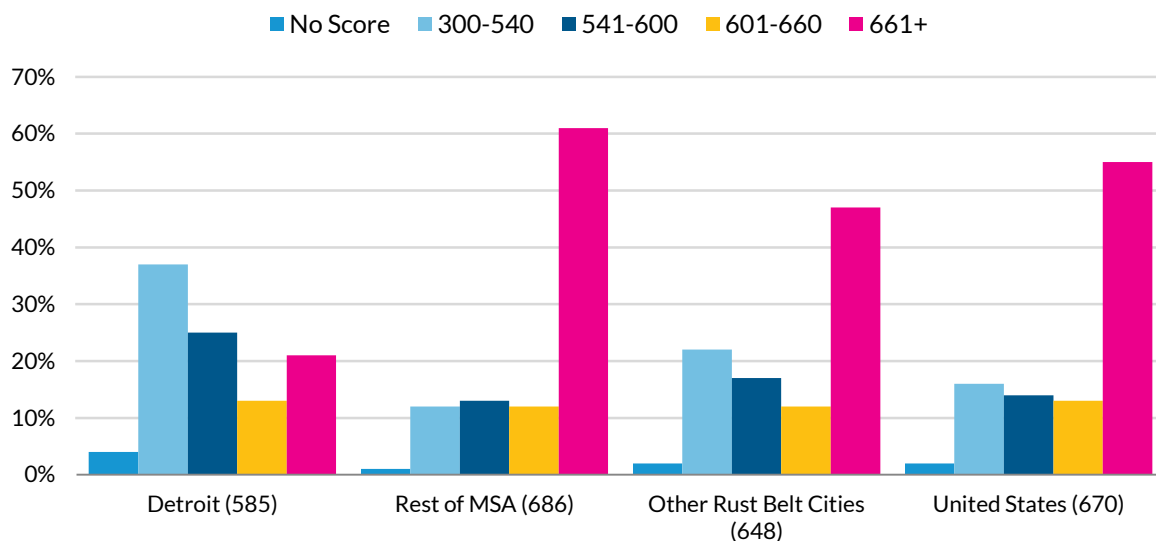
Valuing and insuring collateral are important components of credit decisions. The other considerations are credit (score and history), capital (savings and other assets that can help repay the loan), and capacity to pay back the loan (income, employment history, and monthly debt payments).²⁷ Recall that Detroit residents have experienced extreme disinvestment in their communities accompanied by high unemployment because more affluent white households abandoned the city during the twentieth century, leaving African Americans in a city with an extremely depressed tax

base.²⁸ The median income is \$26,095, and 36 percent of Detroit households live in poverty.²⁹ Not surprisingly, a large number of people have low credit scores, as measured by Vantage (figure 23). The average Detroit resident credit score of 585, which is in the subprime range (from 300 to 600), is much lower than average credit score for the Detroit metropolitan statistical area (MSA; 686), other Rust Belt cities (648), and the United States as a whole (670).

Interviewees noted that many residents would have difficulty getting a loan because of low credit scores. “We know credit scores are a challenge throughout the city,” said one interviewee. “So many people declared bankruptcy, and many people don’t even know how to get credit. Some people are unbanked to begin with” (13). Self-employed residents may not have credit histories (14). Another respondent commented that people with good credit scores may choose to leave: “If you have a 640 credit score you don’t want to live in Detroit, because you have options. You want a better quality of life and you can afford it” (5).

FIGURE 23

Share of Households by Credit Score Classification, by Location



Source: Elliott, Ratcliffe, and Kalish (2016).

Notes: Subprime scores range from 300 to 600. Near-prime scores range from 601 to 660. Prime or higher scores range from 661 to 850. Values in parentheses are median credit scores for the respective locations. Rust Belt cities are Buffalo and Rochester, NY; Chicago, IL; Cincinnati, Cleveland, Columbus, and Toledo, OH; Fort Wayne and Indianapolis, IN; Milwaukee, WI; and Pittsburgh, PA.

Overall, Detroit residents are less likely to have access to credit, identified as having traditional revolving credit (e.g., a credit card), a car loan, or a home loan, than residents in the region, in other older industrial cities, or nationally (table 3).

TABLE 3

Incidence of Debt, by Location

Type of debt	Detroit	Rest of MSA	Rust Belt cities	United States
Has revolving credit	27%	64%	50%	57%
Has auto debt	15%	33%	23%	27%
Has mortgage debt	7%	30%	21%	26%
Has debt (noncollections) ^a	49%	77%	52%	67%

Source: Elliott, Ratcliffe, and Kalish (2016).

Notes: Rust Belt cities are Buffalo and Rochester, NY; Chicago, IL; Cincinnati, Cleveland, Columbus, and Toledo, OH; Fort Wayne and Indianapolis, IN; Milwaukee, WI; and Pittsburgh, PA.

^a Includes mortgage, auto, student, installment, and revolving (e.g., credit card) debt but excludes debt in collections, which can result from unpaid bills (e.g., medical bills, utility bills, parking tickets, membership fees).

Past due debt can result from unpaid credit cards, student loans, automobile loans, and other revolving credit or installment loans. Once debt is more than 180 days past due, it enters collections. Collections debt can also result from unpaid medical bills, utility bills, parking tickets, and membership fees that are reported to the credit bureau. Sixty-six percent of Detroit residents have debt in collections, twice that of people in the rest of the MSA (32 percent). Residents with debt in collections owed a median amount of \$1,847, which was \$400 more the median amount owed by residents in the rest of the MSA (Elliott, Ratcliffe, and Kalish 2016). People with low credit scores and past due debts have a difficult time accessing credit in normal conditions, much less under today's tight lending standards.³⁰

Insufficient income, particularly high debt-to-income ratios, was identified as another major barrier to credit in the interviews. As one respondent said, low-income residents “don’t have the income, they can’t afford to buy a reasonably sized home and pay the mortgage, and pay for a car note, pay for the credit card, pay for taxes—their debt to income will be 60 percent” (7).

The need for financial counseling was widely recognized among interviewees as a starting point for creating demand. Although some people are ready for homeownership counseling, the pipeline needs to extend much further back to help people develop general budgeting, saving, and financial management skills. “Different people have different needs and levels of resources needed. You need to segment, just like every other market,” said one interviewee (10). Developing financial management skills requires establishing a multiyear pipeline to prepare people. Counseling could also play an important role in

helping consumers navigate the many programs implemented in Detroit (13). One advocate made a point of asking questions about program effectiveness: “Every time I ask, ‘How does your program help existing residents?’ it all comes back to financial literacy. If you don’t solve for that, you can’t get to everything else” (16). Although interviewees regularly spoke of “counseling,” financial coaching may be a more useful model for some consumers (Collins 2014).

The loan decision evaluates collateral, creditworthiness, and other factors. However, the loan transaction is only one component of the purchase process. A functioning housing market requires the various parts of the ecosystem to perform their tasks. The ecosystem includes loan officers, real estate agents, property managers, contractors, and other service people. The challenges Detroit’s market has experienced affect all these participants. The difficulty of getting an applicant approved means that a real estate agent and loan officer, both of whom work on commission, can invest significant time on a transaction that is not successfully completed. Some real estate agents no longer work in Detroit because of the low sales volume. “The infrastructure needed for a functioning market was gutted. That landscape now seems at very low capacity,” explained one interviewee (6). Another added, “It’ll take work to recreate that network” (10).

What’s Next?

Several positive indicators suggest Detroit’s housing market is stabilizing. In the first quarter of 2016, the unemployment rate continued its downward trend, home sale prices grew citywide, and the percentage of loans underwater in the city approached that of the rest of Wayne County (33.1 and 33.4 percent, respectively; see (Bai et al. 2016). However, challenges remain, such as

- the need to improve services to attract residents and better serve existing ones
- programs to better match supply to demand, particularly having move-in-ready homes
- ways to help families access credit, including a longer-term pipeline to improve creditworthiness and having appropriate products available when families are ready

Stakeholders in Detroit have started reducing barriers to a healthy housing market. Further, they remain open to innovation. We turn now to programs in Detroit and other cities to see if they offer opportunities to further improve the housing market in Detroit and other cities experiencing similar challenges.

Innovations for a Path Forward

Detroit's unprecedented experiences have already created opportunities for new ways of thinking and actions. Responding to challenges to Detroit's housing market on the three key fronts—demand, supply, and credit—the city, its residents, and its partners have adopted a wide range of innovative policies, tools, and programs to further community stabilization, fight blight, revitalize the housing and mortgage markets, and return vacant properties to productive use. What is most noteworthy is the openness to experimentation throughout the city and the willingness of diverse actors to work together to solve pieces of the problem.

Many Detroit programs have been implemented recently, so we cannot yet assess their impact, but they offer potential solutions. Further, they evidence a willingness to bring together parties and try new programs to restore the health of the Detroit housing market. We set forth the challenges summarized above and mapped onto them the programs implemented in Detroit (table 4), recognizing that just as the challenges are often not confined to a single component of demand, supply, or credit, the solutions may touch on multiple challenges. Examples of some of the programs are described below.

TABLE 4

Solution Matrix: Building Blocks for a Path Forward

Core issue	Challenge	Program					
		Foreclosed inventory repositioning	Home equity protection	Land bank	Lease to purchase	Shared equity homeownership	Targeted mortgage products
DEMAND	Falling property values	*	✓	*			*
	Property taxes			*			
	Tenure mismatch			✓	✓		
	Dilapidated stock	✓		✓			*
SUPPLY	Blight or vacancy	✓		✓	✓		
	Foreclosure pipeline	✓		✓			
	Credit availability				✓	✓	✓
	Appraisals	*					✓
CREDIT	Negative equity		*			✓	*
	Homeowner preparation or credit worthiness				✓	✓	✓

Note: A check indicates a direct effect of the program; an asterisk indicates an indirect effect.

As noted in the first half of this report, Detroit is facing extreme circumstances. Although its experience may be more acute and extensive, other cities with similar problems have tried to restore health to their housing markets. This half of the report highlights promising and successful programs in these markets that might be relevant to the Detroit experience. We discuss the programs in broad strokes, recognizing strategies have to be matched to specific challenges.

For example, Flint and Cleveland have had successful land bank programs longer than Detroit. Syracuse established a home equity protection program to retain existing homeowners and arrest future market decline. Rochester has a program similar to the Rehabbed and Ready program, in which the operation and infrastructure necessary to purchase and rehab hundreds of homes were centralized, with participating lenders pooling loans to provide financing and the city providing a loss reserve. Other cities also have lessons potentially applicable to Detroit. Our discussion of programs from other cities is not intended as an exhaustive survey of all programs.

We also include programs under way in Detroit because they, in turn, provide important models for other cities. During this time of innovation, new programs are being developed and recently introduced programs are being adjusted to reflect lessons learned. Accordingly, details on Detroit programs may be slightly outdated.

Strategies need to be matched to Detroit's specific needs, using new products and approaches to address the opportunities and challenges of individual communities.

Every neighborhood is different, requiring the city and its partners to adjust revitalization efforts to fit the community's opportunities and challenges. As new products and approaches are introduced, market actors can increasingly target micromarket conditions. In addition to these tailored programs, developing more marketwide solutions will be essential to attracting additional investment and bringing the city's recovery to scale.

Foreclosed Inventory Repositioning

A large number of foreclosed homes need to be returned to use; otherwise, they can decay, negatively affect neighboring properties, and eventually require demolition. Repositioning foreclosed or “shadow” housing inventory helps foster a stronger pricing and building environment. Federal and local programs offer promising tools to address the foreclosure pipeline.

HUD Asset Control Area Program

The Asset Control Area (ACA) program was enacted in 1998 and is administered by the US Department of Housing and Urban Development (HUD). The program is designed to promote neighborhood revitalization by facilitating the transfer and reuse of foreclosed properties in targeted geographic areas to reduce vacancy rates.

HUD designates an area as a Revitalization Area, which requires that the location has a high concentration of default or foreclosed assets; has a low homeownership rate; or is a very low income area (Temkin et al. 2006). A unit of state, county, or local government or an approved nonprofit organization establishes an ACA within the Revitalization Area and contracts with HUD to purchase a specified number of HUD-owned single-family homes in the ACA tract over two years. These homes, which HUD acquires when borrowers default on mortgage loans insured by the Federal Housing Administration (FHA), often need major repairs. These properties are offered at a significant discount, from \$100 to 50 percent of the appraised value.

The purchasing entity rehabilitates and resells the homes to low- and moderate-income residents (with incomes of less than 115 percent of area median income). These homebuyers purchase the property at the lesser of 115 percent of the acquisition and rehab costs or the new appraised value. If the cost method is used, the difference between the homeowner’s purchase price and the appraised value is secured by a soft second mortgage held by HUD that converts to equity after three years if the owner remains in the property. In many cases, down payment assistance or other subsidies are available to the buyer (Temkin et al. 2006).

Before any rehabbed properties go on the market, they must first be offered to HUD’s Good Neighbor Next Door program, which allows homes to be sold to teachers, firefighters, law enforcement officers, and emergency medical technicians at a discount of half the list price if the purchaser commits

to living in the property for three years. The homebuyer signs a second loan for the discount amount, on which no payment or interest is charged if the owner stays for the three-year period.³¹

HUD has designated several Revitalization Areas in Detroit, but local entities have not established any ACAs. FHA has 36 REO homes in Detroit,³² suggesting an unrealized potential for the city or a nonprofit to request an ACA and offer homes under this program. Although the soft second mortgage conversion to equity is a particularly appealing feature to enable low-income homebuyers to accumulate wealth, Detroit's current prices suggest that the appraised value will more often be less than the acquisition and repair costs. The program's pricing structure would benefit homebuyers who often have difficulty obtaining financing for homes that are appraised at amounts lower than their purchase price following rehab. Although the Detroit Home Mortgage program (see below) is designed to address the appraisal gap by lending more than the purchase price, it results in borrowers who owe more than the house is worth. As one interviewee warned, "We need to be careful in our zeal to finance mortgages that we aren't encouraging people to buy something upside down that will never upside" (7).

The difference between the acquisition and rehab costs and the lower appraised value appears to be absorbed by the nonprofit rather than funded by HUD, making the program unsustainable without additional funds until appraised values rebound. However, an organization in Rochester has found a way to effectively use HUD's ACA program.

HOME ROCHESTER PROGRAM

The Rochester Housing Development Fund Corporation was founded in 2001 to use the ACA program to acquire, renovate, and resell vacant properties in the City of Rochester. The HOME Rochester program facilitates the conversion of vacant single-family homes into rehabilitated for-sale properties. Between 2002 and 2011, HOME Rochester sold over 575 homes. These sales boost the value of properties within 100 feet by over \$15,000.³³

Rochester's ACA program centralizes much of the operational infrastructure necessary to purchase and rehab hundreds of homes. The acquisition and rehab costs are financed by loan pools capitalized by participating lenders, with collateral provided by a loss reserve funded by the city. The corporation clusters and assigns properties to nonprofit developers and produces a standardized construction scope and specification. The centralization achieves economies of scale in personnel costs and building supplies. It also allows for the centralization of human capital in knowing the most appropriate type of rehab for homes that are common in the neighborhood.

The model, apart from its applicability to an ACA program, could be valuable in Detroit. Currently, nonprofits that want to purchase the volume of properties needed to create economies of scale have to take the risk on the collateral and recouping their costs. As one interviewee explained,

I can manage 12 houses at a time. But it shouldn't be my job as a nonprofit to take the collateral risk of the 12 houses. I would need to take down a million dollars and crank it over 60 days. I don't have a guaranteed buyer; I have no promise from anyone that the police will drive down the street and make sure my investment is protected. All of that is on me. So if something goes wrong, I eat the million dollars. I'll do the hard work, but someone else needs to share in the risk. (11)

Once rehabilitation is complete, the Rochester Housing Development Fund Corporation markets the property to potential buyers.³⁴ The buyer is responsible for obtaining a mortgage loan to finance the market-value price of the property. However, to help reduce the final purchase price, property managers identify subsidy programs to meet the buyer's financial needs and help the buyer pursue these options. On average, 35 percent of the purchase price is covered through subsidy programs, leaving 65 percent to be covered by the buyer's mortgage loan and existing assets.

Initially, vacant houses were attained strictly through the ACA program. The HOME Rochester program expanded to include tax-foreclosed and donated properties, but rehabilitation efforts have remained concentrated in HUD-identified distressed areas.

One of the Corporation's most significant challenges is reducing rehabilitation costs. This cost reduction is particularly important given that HUD no longer allows the losses from one project to be covered by excess gains from another.³⁵ As each rehabilitated property must be "financially independent," total construction costs must be as low as possible to preserve affordability.

Since its inception, HOME Rochester has leveraged over \$72 million to rehabilitate more than 570 homes in distressed neighborhoods and enable low-income families with children to become homeowners.³⁶ In addition, neighborhoods containing rehabilitated homes experience an influx of bank capital and an overall increase in property values. This, in turn, has generated money for Rochester through property taxes.

By centralizing management and reducing overhead costs for nonprofit developers, the Rochester Housing Development Fund Corporation has facilitated revitalization in neighborhoods where renovation costs far exceeded the value of the property. Additionally, special emphasis is given to including minority- and women-owned construction companies, which received 64 percent of the available construction funding in 2010.

Implementation of a program like this would address the challenge of lack of supply by providing nonprofits with resources to rehab homes at a larger volume, a huge need in Detroit. However, the program does not address the credit challenges home purchasers may face when they try to buy the renovated homes.

DETROIT'S REHABBED AND READY PROGRAM

Detroit introduced a new program to reposition foreclosed inventory in August 2015. The Rehabbed and Ready program is a public-private partnership among Detroit, Quicken Loans, DLBA, and The Home Depot.³⁷ The land bank provides vacant homes in need of repair, Quicken Loans funds renovations and offers financing to qualified buyers, and Home Depot partners with local contractors to renovate the homes. Like the Rochester program, the homes are renovated professionally, centralizing the human capital. The resulting homes, ready for a new buyer, are available for purchase online through the land bank's Building Detroit website to owner-occupants. The program's initial focus was on 65 homes in four Detroit neighborhoods: Bagley, Cary/St. Mary's, College Park, and Evergreen/Outer Drive.³⁸ A quick look at the land bank website shows Rehabbed and Ready homes available for purchase from \$40,900 to over \$100,000.³⁹

Goodman and Kaul note four benefits of the Rehabbed and Ready program:⁴⁰

- The subsidy allows homes to be rehabilitated before they are offered for sale, avoiding the need for buyers to find financing for the repairs and increasing the demand for housing.
- Home Depot's renovations avoid the difficulties buyers face when attempting do-it-yourself renovations or hiring professional contractors.
- Quicken's financing and funding backstop to cover any shortfall in the appraised value allows owner-occupants to buy the homes on terms they can afford.
- Rehabbed homes will sell for higher prices, which will generate higher comparison prices for future sales and help raise nearby homes' values.

Currently the Rehabbed and Ready program requires subsidies to address the gap between rehab costs and current property values. As the market improves, the hope is that these homes will sell at prices high enough to support an unsubsidized rehab market with more traditional financing. Meanwhile, the program supports neighborhood revival.

Chemical Bank (then Talmer Bank and Trust) created a similar program. As initially designed, according to an interviewee, the bank offered a \$25,000 five-year forgivable grant for rehab to people

buying homes in the Marygrove neighborhood from the land bank. However, homeowners didn't realize rehab costs more than \$25,000 and often did not have access to additional funds. Further, the program did not increase home values because the MLS system captures the purchase price rather than the renovated value. Talmer restructured the program to purchase homes directly from the land bank, pay Southwest Housing Solutions to rehab the property, and then use Talmer's contribution to underwrite the difference between the cost of rehab and the sales price.⁴¹ This system provides a completed product for the homebuyer and raises home values in the neighborhood.

The AFL-CIO has an agreement with the city to acquire up to 300 vacant homes from the land bank to rehab and sell. The Detroit Neighborhood Home Repair Program, announced in November 2015, will initially target four neighborhoods: Bagley, Schultz, Crary-St. Mary's, and East English Village. The city and union are planning to share in both the profits and losses from the sales.⁴² The program is designed to create jobs, including apprenticeships in the construction trades.

As these programs continue, they may provide useful insights into how to rehab at scale to reduce the costs enough so that the homes are affordable to low-income residents. The interviews strongly supported the need for continued and expanded programs to rehab homes to provide needed stock and revitalize neighborhoods. Any tools and lessons from existing programs that lower the costs or fund the difference between the costs and an affordable purchase price will be valuable for Detroit.

Home Equity Protection

In the housing market, falling prices may further depress demand as potential homebuyers may grow concerned that the purchase will be a bad investment and existing owners may be eager to sell their homes, fearing their equity is at risk. Home equity protection programs help mitigate the risks of homeownership by insuring against price declines. An equity protection program could be useful as neighborhoods begin to receive investment while vacant lots and other indications of blight remain. For example, we were told of a house selling for over \$200,000 on a block where half the houses were in tax foreclosure (6). Particularly after prices fell during the Great Recession, with many households losing all their home equity, people could be hesitant to invest in Detroit.

Oak Park Equity Assurance Program

One of the first local equity assurance programs was in the village of Oak Park, a suburb of Chicago, in 1978 (Caplin et al. 2003). The program was financed by a small tax levied on all homeowners in the village. Participating homeowners paid a small up-front fee and upon selling their home, they could be reimbursed for 80 percent of the loss incurred if the home sold for less than the appraised value. Homeowners had to be enrolled in the program for at least five years to be eligible for reimbursement. Prices in the Oak Park area have generally risen, and not a single insurance claim was made against the program. The program's success made it obsolete, and it is no longer offered in Oak Park. A similar program was created in Chicago in 1988 by legislation following a voter referendum that authorized the creation of home equity districts (Shiller and Weiss 1999). A 2004 report found that 9,000 homeowners had registered (and paid the \$150 fee) for the insurance, but it does not indicate if any claims had been submitted or paid (Gannett et al. 2004).

These programs defined risks narrowly, excluding losses from changes in the metropolitan area's market conditions. The insurance would exclude the kind of price falls that occurred in the Detroit market. These programs also imposed onerous payout conditions, with restrictions on the right of sale and a cumbersome and complex claims process. The programs never saw significant uptake.

Syracuse Home Equity Protection Program

In Syracuse in the late 1990s, housing demand was depressed despite very low house prices (median sales price was \$60,000). To halt the housing market's downward spiral, the city launched its Home Equity Protection (HEP) program in 2002. The HEP program was part of the city's broader Syracuse Neighborhood Initiative, a collaborative, cross-sector effort to revitalize Syracuse neighborhoods and reduce blight. A \$5 million grant from HUD to the Syracuse Neighborhood Initiative served as the initial capital for the HEP program. It was administered by a local nonprofit, Home Headquarters Inc.

The HEP program protected any homeowner in Syracuse against the decline in a particular home price index in the area after the protection is purchased for a one-time fee of 1.5 percent of the home's value. The insurance allowed exercise at point of sale. By offering protection based not on the value of a specific home, but on an index of housing prices in the zip code, the program provided a positive incentive for homeowners to maintain and improve their homes, as by doing so they could make a profit on the sale of their homes, even if their neighborhood had declined.

If the house was purchased with a mortgage loan, the lender had the priority in getting the protection payment. The homeowner received the full value in the form of a reduced mortgage obligation and may also have received a further benefit of reduced interest rates.

The pilot program, which was promoted by real estate agents between 2002 and 2006, was the assurance the market needed for a modest 1 to 2 percent annual increase in Syracuse housing prices in the following years while the housing market collapsed elsewhere across the nation.⁴³ The HEP program is technically in place, but it is not being used. It is unclear if its disappearance reflects a shift in the local market or results from political turnover when a new mayor took office.

A home equity protection program may be less valuable in a community where property values have already fallen. However, if buyers are hesitant to invest in a rehabbed home or owners are hesitant to fund renovations to their home in a neighborhood where many surrounding properties remain vacant or dilapidated, a home equity protection program could provide the assurance they need.

Land Bank Programs

Over the past 40 years, city and county land banks have served as a mechanism for returning foreclosed, tax-delinquent properties to productive use (Alexander 2015). The general goal of land banks is to secure new owners for vacant properties, thereby expanding the property tax base in their respective regions and guiding the redevelopment of previously declining neighborhoods, effectively reducing the prevalence of land speculation and other harmful real estate practices.⁴⁴ Currently, approximately 120 land banks operate nationwide.

Land banks are generally created through state-enabling statutes, operate as independent public authorities, and are granted the rights to

- obtain tax-foreclosed properties for little or no cost,
- hold land tax free,
- extinguish existing delinquent tax liens,
- temporarily lease properties in exchange for rent, and
- negotiate sales, considering price and the surrounding community's development needs.

Most land banks are financed through a combination of sources, including the following:

- proceeds from property sales
- redirection of future property taxes
- imposition of additional fees on delinquent tax liens, which are typically settled during the foreclosure process
- funds borrowed through the issuance of revenue bonds
- obtaining control of delinquent tax liens from local governments to receive interest and penalties paid during the foreclosure process
- general revenue funding from the local government
- federal grants

Typically, most funding is generated through federal grants and local government funds.⁴⁵

Many land banks automatically receive title to tax-foreclosed properties that are not sold for the minimum statutory bid, which ensures that they receive the majority of low-value properties that are too expensive for individual developers to rehabilitate. Land banks also receive vacant properties through voluntary donations as well as purchase on the open market. Land bank governing boards determine which of the acquired properties will be resold and which will be demolished. For properties not slated for demolition, land banks typically perform basic duties, including lawn maintenance and trash removal, in preparation for transfer to a new owner.

Both individuals and corporations are eligible to obtain properties from land banks. The purchase price of the property can either be market rate (for sale to developers) or subsidized (for sale to nonprofits and low-income families), depending on the function of the property as well as the community's needs. Generally, the land bank wants a buyer who is genuinely interested in investing in the property.⁴⁶

Perhaps the greatest strength of land banks is their versatility. Rather than having to adhere to a rigid redevelopment plan, land banks are able to evolve and change over time to meet the dynamic needs of their communities. Land banks thus offer an opportunity for community needs to take precedence over the needs of individual corporations and developers.

The following sections describe existing land banks with particular features relevant to the Detroit context.

DETROIT LAND BANK AUTHORITY

The primary purpose of DLBA, which was created by the Detroit City Council in 2008, is to repurpose tax-delinquent, vacant properties to productive use. In doing so, it also seeks to increase homeownership among low- to moderate-income families and to improve property values in previously declining neighborhoods. Of the over 365,000 housing units in the city, DLBA holds the title to more than 26,500 residential structures, just over 7 percent of all the units available.⁴⁷

Funding comes from the city's general fund; grants to the State of Michigan from the US Department of the Treasury through the Hardest Hit Fund; contributions from lenders; foundations; and the national mortgage settlement. For example, DLBA received almost \$42 million in Hardest Hit funds in April 2016.

DLBA houses a number of programs:

- *Auction program*: The Disposition Department connects buyers with potential properties as well as opportunities to secure special financing options. Bidders must be Michigan residents (or plan to use the house as a primary residence) or Michigan incorporated businesses. Purchased properties must be brought to code within six months of the closing date.
- *Hardest Hit demolition program*: Under this program, funded by the US Department of the Treasury through the Hardest Hit Fund, thousands of structures are demolished annually.
- *Side lot sales program*: DLBA offers to sell vacant properties to their abutting neighbors (if they are not delinquent on any of their taxes) for \$100.
- *Nuisance abatement program*: DLBA files lawsuits against owners of currently vacant, privately owned properties. Owners must agree to rehabilitate, demolish, or donate the property. Currently, the program only operates in areas where it is expected to be most effective as selected by the city's Department of Neighborhoods.⁴⁸
- *Rehabbed and Ready pilot*: Dilapidated housing owned by DLBA undergoes extensive rehab prior to auction. The rehabilitated property is priced at 75 percent of the cost of the rehab. Currently, the program operates in four city neighborhoods.
- *Buy Back pilot*: People who owned or rented a property, made substantial improvements to the home, or paid utilities on the home for 12 months before it was foreclosed for unpaid taxes have the opportunity to enter into a pilot program if they contact the land bank. Under this program, they may purchase the property for \$1,000. The deed remains in escrow until the

homebuyer pays \$100 a month for 12 months into a savings account for property taxes, pays the water bill on time, maintains the outside of the property, and attends homeowner classes quarterly. Currently, 58 residents participate in this pilot program.⁴⁹

- *Rehab financing program:* Several financial institutions have partnered with DLBA to provide grants and loans to help new homeowners purchasing homes in a land bank auction cover rehabilitation costs.

Currently, more than 95,000 properties are under DLBA's control. Since its inception, DLBA has auctioned off more than 1,500 properties, with the purchase completed for over 750 of them.⁵⁰ Over 10,500 properties have been demolished, with over 100 being demolished each week.⁵¹ DLBA has entered into more than 900 agreements with tax-delinquent property owners, further helping to reduce the number of vacant properties in Detroit.

A remaining challenge identified by one respondent "is to develop bulk disposition methods that don't get preyed on by corrupt developers. We have been playing it safe by chipping away at [the inventory], but it'll take us the rest of our lives at that rate" (2).

GENESEE COUNTY LAND BANK AUTHORITY

Genesee County (in which Flint is located) experienced a period of depopulation and disinvestment following deindustrialization. As a result, vacancy rates surged as increasing numbers of properties were tax foreclosed, the majority of which were in Flint. This situation was particularly problematic given the county's lengthy, expensive foreclosure process, which averaged more than seven years to complete in the 1990s.

Following adoption of two state laws to streamline the tax foreclosure process and authorize the creation of city and county land bank authorities, the Genesee County Land Bank (GCLB) was established by 2004.⁵² GCLB is widely regarded as one of the most successful land banks in the country and frequently serves as a model for new land banks.

GCLB is funded primarily by federal and local grants. Excess proceeds from more valuable properties make up a third of its annual funding. The remaining funding is generated from proceeds from property rentals and special fees applied to tax-delinquent properties. The land bank also benefits from a "tax recapture" program, through which it receives 50 percent of future property taxes on successfully sold properties for five years following the date of the sale. Although often considered revolutionary, this program typically accounts for less than 1 percent of average annual funding.

GCLB receives title to all tax-foreclosed properties not sold for the minimum statutory bid, regardless of condition or location. However, prior to the first public auction, the land bank may bundle low-value properties. If a property is included as part of a bundle, its buyer must agree to purchase all the properties in the bundle, which helps reduce land speculation.

Once it has acquired a property or bundle of properties, the land bank is responsible for demolishing all properties ineligible for rehabilitation. After these properties have been cleared, it continues to provide general upkeep (e.g., trash removal) until the sales team is able to find a new owner. Though no specific rules govern the sale of land, many of the properties are sold to nonprofit developers dedicated to building high-quality, affordable housing.

Since its inception in 2004, GCLB has received roughly 15,000 of the 20,000 tax-foreclosed properties. Of these, nearly 4,600 have been transferred to new ownership, reducing vacancy rates and increasing local property values (Genesee County Land Bank Authority 2014). Many of these sales (1,700) have been through land contracts, which are typically five-year contracts under which the purchaser pays approximately \$200 a month.

Although land contracts are a concern when they are exploitative, DLBA may be able to adopt this practice from GCLB to make homeownership more accessible to people for whom the conventional purchase process is not effective.⁵³

CUYAHOGA COUNTY LAND REUTILIZATION CORPORATION

During deindustrialization, Ohio experienced depopulation and an increase in vacancy rates. To address these issues, the Cleveland Land Bank was established in 1976. Similar to other early land banks, the power of the Cleveland Land Bank was restricted to the acquisition of properties eligible for immediate transfer. All properties were to be sold at fair market value, and no funding was provided for demolition or rehabilitation.

By 2008, the state recognized the inadequacies of the Cleveland Land Bank and passed the Ohio Land Bank Act to temporarily increase the powers afforded to land banks by streamlining property acquisition procedures and granting land banks the right to extinguish tax liens on delinquent properties. With the measure set to expire in 2010, Ohio authorized the creation of new land banks, reformed the tax-foreclosure process, granted land banks the right to extinguish all existing liens on a property, and developed a new source of funding. As a result, the Cuyahoga County Land Reutilization Corporation (CLRC) was established in 2009. CLRC works to reduce vacancies as well as to facilitate

the redevelopment of previously dilapidated neighborhoods. It currently holds more than 1,300 properties.

In addition to proceeds from property sales, CLRC received \$10.1 million in demolition aid through the federal Hardest Hit Fund. This funding has been supplemented by \$2 million in donations and demolition aid from various financial institutions. The land bank also benefits from the Delinquent Tax and Assessment Collection fund. Under this program, county treasurers are authorized to direct excess penalties and interest generated by delinquent taxes to land banks. On average, this revenue stream generates more than \$7 million annually and is considered one of the most stable and innovative sources of funding for a land bank.

Initially, many of the properties held by CLRC were obtained through Fannie Mae, HUD, and independent financial institutions for little to no cost. Many of these entities also provide property demolition assistance, sometimes shouldering the full cost of demolition.

Eventually, CLRC began obtaining properties through tax foreclosure. The land bank only accepts properties deemed to be of strategic value to the county's redevelopment. Currently, CLRC holds approximately 1,300 properties. Sixty percent of its properties have been acquired through tax foreclosures, and the remaining 40 percent are donated REO properties.

The majority of acquired structures, about 60 percent, are immediately demolished. Various financing options are available for potential buyers of the remaining 40 percent of housing stock:

- *Deed-in-Escrow Program:* After a property is successfully bid on, the deed to the property is held in escrow by the land bank until the new owner completes necessary renovations. If renovations are not made within the specified time period, the owner loses his right to the property, as well as any money he may have invested in the renovation of the property.
- *Owner-Occupant Buyer Advantage Program:* This program allows individuals interested in purchasing homes to bid on properties prior to investors, provided the properties require only moderate work.
- *Homefront Veterans Home Ownership Program:* This program offers a 20 percent home price discount for all veterans as well as a lease-to-purchase option.
- *Buying and Retaining Academic Investment Now:* This program offers college-educated homeowners a price discount after three years of residency as well as a lease-to-purchase option.

CLRC works with local workforce development programs to provide construction and trades training. For example, Career Development & Placement Strategies, Inc. works with fathers who have been unemployed for a long time or formerly incarcerated and have committed to reconnecting with their children. CLRC has contracted with Career Development & Placement Strategies, Inc. for these fathers to use their skills by renovating several land bank homes (Keating 2013). Given the pressing need for skilled contractors and the need for skill development among Detroit residents, DLBA could benefit from a similar program.

LESSONS FROM LAND BANKS

DLBA has developed a suite of programs to begin to address the almost 100,000 properties it controls. The number of DLBA properties far exceeds the volume of other land banks: Genesee has received 15,000 properties over 12 years, and Cuyahoga currently has control of fewer than 2,000. Detroit's challenge, with over 109,000 vacant properties, dwarfs that of Cleveland (45,600 vacant properties) and Flint (12,800 vacant properties) (figure 9). That substantial difference requires DLBA to use a range of strategies to return properties to use and reduce blight.

Several DLBA programs could be beneficial to other communities, particularly if they can be brought to scale. For example, through its Rehabbed and Ready program, DLBA works with private-sector partners to provide rehabbed homes in recovering neighborhoods. The Buy Back pilot is an initiative through which DLBA uses its resources to help stabilize not just neighborhoods but people, helping them develop a plan by which they can remain in their homes following tax foreclosure. Keeping people in homes can be more effective than forcing them out and then having a vacant home to maintain.

DLBA has been praised for its willingness to try new ideas. This willingness will enable DLBA to explore new programs, such as renting habitable homes that have not found buyers to address residents' needs for affordable rentals and to keep homes occupied. Partnerships with entities that provide job training through the rehab process would meet multiple needs. Cuyahoga's program offers one model. The AFL-CIO pilot in Detroit could be another model. A partnership with Young Detroit Builders could be beneficial. The Entrepreneurs of Color Fund, a \$6.5 million loan fund supported by the Detroit Development Fund, JP Morgan Chase, and the W. K. Kellogg Foundation, is a resource available to minority businesses involved in construction and rehab to grow their businesses as they respond to the housing market's needs.⁵⁴

Lease-Purchase Agreements

Given the recent foreclosure crisis, the tightening of the mortgage credit market, and the high unemployment rate, potential homebuyers may be constrained by credit or down payment deficiencies. Lease-to-purchase programs can offer an intermediate step in which these households gradually build toward ownership. A lease-purchase model offers many advantages to a community with a lack of qualified buyers and a surplus of available homes. It ensures homes are occupied and protected from crime and vandalism and prepares households for homeownership by giving them time to repair their credit, raise a down payment, and learn about the responsibilities of homeownership. It is particularly responsive to the demographic transition that is leading to rental demand outstripping homeownership. With many millennials currently in their early to mid-twenties, the rental market throughout the United States, including Detroit, is strong; when these young adults reach their thirties and want to become homeowners, they could be better positioned.

Lease-to-purchase programs and land installment contracts are often confused. A land installment contract involves the sale of property in which the seller continues to hold legal title to the property until the buyer has paid the full purchase price. Typically the buyer assumes all maintenance, tax, and insurance obligations. If the buyer defaults, the seller can cancel the contract, keep the payments, and evict the buyer. Land installment contracts are often marketed to low-income buyers who are unable to access conventional home loans and are often used in a predatory manner.⁵⁵ Over 3.5 million people reported they had bought a home using a land installment contract in 2009; of these, 500,000 were Hispanic (Battle et al. 2016; Edelman, Zonta, and Gordon 2015). Land installment contracts have also been prevalent in Detroit, particularly with mortgage lending severely constrained.⁵⁶

In contrast to a land installment contract, a lease-to-purchase agreement involves a lease (rather than a sale contract) with an option to purchase the property after a specified period. The renter may pay a rent premium and/or a fee for the purchase option. The owner or landlord typically pays taxes and insurance but may have the renter assume maintenance responsibilities (Edelman, Zonta, and Gordon 2015). This product is often used by nonprofits to create an affordable and sustainable pathway to homeownership and is the model we explore here.

Lease-purchase agreements vary depending on state and local regulations, but they generally have similar structures. The contract specifies the purchase price of the home, and the renter pays an upfront deposit in exchange for the purchase option. During the lease period, the renter has exclusive rights to purchase the home. Any value increase in the home during the lease period goes to the renter-buyer, which allows equity to build during the lease period. In many lease-purchase agreements, a portion of

each rental payment is credited toward the purchase and, in combination with the upfront deposit, constitutes the down payment if the renter decides to exercise the purchase option.

Cleveland Housing Network Lease-Purchase Program

By the 1980s, ongoing depopulation of Cleveland had resulted in high rates of vacancies, particularly among low-income neighborhoods and neighborhoods with a large share of residents of color. These vacancies led to the dilapidation of housing stock and the steady decline of housing prices. Many of the remaining residents did not have adequate credit or assets to qualify for traditional mortgage loans. This barrier, coupled with the declining quality of existing homes, rendered many neighborhoods virtually uninhabited by single-family homeowners. To respond to these conditions, the Cleveland Housing Network (CHN) developed the Lease Purchase Program in 1981.

The primary purpose of the CHN Lease Purchase Program is to increase homeownership among low-income residents who typically do not qualify for traditional mortgage loans. To achieve this objective, the program provides a combination of housing at reduced rents, opportunities for asset development through tax and maintenance support, opportunities to transition from lease to purchase, and ongoing financial counseling and education. The program also seeks to stabilize inner city real estate markets—characterized by blight, vacancies, and falling home prices—through both the construction of new homes and the rehabilitation of existing housing stock. Initially, all the stock was rehabilitated, single-family houses. In 1994, CHN began to oversee the construction of new homes to address needs in neighborhoods with high demolition rates.⁵⁷

At its inception, the Lease Purchase Program was funded using Section 8 subsidies issued by the Cuyahoga Metropolitan Housing Authority. However, in 1987, the Cleveland program became the first lease-purchase program to be funded through the low-income housing tax credit, which provides tax incentives for developers to construct or rehabilitate low-income rental housing. The majority of the remaining costs of the program are covered by city and state subsidies,⁵⁸ with a small portion covered by increases in the first mortgage loan amounts (for residents who opt to purchase their properties). The Cuyahoga Land Bank has contributed funds to CHN for its lease-purchase program.

To be eligible for the Lease Purchase Program, residents must first complete the lengthy, two-year application process, which includes a group orientation, application screening (to determine eligibility), and mandatory maintenance workshops (to prepare residents for property upkeep). After three years of successful rent payments, the lease agreement is converted to a lease-purchase agreement, which

obligates CHN to continue leasing the property to the same tenant during the 15-year rent-only period.⁵⁹ After 15 years, renters are able to purchase the home below the market value and keep any home equity built during the lease period.⁶⁰ The median sale price is under \$20,000, and the appraised values of the homes range from \$30,000 to \$80,000.

Importantly, the Cleveland program uses an “equivalency principle,” which stipulates that new monthly housing payments—including mortgage, insurance, taxes, and utilities—cannot exceed previous monthly rental payments.

One of the largest obstacles for the program is participants’ ineligibility to obtain traditional mortgage loans, even after 15 years of successful renting. As a partial solution, efforts are made to improve current tenants’ financial literacy and encourage asset accumulation through preparatory homeownership courses.⁶¹

To date, the Cleveland Lease Purchase Program has rehabilitated or constructed more than 2,300 homes spanning 35 projects. About 85 percent of eligible renters have made the decision to purchase their homes, resulting in approximately 900 new homeowners, many of whom are nonwhite and at or below the poverty line. Without this program, these homeownership gains are unlikely to have been made, particularly considering the recent housing crisis (Curry and Durban 2015).

Community Resources and Housing Development Corporation

The Community Resources and Housing Development Corporation (previously known as the Colorado Rural Housing Development Corporation) developed the Learn, Earn, Own program to help low- and moderate-income households (60 to 120 percent of area median income) purchase homes while stabilizing neighborhoods under the federal Neighborhood Stabilization Program. As a “customer-driven” program, an eligible household works with a real estate agent to select a single-family home in greater Denver that is a foreclosure or REO property, is priced below market value, and meets minimum quality standards, needing only minor rehab. The Community Resources and Housing Development Corporation, with funding from Neighborhood Housing Services of America, purchases, repairs, and then leases the home.

Homes cost \$140,000 on average and need \$5,000 to \$10,000 worth of repairs.⁶² The Learn, Earn, Own program requires the renter to complete a financial education course, including credit repair if needed, and a homebuyer course. The renter also contributes sweat equity by assisting in the repairs, which results in a credit to the purchase price.⁶³ The program is designed for households that need two

to three years to improve their credit and prepare for homeownership. The purchase price is based on the acquisition and rehab costs reduced by sweat equity. Monthly rent is based on the estimated monthly loan costs (including insurance and taxes), a \$25 management fee and \$50 savings for closing costs. The monthly rent covers counseling and major maintenance costs.⁶⁴

Unlike the Cleveland program, the Colorado program is designed to transition renters to homeownership in two to three years. It enables buyers to choose from a larger group of homes rather than from among a subset the nonprofit has chosen to control, which provides for less targeting within a neighborhood but gives buyers more choices about where they want to live and the type and size of the home.

Center for Community Self-Help

To facilitate growth in the lease-purchase market, the Center for Community Self-Help (Self-Help), which has its headquarters in Durham, NC, in partnership with Fannie Mae and local nonprofits, is developing a national program and a secondary market for a lease-purchase mortgage product. Under this program, local nonprofits acquire and rehabilitate vacant or foreclosed properties and provide credit, homeownership counseling, and property management services to qualified tenant-purchasers who will purchase the property within five years. The program is targeted to tenant-purchasers whose income is at or below 80 percent of the area median income. To qualify, tenant-purchasers need to have 12 months of consecutive employment history. The five-year rental period gives households an opportunity to repair their credit and save for the closing costs and down payment.

The local nonprofit organization pays acquisition and rehabilitation costs by obtaining a lease-purchase mortgage loan developed by Fannie Mae from one of Self-Help's bank partners (any Fannie Mae-approved seller servicer); this mortgage loan is then sold to Self-Help, which retains the credit risk, and is securitized by Fannie Mae. The local nonprofit is responsible for all payments—principal, interest, taxes, and insurance—until the tenant assumes the loan when purchasing the home.

Self-Help began a pilot program in Charlotte, NC, with 25 vacant homes in a single subdivision that the Self-Help CDC manages. After the CDC completes minor rehab, a network of counseling agencies and real estate agencies work with it to find both buyers and lease-purchasers.⁶⁵

To date, Self-Help has been approved to deliver \$200 million worth of loans to Fannie Mae. Self-Help is seeking to expand the approach to other cities, initially Atlanta, GA, and Chicago. A nonprofit needs to have skill acquiring, renovating, managing, and selling single-family homes, in addition to

finding prospective tenant-purchasers and connecting them to financial counseling services. For programs in Detroit that have sufficient capacity to run a lease-to-purchase program, Self-Help's expansion could provide the opportunity. Self-Help recognizes that the local program needs to be responsive to the local context.

A lease-to-purchase program could be extremely useful in Detroit, particularly as DLBA seeks to return homes to use. By renting the properties and allowing the tenants to become purchasers, the program would address the need to house current residents in quality housing, prepare residents for homeownership and help them qualify for credit, and reduce vacancies in a community. The land bank already owns the homes; however, the substantial cost to make each property habitable combined with the operating and maintenance costs creates a significant funding issue. Program administration can also be extensive, requiring high-capacity local organizations as DLBA is not designed to manage occupied properties and provide support to tenants. Cleveland's use of low-income housing tax credits provides a relatively stable funding source, but in Detroit, multiple needs compete for the credits, so that may not be the best solution. Furthermore, Cleveland's program imposes a 15-year rental period, which may be longer than many families need to transition to being homeowners. The Self-Help program, with the Fannie Mae loan product, may make resources available that enable nonprofits to offer lease-to-purchase programs.

Other issues involve developing program parameters to best meet the conditions in Detroit. These issues include determining an appropriate time for a household to become mortgage ready, selection of properties (e.g., should they be targeted to specific neighborhoods?), and the appropriate monthly rent payment to cover counseling and mandatory savings. There are many models from which to draw and create a program that is beneficial to residents and promotes the health of the housing market.

Shared Equity Homeownership

In shared equity homeownership programs, homeowners receive support buying a home through equity assistance rather than financing the home solely through debt. Such programs allow borrowers to purchase homes at subsidized prices. In exchange, borrowers agree to share a portion of future house price appreciation.

Shared equity programs help low-income homeowners build equity and save for traditional homeownership in markets where homes are appreciating in value. These programs also can limit homeowner risk by establishing a price floor that guarantees homeowners will receive at least the

amount they paid for their home upon sale. Many programs share both market losses and market gains. Different mechanisms are used to implement the shared equity component, including deed restrictions, community land trusts, and limited equity cooperatives.

Deed restrictions, or deed covenants, are restrictions written into the deed to ensure a property will remain affordable. These guidelines are typically adopted to preserve the affordability of homes financed with substantial government subsidies for future residents.

Community land trusts are typically nonprofit organizations that own land and sell improvements (without transferring ownership of the underlying land) to homeowners via long-term lease arrangements. Separating ownership of land from ownership of the structure means very limited, if any, land appreciation is passed on to future homeowners, thereby preserving home affordability for low- to moderate-income households. Community land trust homes also have resale price restrictions that limit the selling price, and hence the return homeowners can earn on their equity investment, once again helping to keep homes affordable for future homeowners. Community land trusts rely heavily on counseling and conservative underwriting practices to avoid risky products, as well as ongoing engagement with homeowners to ensure early detection and remediation of borrower financial troubles.

Limited equity cooperatives are typically multihousehold developments in which occupants purchase shares in the cooperative rather than the units. The co-op, a resident-controlled nonprofit organization, takes out a blanket mortgage loan for the whole property, and residents buy “shares” in the co-op, which appreciate over time. Limited equity co-ops limit the rate at which those shares rise to keep the housing affordable.

Austin HomeBase Program

HomeBase, established in 2008, seeks to maintain long-term affordability in the Austin, TX, area by selling homes at below-market prices to first-time, income-eligible homebuyers and, in return, limiting the resale price when the home is later sold.⁶⁶ HomeBase has a portfolio of 650 properties that are kept affordable through deed restrictions.

HomeBase typically purchases the lots (using funds from the city) and then partners with developers to construct homes. Existing homes are too expensive, and homes that require rehab may not be in desirable neighborhoods (Theodos et al. 2015). HomeBase serves households earning no more than 80 percent of the area median family income. Buyers are required to complete homebuyer

education and attend a shared appreciation orientation session and individual buyer counseling. Homebuyers are able to obtain financing from credit unions, which may hold the loans in portfolio or sell them to Fannie Mae (Theodos et al. 2015).

When the current owner sells the house, any amount remaining after paying off the primary loan, the homeowner's equity investment, and the amount of HomeBase's second lien constitutes the appreciation. It is from this amount that the homeowner will receive 2 percent of the initial below-market sales price for each year he or she owned and occupied the property. HomeBase does not credit the cost of improvements made during ownership, which can be a disincentive to investing in the property.

Champlain Housing Trust Program

Founded in 1984 in Burlington, VT, the Champlain Housing Trust is the largest community land trust in the United States, with 565 units in its portfolio.⁶⁷ The Trust purchases land on which it typically builds three-bedroom units. The Trust uses federal and state funding from the Neighborhood Stabilization Program to lower the buyer's purchase price to at least 20 percent below the appraised value (Theodos et al. 2015). Homebuyers are able to finance their purchase of the structure through the Trust's relationships with local credit unions and banks, which may then sell the loans to Fannie Mae. The Trust also has a buyer-driven program, under which a homebuyer selects a home and the Trust provides subsidies to offer a below-market purchase price.

Buyers must be income- and asset-eligible, have sufficient assets to cover closing costs and the Trust's fee of \$1,200, have completed homebuyer education and attended a shared equity information meeting, and have a preapproval letter from a participating lender. Single-family homes are subject to a ground lease from Champlain Housing Trust, which owns the land. The ground lease enables the Trust to maintain affordability because the land appreciation remains with the Trust rather than transferring to homeowners. Instead, the homeowners benefit from the appreciation of the structure. When the unit is resold, the homeowner receives 100 percent of any increased value from capital improvements and 25 percent of the appreciation, based on the appraisals at purchase and resale. The owner must sell the home through the Trust to another qualified buyer.⁶⁸

In their evaluation of nine shared equity programs, Theodos and colleagues note that "shared equity programs are best suited for high-cost homeownership markets, where even a fully employed family with steady income still might not be able to afford a home" (2015, 7). Program applicants were

young, highly educated, and earning approximately 45 to 60 percent of the area median income. They had credit scores of 720 on average, no net worth, assets averaging \$6,000, and debts averaging \$3,500 (Theodos et al. 2015, 68–9).

Given the characteristics of the residents to whom these programs appealed and the market in which shared equity programs fit best, these models may not be the most useful for helping low-income Detroit residents build assets and obtain sustainable homeownership. Instead, products that give the lender or another entity equity as a means of deferring part of the purchase price, rather than being focused on maintaining affordability, may be more effective in Detroit. Following the recession, when many homes were underwater, shared appreciation mortgages were considered as a way to reduce outstanding loan amounts to make payments manageable while enabling the lender to benefit when house prices recovered.

However, shared equity programs have been used by several jurisdictions under the Neighborhood Stabilization Program, indicating their use is not as limited as suggested by Theodos and colleagues. The Neighborhood Stabilization Program requires that grantees maintain affordability, which HUD has interpreted as compliance with the minimum affordability requirements of the HOME Program regulations. These regulations require an affordability period of 5 to 15 years depending on the amount of money invested in a particular unit. Several jurisdictions have implemented this requirement by using shared equity programs.

Shared Appreciation Loan Programs

Shared appreciation loan programs offer homeowners loans with zero interest or at a low interest rate in exchange for a predefined percentage of any increase in the home price at the point of termination or home sale. The loan may take the form of a “silent second” mortgage that requires no payments until sale of the home. Alternatively, the obligation may be reflected through a shared appreciation mortgage that takes the place of a conventional first mortgage. It provides that the buyer will give up a share of future home appreciation in exchange for a lower interest rate.

Unlike many shared equity programs, a shared appreciation loan is not tied permanently to a specific property. Instead, it is a mechanism that can be used with any property. Accordingly, these loans do not preserve long-term affordability of specific homes (Jacobus and Lubell 2007).

These products have been in use for decades but have been highlighted in recent years as governments and lenders sought to keep homeowners in their homes following the Great Recession.

For example, to encourage lenders to refinance at-risk mortgage loans insured by FHA, Congress created the Hope for Homeowners program. Lenders can reduce the principal balances of loans to no more than 90 percent of the current appraised value of a borrower's home, and FHA will insure the refinanced loans to protect the lenders from further losses. To recoup some of the expected losses and create incentives for households to stay in their homes, FHA receives a lien equal to the difference between the new principal balance and the appraised value of the home. When the borrowers sell the home, they must repay the full amount, with the amount due declining over time to 50 percent, plus 50 percent of any future home price appreciation (Sheriff and Lubell 2009).

Like the programs mentioned above, shared equity approaches require habitable homes and funding sources. They are tools that can address credit constraints as they help residents transition to sustainable homeownership.

Targeted Mortgage Loan Products

Several lending programs have been introduced in the Detroit housing market, each targeted for a specific purpose and/or a specific set of borrowers. The overall goal is to enable homebuyers or homeowners to purchase and/or rehabilitate homes while stabilizing prices in a specific neighborhood. Ultimately, lenders and other institutions are working to “get the economics aligned properly” (4) and “let the market take over” (9). As one interviewee noted, “We can’t build an entire city based on charity” (4).

Table 5 highlights key aspects of several programs to provide a sense of how they work. Several lenders offer programs to support the purchase of homes from DLBA, including First Merit Bank (up to \$30,000 forgivable grant for down payment, closing costs, or rehabilitation assistance) and Citizens Bank (renovation financing up to \$20,000). Although these and other similar programs are an important resource for Detroit residents purchasing and rehabilitating homes, the ability to scale the programs remains to be seen.

TABLE 5

Select Detroit Area Mortgage Programs

Program	Overview	Features
Detroit Home Mortgage	Five lenders using common underwriting standards offer loans for purchasing and rehabilitating a home, refinancing and rehabbing, or covering the gap to purchase a home that has already been improved. The bank holds the first lien, and the second lien is managed by the Neighborhood Reinvestment Fund and guaranteed by the Kresge Foundation. Other funding sources include the Ford Foundation and Michigan State Housing Development Authority.	<ul style="list-style-type: none"> ■ First mortgage loan has a maximum 96.5% LTV ■ Second mortgage limited to \$75,000 with no maximum LTV, bears a fixed 5 percent interest rate, and a maximum 20-year term ■ No bank fees ■ Borrower must demonstrate ability to repay both loans ■ Second loan forgiven if the home is sold and the borrower experienced a qualifying “hardship event” ■ Funds can be used for a home already rehabilitated or in need of rehab ■ Minimum credit score of 640
Detroit Neighborhood Initiative	Collaboration between Bank of America, Neighborhood Assistance Corporation of America, and Opportunity Resource Fund to provide affordable mortgage loans for the purchase of Detroit homes	<ul style="list-style-type: none"> ■ No down payment, closing costs, or fees ■ Below-market fixed interest rates ■ Renovation funding included ■ Credit score not considered ■ Loans up to 110% LTV; up to 150% LTV if the home is purchased through the land bank
Detroit 0% Home Repair Loans Program	Joint effort among the City of Detroit, Detroit Local Initiatives Support Corporation, and Bank of America to help homeowners fix their homes, address health and safety issues, and eliminate blight	<ul style="list-style-type: none"> ■ Up to \$25,000 loan at 0% interest rate ■ Must live in the residence for at least six months ■ Minimum credit score of 560 ■ No delinquent taxes
Flagstar Bank City Employee Loan Program	Provides financing to purchase and rehab a home from the land bank for current Detroit employees and contractual employees (City employees can purchase land bank homes at a 50% discount.)	<ul style="list-style-type: none"> ■ 15-year fixed-rate mortgage loans for up to 300% LTV ■ Renovation funding included in loan ■ Minimum credit score of 620 ■ Rehabilitation completed and house occupied within six months
Liberty Bank Home Restoration and Acquisition Program	Provides affordable loans to finance acquisition and rehab of homes offered in the land bank auction or purchased in specified neighborhoods to bridge the gap between the cost of repairs and the appraised value	<ul style="list-style-type: none"> ■ Interest-only loan during six- to nine-month construction/rehab phase up to 110% LTV. ■ Bank vets the contractors and monitors the work ■ Down payment assistance up to \$15,000 for those earning below 120% of area median income, up to \$20,000 for Detroit Public School employees ■ Targeted initially to six

Program	Overview	Features
Wells Fargo HomeLIFT Down Payment Assistance Program	Administered through NeighborWorks America, provides down payment assistance to purchase a primary owner-occupied home. Loan forgivable 20% each year home occupied as primary residence, fully forgivable after five years.	<ul style="list-style-type: none"> neighborhoods, recently expanded to designated hardest hit areas Minimum credit score of 600 Up to \$15,000 in down payment assistance Household income must be less than or equal to 120% of area median income Targeted to properties in Detroit and other specified cities in Wayne County

Note: LTV = loan-to-value ratio.

All the programs listed in table 5 require housing counseling except for the Detroit 0% Home Repair Loans Program.

In addition to the targeted loan programs, Detroit institutions have created programs to stimulate demand to live in the city, specifically in midtown and downtown. LiveMidtown was a five-year program funded by employer contributions from Detroit Medical Center, Henry Ford Health System, and Wayne State University, with a foundation match. Eligible employees could receive \$20,000 in a forgivable loan toward a home purchase, a \$5,000 loan for exterior renovations, \$2,500 for signing a new lease, or \$1,000 for renewing a lease.⁶⁹ Over 90 percent of the participants were renters. The program funded 1,200 people, of whom approximately 650 were new renters.⁷⁰ With hospitals and universities as the employers, the employees taking advantage of the LiveMidtown incentives tended to be both skilled workers, such as nurses, and unskilled workers, such as laundry staff (3).

The widespread appreciation for the many programs put into place to help jumpstart Detroit's housing market was matched with widespread concern on the difficulty in navigating the many programs. As one interviewee described the situation, "You don't want to lose the opportunity to have a person become a resident because they walked into the lender's office and weren't able to check all of the boxes, so they left" (11). There was consensus among the stakeholders that consumers need help; a concierge, a clearinghouse, a resource center were different terms were used to reflect the same need. As one respondent explained, "Each program has its own purpose, but coordinating them becomes overwhelming for the homebuyer. All these products that give homebuyers a choice—I think there's room for them all, but we need to organize them, be able to say here's the full suite of the programs we have" (10).

Consumers weren't the only group for whom the various targeted programs created problems. Lenders, developers, and nonprofits noted the different targeting by multiple actors, with decisions apparently made in isolation. They recognized the need to overlay the different programs to determine priorities and strategies. Ultimately, one interviewee explained, "The capital is not the issue, the deployment is the issue" (11).

Rental Housing Preservation

Although many of the programs described throughout this report focus on assisting potential homebuyers and homeowners, a large segment of both long-term and new Detroit residents rent in single-family or multifamily units. Improving the pathways to homeownership should remain a top priority for Detroit. Yet rental housing often remains the only viable housing option for many low-income, African American residents who were displaced from their homes through predatory lending, the mortgage meltdown, and foreclosures.

Having sufficient, safe, and habitable rental stock (single and multifamily) will likely remain an important strategy for Detroit as it charts the path of recovery to a healthy housing market. Rental units are needed for young residents not yet ready for the transition to homeownership, older adults who are moving out of their homes to be closer to services and have fewer maintenance obligations, and families who prefer renting or simply cannot afford to own a home. In this section we discuss examples of policy and program approaches Detroit should consider that address the preservation, rehabilitation, and repair of existing rental units as well as the incentives necessary to develop multifamily rental housing.

Cities should have programs in place that preserve and rehabilitate existing rental housing by providing both incentives that encourage property owners and landlords to maintain their rental properties and regulatory and enforcement actions for those who do not. Many local governments administer rental inspection and licensing programs that require landlords to register their properties or obtain a license, pay an administrative fee, and submit to regular property inspections, usually every few years (ChangeLab Solutions 2014). Detroit already has in place such a program and a robust administrative enforcement hearing process; however, we could not determine if the program has been recently assessed to determine its effectiveness and efficiency in preserving multifamily rental stock and helping stabilize neighborhoods.⁷¹ One respondent noted that Detroit's economic and market conditions create few incentives for landlords to maintain and improve their rental properties. For

example, high property taxes and other costs are often passed on to renters who have few housing options, so the landlords have a captive market.

Detroit might also consider following the lead of other cities that offer landlord training programs that cover everything from property maintenance to fair housing rules and how to keep their properties and tenants safe. When code enforcement agencies confront unwilling or unscrupulous landlords, cities typically take administrative and legal enforcement actions to gain compliance and bring the rental units up to code (ChangeLab Solutions 2014). Our team did not have time to assess Detroit's current code enforcement capacity, but one interviewee discussed the need for stricter enforcement to ensure that property owners will make the necessary maintenance repairs.

Detroit's low rents (including market rents) make it difficult to develop new multifamily rental housing without a subsidy, even if only in the form of tax abatement. The city has been strategic in its use of low-income housing tax credits, working with the Michigan State Housing Development Authority to target investment. Preserving subsidized housing units has been a challenge, particularly because of the location or the type of existing housing, but with renovation less expensive than new construction, the goal is to preserve when viable. Detroit's unallocated annual contribution contract presents one of the resources being explored. The ability to transfer federal project-based rental contracts from one building to another may be beneficial to preservation efforts.

Develop Detroit, which was created in 2015 and funded by philanthropy, partners with local organizations with the goal of bringing private equity and market capital to development in Detroit to make it sustainable. Its initial focus is on developing multifamily rental units in target areas, which may include some commercial development. The type of structure (e.g., town homes, walk-ups, apartment buildings) depends on the neighborhood. With a commitment to inclusion and affordability, Develop Detroit will include rent-restricted units funded by tax credits, project-based vouchers, or HOME funds from the city. Although the organization is still in its early stages, it builds off work done by the Gulf Coast Housing Partnership with local partners in New Orleans following Hurricane Katrina and may be a model for other cities facing similar affordable housing and community needs.

Targeting Resources

During the interviews, we regularly heard of the need to accept that the city will be smaller going forward; it won't be returning to a city of 1.8 million people. Strategies need to be developed accordingly. As one interviewee pointed out, excess space becomes a consideration: "The focus now is

that everyone will get baseline services. At some point, as certain areas get built up, you need to give incentives to people to live there. The city is just too big, you don't need this much space for the amount of people we have" (16).

In response, the city government has undertaken the difficult task of targeting funds to a few neighborhoods at a time when neighborhoods throughout the city have substantial needs. The city has published a map identifying seven target areas, one in each district, in which it will focus its investments. The transparency of this approach was praised by several interviewees. A city official explained the importance of the map: "We can't afford to waste the money we have or the investors we have. We have to try to build a fire by putting kindling and logs next to each other. What are the places that can grow quickly?... let's put our money and attention there." The areas of focus are places where significant demolition has occurred and that have (or used to have) a high-functioning commercial corridor so that bus line connections will be available.

Of particular importance is Detroit's ability to work with staff at the Michigan State Housing Development Authority, which administers the state's low-income housing tax credit program, to prioritize applications in these targeted areas. "In a world where you are [demolishing] thousands of units a year, and you have limited money and no private investment happening, where the city puts its money is incredibly important." Being very intentional in how public dollars are spent can "send a signal to private investors and outsiders to direct their funding to those places."

Nonprofits and other entities are following a similar strategy of identifying areas with current or potential commercial and residential activity and concentrating their efforts and resources on these "nodes of activity" that will develop into mixed-use, mixed-income communities. "You start with a four-block area that is safe, clean, and the economics of it are vibrant and attractive and then you attach residential components to it—or you do the reverse—and use those nodes of activity as part of the redevelopment strategy," explained one stakeholder. "Otherwise, I don't think a peanut butter strategy will work" (18). The theory is that development and rehabilitation experts move from one node to the next, rebuilding the city in manageable segments. If resources can be leveraged to colocate market and subsidized housing in these targeted zones, development can attract new residents and help existing residents. Mayor Duggan has emphasized the importance of focusing investments to create "20-minute neighborhoods," defined as having sufficient residential density to support local retail (15 to 20 households per acre), a walkable environment, and support for a range of basic living needs.⁷²

Disparity between old and new residents, and more explicitly between long-time black residents and newly arrived white residents, was frequently mentioned. The phrase "being left behind" was used

by several interviewees. Although there was general agreement on the need for more Detroit residents, several people noted the importance of balancing that need with “who has been here for the long haul” (10). Referring to some of the long-term residents, one interviewee commented, “It doesn’t seem right to pretend that there aren’t already 700,000 people here, and most of them are extremely poor and have very little access to the resources needed to make a change in that circumstance” (12).

In addition to “disparity,” “equity” was often mentioned. “It feels inequitable,” one respondent said. “It feels like white people are favored... that we value those residents over long-term African American residents” (15). People questioned whether the housing market recovery will benefit all residents (9). Several people recognized that “the housing market is a symptom of broader societal issues... [that] led to massive instability in neighborhoods. You can’t just create products to address these issues, you’ve got to drive deeper, into deeper challenges” (16).

The housing market is a symptom of broader societal issues.... You can’t just create products to address these issues, you’ve got to drive deeper (16).

Although some actions have the potential to increase inequities, the current level of activity and commitment to Detroit provides a “unique moment” to improve the health of the housing market in a way that creates equities. An equitable improvement will require listening and responding to community voices and making choices based on more than pure economics. “We can do something at this stage of development that I don’t know if any other city was thinking about at this stage of their development,” one respondent maintained. “We can be aggressive and... create neighborhoods with mixed incomes, and make investments that are aimed at ensuring a diverse mix of housing choices in those areas. Hopefully we aren’t too late” (17).

Capacity

The capacity of Detroit’s nonprofit institutions and the city government has grown in the last few years as funds have flowed into the city from the federal government, philanthropy, and the private sector. However, the general consensus has been that, with a few exceptions, local capacity was not at the level

needed to meet the challenges. Two people used identical language in discussing capacity, noting organizations had to spend their time “chasing dollars,” but were benefiting from greater local collaboration (5, 12).

Reasons for nonprofit-sector capacity gaps included inconsistent or inadequate funding for programming (3, 5), low staffing levels (11, 18), and small scale leading to insufficient expertise in public funding compliance (6). These deficiencies were seen in part, as one interviewee graphically put it, as a result of “the city starving for so many years that the organizations cannibalized each other” (2). Those who were concerned about funding suggested that foundations were overly focused on public engagement at the expense of delivering programs (3) or did not provide enough multiyear funding (5). The lack of diversity in leadership among the strongest nonprofits was also noted (18). Several interviewees recognized the need for neighborhood leadership and new ideas to drive more successful partnerships at the neighborhood level (5, 9, 12).

Overall, the sense was that Detroit had a few very successful organizations but lacked the capacity to undertake large-scale programs: “A strong CDC could do a Cleveland Housing Partnership Network lease to own program. There’s just no CDC capacity to do this type of stuff at [sufficient] volume. We need stronger CDCs” (1). Because the programs from other cities that could be useful in Detroit or that originated in Detroit and could be expanded require significant capacity, consideration will need to be given to how to develop and sustain additional capacity in a way that builds equitable leadership pipelines.

Translating Ideas into Action

Detroit presents a compelling narrative of resilience and innovation that other, older industrial legacy cities can learn from. Even before bankruptcy, Detroit, like many legacy cities, struggled with how to address decades of economic decline, population loss, and vacant properties in the context of severe racial segregation and concentrated poverty. The recent housing crisis compounded these difficulties.

This challenging environment calls for more innovative ways to stabilize the real estate housing market, prevent foreclosure and abandonment, and return vacant properties into productive use. No clear “one-size-fits-all” strategy to community stabilization exists. Instead, Detroit and other legacy cities should maximize program effectiveness by taking a systematic approach that is responsive to neighborhood and market conditions, strategically targets available resources, and leverages the strengths and expertise of the public, private, nonprofit, and philanthropic sectors. Several examples of this systematic approach—focusing individual programs and initiatives on the same neighborhoods—already exist. The Strategic Neighborhood Fund, a partnership between the city and nonprofit community development organizations, brings residential and business development projects into three targeted neighborhoods. The Live6 Alliance coordinates and collaborates across sectors with the University of Detroit Mercy and the Kresge Foundation, the Detroit Economic Growth Corporation, and the Detroit Corridor Initiative. The City of Detroit’s 20-minute neighborhoods initiative focuses its policy, planning, and housing programs on revitalizing six middle-market neighborhoods around new urbanist design principles of placemaking, walkability, and livability.⁷³ More work remains to be done to leverage the impact of these promising programs and expand them into other neighborhoods and across other policy and planning domains.

Given the scale of Detroit’s challenges, a portfolio of strategies, policies and programs, working in combination, will be necessary to reinvigorate Detroit’s housing market. The solution matrix (table 4) can assist policymakers and practitioners in identifying unmet needs, improving existing programs, and adapting innovative programs from other cities.

Core Principles for Supporting Housing Policies and Programs in Detroit

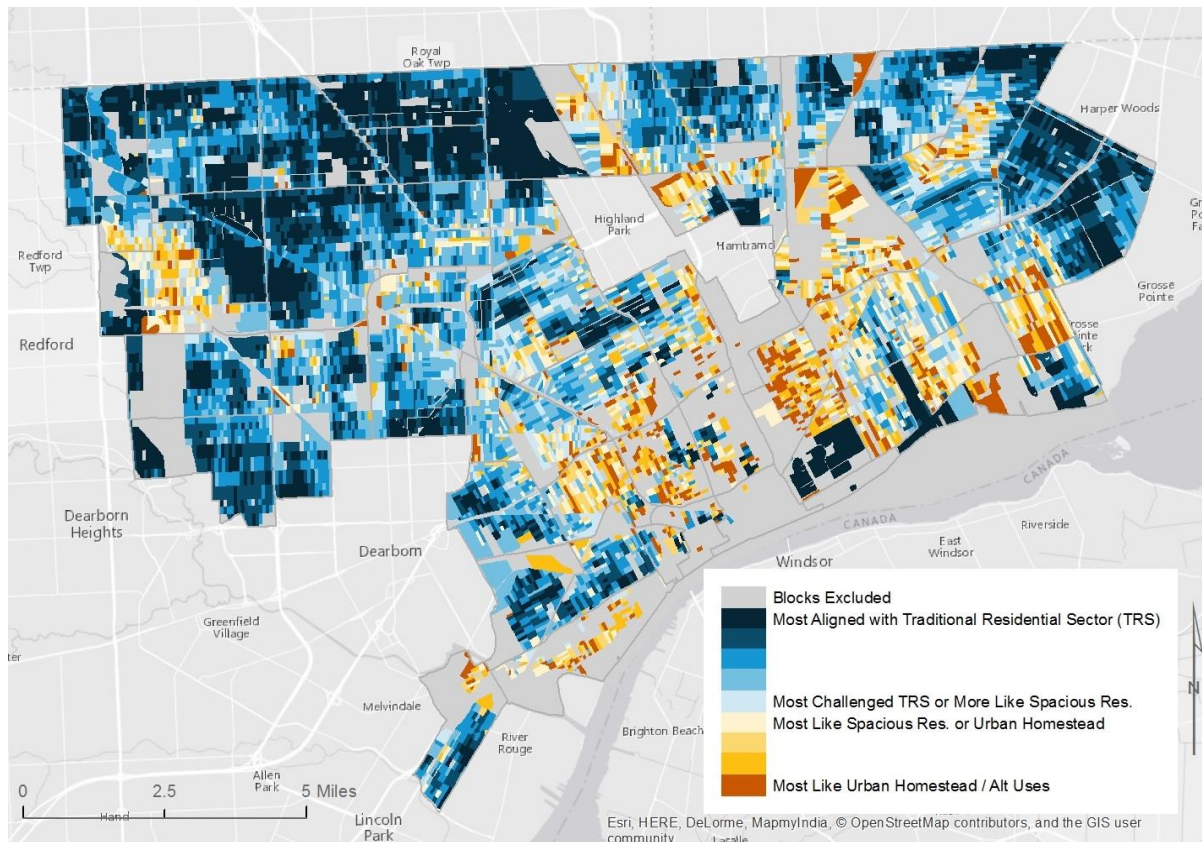
Throughout this report we discuss a wide array of potential policy and program responses that Detroit could adapt to address the current and on-going challenges associated with housing demand, supply,

and access to credit and capital. Although many examples come from cities with conditions similar to Detroit, local leaders will need a process by which they can take a more in-depth look as to whether and how these interventions might work in Detroit. At this preliminary juncture, we cannot say which policy or program has the most promise or potential political traction, or which public, private, or nonprofit entity should house such a program. Questions surrounding policy and program design, funding, and implementation will require more dialogue with and among local officials and civic, community, and business leaders. Below we outline three strategic principles and concepts that can guide Detroit's leaders in translating the insights and examples from this report into local action:

- *Tailor interventions to match neighborhood and market conditions:* Much of the data in our report documents existing conditions in demand, supply, and credit access at the city or even regional level. As research by Data Driven Detroit and the Community Development Advocates of Detroit illustrates, Detroit contains a complex web of diverse neighborhoods with different physical conditions, ownership models, purchaser profiles, and housing markets and trajectories (figure 24). Thus, Detroit will want to deploy diverse and flexible policies and programs that can better match renters, potential homebuyers, and current homeowners with the housing stock available within these neighborhood and market dynamics. It will also need to strengthen existing data systems to support more robust and collaborative programs and policy designs.
- *Tap the strengths of cross-sector partners:* One of Detroit's greatest assets is its collective experience of working across sectors in developing a healthy housing market. Each sector—public, private, nonprofit, institutional, and community—has its own strengths that can provide resources, capacity, and expertise to launch and sustain many of the strategies proposed in this report. The task at hand is to inventory and marshal those assets under a cohesive and comprehensive effort that can address supply, demand, and credit access.
- *Identify and cultivate policy and program champions:* Innovative ideas demand champions that can help policymakers and the community refine and deploy a new suite of policies and programs, building on innovative programs from other cities. Champions play integral roles as advocates, policy designers, supporters, implementers, and trust builders. Many of the leaders we met with are open to refining existing programs and testing new policies. Considering the current state of Detroit's housing market, a willingness to experiment becomes critical in launching such policies, but champions must also have the commitment and stamina to sustain and refine these efforts.

FIGURE 24

Residential Typology Analysis



Source: “Residential Typology Analysis,” Community Development Advocates of Detroit and Data Driven Detroit, <http://datadrivendetroit.org/cdad-residential-typology-analysis/>.

A Call for a Collaborative Forum on Housing: The Detroit Housing Compact

Everyone we spoke with understands that Detroit as a city and as a community cannot recover without a healthy housing market. And a healthy housing market depends upon investment in people and their economic mobility as well as investments in particular places and neighborhoods. The time has come to accelerate the scale of the preliminary housing market innovations documented in this report and strengthen their potential impact by improving the overall housing ecosystem. Several local participants reaffirmed the need to align related efforts through regular coordination of strategies as part of a broader and cohesive mission that can focus exclusively on revitalizing the housing market in all its dimensions. Collaborations such as the Detroit Future City Strategic Framework Plan and the

Detroit Blight Removal Task Force offer examples of similar collaborative policy efforts that have occurred within the city; however, as this report documents, rebuilding something as complex as Detroit's housing ecosystem will take time, leadership, and commitment by all sectors.

Therefore, we recommend that city officials, nonprofit housing and community development organizations, together with lenders and business leaders, real estate agents, housing counselors, community organizations, residents, and planning organizations come together to form a Housing Compact with support from philanthropic foundations. Informed by our own experiences and the similar initiatives of other cities, we offer preliminary ideas on what such a collaboration could look like and what it would do.

The Preservation Compact in Chicago and Cleveland's Vacant and Abandoned Property Action Council (VAPAC) offer some guidance for shaping the proposed Detroit Housing Compact. Both collaborations draw upon the leadership of cross-sector stakeholders and address pressing housing issues with the support of philanthropy. Created in 2005 under the guidance of the Urban Land Institute and with funding from the John D. and Catherine T. MacArthur Foundation, Chicago's Preservation Compact is working to increase the supply of affordable rental housing in Cook County by 2020. Specifically, the Preservation Compact, which is now under the leadership of the Community Investment Corporation, hopes to preserve and improve 75,000 units of affordable rental housing by that time. Stakeholders from the public, private, and nonprofit sectors have met to develop an action plan that includes a portfolio of strategies to accomplish this goal (Preservation Compact 2007). In Cleveland, VAPAC brings together directors from city and county agencies along with local nonprofits and university experts to assess and fashion new policies and programs to reclaim vacant and abandoned properties within the City of Cleveland, Cuyahoga County, and inner-ring suburbs. Although elected officials participate from time to time, VAPAC's members are primarily directors and managers responsible for implementing policies and programs. With annual support from the Cleveland Foundation, the Thriving Communities Institute (a regional land conservation nonprofit) serves as VAPAC's institutional home, convening meetings, managing membership, and facilitating the process and project work (Schilling and Schamess 2014). Both the Preservation Compact and VAPAC have met regularly for more than 10 years.

Two immediate questions are who should participate in and who might host and lead the Detroit Housing Compact. Members must include a diverse group of housing and community development leaders and stakeholders, approximately 20 to 25 people from across the public, private, and nonprofit sectors. Like Chicago and Cleveland, a core group should manage and direct the policy levers and program resources necessary to affect positive changes to supply, demand, and access to capital. Many

of the strategies proposed in this report will require the cooperation of city and land bank leadership and the complete engagement of public-sector housing and community development leaders and administrators to adapt, manage, and assess a collaborative portfolio of interventions. Private-sector engagement is also essential as they have access to capital and experience in working in distressed housing markets. Community and nonprofit sectors must serve as full partners in this enterprise as they provide the foundation and local intelligence to ensure that any program or policy can effectively meet neighborhood conditions and residents' needs. Philanthropy will no doubt play a pivotal role in providing funding and guidance for such a collaboration. The talents of a skilled intermediary and facilitator will be necessary to manage the process and resolve competing interests, which will naturally arise given Detroit's complex housing ecosystem. In our experience, the convening or host entity is often a well-respected and trusted nonprofit intermediary, with perhaps a couple of cochairs that represent a balance among the public, private, and community/nonprofit sectors.

The Housing Compact itself would provide a regular forum for troubleshooting policy gaps and program inefficiencies, synthesizing data, commissioning reports, and designing policy and program changes. With a focus on policy implementation, program coordination, and strategic resource allocation, the Housing Compact would choose one or two housing priorities on which to concentrate its efforts. As it gains experience and as its capacity expands, the Housing Compact might develop complementary policy pillars and form working groups to tackle more specific program actions. The Housing Compact could develop an action agenda that would set ambitious but measurable goals, include concrete short- and long-term actions, establish program priorities, create funding proposals, and identify ways to tailor those policies and programs to neighborhood conditions. It would also work with its members and partners to gather critical information and data to support its synthesis, discussions, and recommendations. This action agenda should not duplicate existing housing and land use planning efforts but inventory, align, and better coordinate them.

Many of the strategies and recommendations set forth in this report would provide a good starting place for selecting the Housing Compact's housing priorities and developing the action agendas. Based on our conversations with various Detroit stakeholders, three housing policy priorities seem to be emerging: (1) reinvigorating the real estate market for homeownership, (2) exploring policy responses to address the emerging demand for and supply of rental housing, and (3) examining the challenges around housing for seniors considering the dramatic demographic shift toward a graying population in the city and the region. The Housing Compact should consult the preliminary work by the Homebuyer Ecosystem Working Group outlined in its December 2016 report; this collective also resembles what we envision the Housing Compact could do, except with broader participation and scope.⁷⁴ Their report

proposes roughly seven key sets of strategies, with implementation specifics, that would help rebuild the real estate business infrastructure and homebuyer capacity through information, technical assistance, training, financial and housing counseling, and neighborhood marketing, along with assistance for CDCs to acquire and rehabilitate more homes.

To make the Housing Compact a reality and ensure that its actions reflect the needs of Detroit's diverse neighborhoods, the full participation and engagement of neighborhood leaders will be needed. The Housing Compact will also need access to regional and local data and the latest research about why housing matters and what works. Its activities must rely on regular, objective data and in-depth analysis so that members can better understand the interdependence of the various facets of Detroit's housing ecosystem and how proposed strategies will produce the outcomes they intend.

Though our report offers an initial sketch of what the Housing Compact could look like, final decisions on its shape, members, and activities will rest with Detroit's leaders and residents. To fully vet this idea, interested leadership should meet with and learn from the experience of similar efforts in Chicago and Cleveland and engage an informal steering committee that could develop a more concrete proposal for feedback and review.

As previous efforts in Detroit have demonstrated, collaboration, if it involves the right people at the right time, can serve as a catalyst for meaningful and inclusive change. Detroit has done much in a short time to stabilize several markets, revitalize some of its neighborhoods, and reinvigorate its city government. A coordinated and collective effort to more carefully examine and adapt the strategies discussed in this report can help guide Detroit on its path forward to a healthy housing market.

Notes

1. See Homebuyer Ecosystem Working Group (2016). This coalition met for over a year to develop, debate, and refine these strategies; it evolved from the Detroit Home Mortgage Initiative and a Community Reinvestment Fund November 2015 symposium.
2. To provide anonymity to the people we interviewed, we reference their statements by a number we can use to identify the person if required. These numbers appear parenthetically after each interviewee is quoted or paraphrased.
3. Other important individual characteristics that affect tenure choice include race and ethnicity, educational attainment, income, sex, and parental resources and housing tenure (Goodman, Pendall, and Zhu 2015).
4. “Data Search,” Michigan Department of Technology, Management, and Budget, <http://milmi.org/datasetsearch>.
5. American Community Survey 2010–14 five-year estimates.
6. “A Hurricane without Water: The 2015 Tax-Foreclosure Crisis in Detroit,” YouTube video, 18:24, posted by Alex Alsup, Loveland Technologies, January 14, 2015, <https://youtu.be/zi6uoRNtVyQ>.
7. Projections by Urban Institute (Pendall, Treskon, and Hedman, August 2016, draft).
8. Nicquel Terry, “Black Influx Changes Face of Some Metro Area Suburbs,” *Detroit News*, November 16, 2016, <http://www.detroitnews.com/story/news/local/macomb-county/2016/11/15/black-influx-changes-face-metro-area-suburbs/93940394/>.
9. We refer to the American Community Survey 2010–14 five-year estimates as 2012.
10. J. C. Reindl, “Auto Insurance Rates Put the Brakes on Detroit,” *Detroit Free Press*, November 23, 2014, <http://www.freep.com/story/money/business/michigan/2014/11/23/detroit-auto-insurance-rates-premiums/19411987/>.
11. Paul Egan, “Duggan: Give Detroiters a Break on Auto Insurance,” *Detroit Free Press*, May 26, 2015, <http://www.freep.com/story/news/politics/2015/05/26/mike-duggan-pushes-cut-rate-detroit-auto-insurance-plan/27983521/>.
12. Matt Helms, “Study: D-Insurance Would Save Drivers up to \$2,300,” *Detroit Free Press*, June 9, 2015, <http://www.freep.com/story/news/local/michigan/detroit/2015/06/09/d-insurance-savings/28751043/>.
13. Helms, “Study: D-Insurance.”
14. Matt Helms, “Detroiters to See Property Assessments up to 20% Lower,” *Detroit Free Press*, January 28, 2015, <http://www.freep.com/story/news/local/michigan/detroit/2015/01/28/detroit-property-tax-assessments-reduced/22464209/>.
15. American Community Survey 2010–14. Self-assessed values in Detroit likely exceed the market value in many cases.
16. Christine MacDonald and Joel Kurth, “Reforms Pushed for \$500 Foreclosure Auction,” *Detroit News*, October 22, 2015, <http://www.detroitnews.com/story/news/local/wayne-county/2015/10/21/wayne-county-auction/74370158/>.
17. Carrie Lewand-Monroe, executive director, DLBA, “Quarterly Report, Detroit Land Bank Authority,” memo to Detroit City Council, <http://www.buildingdetroit.org/wp-content/uploads/2014/08/DLBA-July-2016-Quarterly-Council-Report.pdf>, p. 31.
18. The 2010 US Census described vacant units as those for rent; rented but not occupied; for sale only; sold but not occupied; for seasonal, recreational, or occasional use; and all other vacant. The vacancy rate describes the

number of unoccupied units for those reasons as a proportion of all housing units. In contrast, abandoned properties are vacant units experiencing a “long-term withdrawal from the market.” The abandonment rate is the share of vacancies classified as “all other vacant.”

19. J. C. Reindl, “New Wave of Detroit Apartments Opens to Big Demand,” *Detroit Free Press*, June 4, 2016, <http://www.freep.com/story/money/business/michigan/2016/06/04/detroit-apartments-rate-demand/85296384/>.
20. See the Urban Institute’s Housing Credit Availability Index, <http://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index>.
21. Bing Bai and Taz George, “A New View of the Housing Boom and Bust,” Urban Institute, accessed October 4, 2016, <http://apps.urban.org/features/mortgages-by-race/#8/42.294/-84.817>.
22. Appraisals are estimates of house values developed by professional appraisers based on comparisons to other houses recently sold.
23. Using Detroit data, Ding (2014) found that when the number of mortgage purchases is five or fewer in the previous year, the odds of mortgage application denial increase by 32 percent.
24. According to HMDA data, fewer than 500 purchase mortgage loans were made in Detroit in 2014.
25. This hypothesis is consistent with recent research by Ding and Nakamura (2016).
26. Title to a property indicates who has ownership rights. Property can be subject to other interests, such as a lender’s rights under a mortgage or deed of trust or tax liens imposed by the city or county. To protect its interest, a lender requires the borrower to acquire title insurance, insuring that the borrower has title to the property and can convey an interest in it to the lender.
27. “The 4 Cs of Qualifying for a Mortgage,” Freddie Mac, May 7, 2014, http://www.freddiemac.com/blog/homeownership/20140507_4Cs_qualifying_mortgage.html.
28. Ross Eisenbrey, “Detroit’s Bankruptcy Reflects a History of Racism,” Economic Policy Institute (blog), February 25, 2014, <http://www.epi.org/blog/detroits-bankruptcy-reflects-history-racism/>.
29. American Community Survey 2010–14 five-year estimates.
30. See <http://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index>.
31. “About Good Neighbor Next Door,” US Department of Housing and Urban Development, accessed October 4, 2016, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/gnndabot.
32. “Single Family Home Locator,” US Department of Housing and Urban Development, accessed October 4, 2016, <https://egis.hud.gov/sfgis/>.
33. Collected evaluations of HOME Rochester are available at <http://www.grhp.org/media/HOMERochester2012FullReport.pdf>.
34. Developers may market the property during construction. If they find a buyer, they receive a fee of 6 percent of the purchase price.
35. This regulation, developed in 2004, has caused the Rochester Housing Development Fund Corporation to transition from working in extremely weak real estate markets to moderately weak real estate markets. Otherwise, the program would not generate sufficient proceeds to be financially viable.
36. <http://www.grhp.org/media/HOMERochester2012FullReport.pdf>.
37. “Rules for Purchasing a Rehabbed & Ready Home,” DLBA, accessed October 4, 2016, <https://auctions.buildingdetroit.org/RehabbedAndReady/TheRules>.

38. "Homes Are Rehabbed and Ready in Detroit Neighborhoods," *Detroit Experiences* (blog), City of Detroit, August 28, 2015, <http://www.detroitmi.gov/Detroit-Opportunities/Detroit-Experiences/ArticleID/426/Homes-are-Rehabbed-and-Ready-in-Detroit-Neighborhoods>.
39. "Rehabbed & Ready," Building Detroit, accessed August 18, 2016, <https://auctions.buildingdetroit.org/RehabbedAndReady>.
40. Laurie Goodman and Karan Kaul, "Is Detroit's 'Rehabbed and Ready' Program the Answer to the City's Appraisal Problem?," *Urban Wire* (blog), Urban Institute, October 5, 2015, <http://www.urban.org/urban-wire/detroits-rehabbed-and-ready-program-answer-citys-appraisal-problem>.
41. "Talmer Bank Announces the Next Phase to Revive Detroit's Marygrove Neighborhood and Increase Homeownership," Talmer Bank, news release, August 13, 2015, <https://www.talmerbank.com/docs/news/Marygrove-Program-Press-Release.pdf>.
42. Matt Helms, "AFL-CIO to Rehab, Sell up to 300 Vacant Detroit Homes," *Detroit Free Press*, November 23, 2015, <http://www.freep.com/story/news/local/michigan/detroit/2015/11/23/afl-cio-rehab-sell-up-300-vacant-detroit-homes/76264678/>.
43. Lee Egerstrom, "Home Equity Protection Plan Tried, Worked in Syracuse," *Minnesota 2020*, May 7, 2009, <http://www.mn2020.org/issues-that-matter/economic-developmentfiscal-policy/home-equity-protection-plan-tried-worked-in-syracuse>.
44. Land speculation is considered counterproductive to community redevelopment because those owners typically are more interested in personal profits than in returning vacant properties to productive use.
45. This method of funding is considered justifiable because land banks perform duties that would otherwise fall under the purview of local government entities. Additionally, land banks, if developed successfully, help generate local tax revenue.
46. To reduce land speculation, some land banks require new owners to hold the title to the property for a minimum number of years.
47. Lewand-Monroe, "Quarterly Report."
48. See nuisance abatement program boundaries at <http://www.buildingdetroit.org/wp-content/uploads/2014/07/HHF-Reference-Map-3-2-15-1.pdf>.
49. Lewand-Monroe, "Quarterly Report," 11.
50. Lewand-Monroe, "Quarterly Report."
51. "Detroit Demolition Program: Impact of Demo on Property Values," City of Detroit, accessed August 2016, <http://www.detroitmi.gov/Detroit-Demolition-Program/Impact-of-Demo-on-Property-Values>.
52. GCLB developed from the Genesee County Land Reutilization Corporation, which served a similar function but did not have the official legal authority to acquire, manage, and dispose of delinquent properties.
53. See Battle et al. (2016) for current abuses with land installment contracts and protections to avoid them.
54. Mark Lee, "Entrepreneurs of Color Fund Aids Detroit's Revival by Removing Fiscal Barriers," blog post, *Crain's Detroit Business*, May 23, 2016, <http://www.crainsdetroit.com/article/20160523/BLOG106/160529959/entrepreneurs-of-color-fund-aids-detroits-revival-by-removing-fiscal>.
55. Alexandra Stevenson and Matthew Goldstein, "Rent-to-Own Homes: A Win-Win for Landlords, a Risk for Struggling Tenants," *New York Times*, August 21, 2016, <http://www.nytimes.com/2016/08/22/business/dealbook/rent-to-own-homes-a-win-win-for-landlords-a-risk-for-struggling-tenants.html?ref=dealbook>.

56. Joel Kurth, "Land Contracts Trip Up Would-Be Homeowners," *Detroit News*, February 29, 2016, <http://www.detroitnews.com/story/news/local/detroit-city/2016/02/29/land-contracts-detroit-tax-foreclosure-joel-kurth/81081186/>.
57. Rehabbed existing housing stock still represents the bulk of homes in the Lease Purchase Program.
58. These subsidies usually take the form of state capital grants and short-term city construction loans and temporary property tax relief.
59. Tenants can still be evicted for failure to pay rent or failure to meet general maintenance requirements.
60. Home purchase price is calculated from remaining debt, loans required for capital improvements to the home, title transfer fees, and other fees required by the government.
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The Urban Institute is collaborating with JPMorgan Chase over five years to inform and assess JPMorgan Chase's philanthropic investments in key initiatives. One of these initiatives is to support and accelerate Detroit's economic recovery. The goals of the collaboration include using data and evidence to inform JPMorgan Chase's philanthropic investments, assessing whether its programs are achieving desired outcomes, and informing the larger fields of policy, philanthropy, and practice. This report examines three interdependent elements of a healthy housing market (demand, supply, and credit access) and serves as the foundation for identifying promising policy and program responses that Detroit and a new Housing Compact could examine, design, and implement to create a healthy and sustainable housing market. Learn more about JPMorgan and the Urban Institute's collaboration [here](#).

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