



Commercial, Industrial, and Multifamily Investment in Detroit

Summary Findings

Brett Theodos, Eric Hangen, Jay Dev, and Sierra Latham

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Detroit's problems are well documented: its population today is just 37 percent of its peak in 1950, nearly 30 percent of its housing is abandoned, and its poverty rate of 40 percent is the highest for any big city in the United States. We find that property values for all types of property cratered in Detroit between 2004 and 2011 and have only just begun a modest recovery. In 2015, commercial prices stood at only 17 percent of their 2003 median value per square foot.

Yet nearly every observer of Detroit's local economy has begun to describe a renewal of investment flowing to the city, as evidenced by the completion of several signature projects, including new hotels, apartments, condos, and mixed-use development. Since 2010, the city has had a net gain of 4,100 jobs, a growth of 2 percent. With funding from the JPMorgan Chase Foundation, our research delves into where and how this investment is occurring, especially the role that "mission capital"—financing provided with a social purpose outside the mainstream world of private-sector lenders—is playing. We summarize, here, our key findings from two research briefs: "Coming Back from the Brink Capital Flows and Neighborhoods Patterns in Commercial, Industrial, and Multifamily Investment in Detroit" and "Opportunity Finance in the Motor City."

Detroit has seen a resurgence of investment in commercial, industrial, multifamily, and institutional real estate, as investors pick up properties at bargain-basement prices and rehabilitate them. Much of this investment has been concentrated in Greater Downtown.

Across all of Detroit, the total dollar volume of construction and rehabilitation investments in commercial, industrial, multifamily, and institutional property more than doubled, from \$374 million in 2011 to \$770 million in 2015. Leading areas for construction and rehabilitation investment are the Central Business District, Lower Woodward, and Middle Woodward. These areas also received a

disproportionately high share of lending and subsidy financing relative to their share of jobs in the city. That said, though markets remain weak outside of Greater Downtown Detroit, we have observed property purchases, investments in property rehabilitation and construction, and lending activity throughout all of Detroit's neighborhoods.

Mission-oriented lenders, together with government subsidy programs, have played a critical role in Detroit's resurgence. Mission capital, subsidy programs, and leveraged private financing for the same projects, were responsible for 42 percent of investment in commercial, industrial, multifamily, and institutional real estate in Detroit from 2013–15.

Providers of “mission capital” include mission-oriented lenders, such as Community Development Financial Institutions, public-sector loan programs, and religious pension funds, as well as programs that provide subsidies for real estate development, such as the federal tax credit programs or state and local government incentives. Whereas mainstream lending activity from banks and other conventional players largely diminished in Detroit in the depths of the recession, mission-oriented lenders stepped forward in a counter-cyclical manner, providing more funds to the city. Since the onset of the Great Recession in 2008 through 2015, mission lenders directly provided or leveraged 29 percent of loans to commercial, industrial, multifamily, and institutional real estate.

Mission lenders have been important for reasons far beyond the dollars they lend. They also provide technical assistance to real estate developers, are willing to make riskier loans, and are flexible in underwriting and loan features, as the stakeholders (both developers and lenders) we interviewed highlighted.

Of the mission-capital providers active in Detroit, we find that Community Development Financial Institutions play a particularly large role. They provided 60 percent of all directly lent mission capital in Detroit between 2008 and 2015 and are the main providers of technical assistance to developers in the city.

Continued support for the mission-finance ecosystem is needed to build on recent success, especially if it is to tackle neighborhoods outside Greater Downtown.

Mission investors have made notable strides in reviving the real estate market in Detroit, especially in the urban core. However, these same investors have also described a number of barriers to continuing that momentum and expanding it to the outer neighborhoods, which continue to struggle. Local, state, and federal policymakers, as well as the philanthropic and impact investing community, could support mission investors to overcome these barriers through a range of policy responses, including

- creating flexible subsidy financing sources for smaller projects, as well as equity-capital vehicles and expanded capital for subordinate debt;
- investing in capacity building and technical assistance for local developers;
- continuing work toward providing a consistent and predictable regulatory environment that is aggressive about facilitating development;

- allocating subsidy strategically to stimulate specific neighborhood markets before selecting new target areas; and
- supporting efforts to improve collaboration and visibility for the community development industry in Detroit.

About the Authors

Brett Theodos is a senior research associate in the Metropolitan Housing and Communities Policy Center at the Urban Institute. **Eric Hangen** is the principal of I Squared Community Development Consulting. **Jay Dev** and **Sierra Latham** are research associates in the Metropolitan Housing and Communities Policy Center at the Urban Institute.

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2100 M Street NW
Washington, DC 20037
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