

# A look at Detroit's affordable housing market

by Desiree Hatcher

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The foreclosure crisis had a significant impact on Detroit's homeownership rates. The 2000 and 2010 censuses indicate that the homeownership rate in Detroit was 54.9 percent and 51.1 percent, respectively. According to the 2011-2015 American Community Survey 5-Year Estimates, the current rate is below 50 percent. Detroit now has more renters than homeowners. As more residents move from homeownership, increased focus is being placed on the city's rental housing market and the findings are not entirely favorable.

## Detroit has a rental affordability gap

In 2016, the city of Detroit's Housing and Revitalization Department commissioned a "Detroit Inclusionary Housing Plan and Market Study." The study was prepared with support from HR&A Advisors, Grounded Solutions Network, and Capital Impact Partners. An objective of the study was the evaluation of the city's multifamily housing stock.

According to the study, while Detroit remains a predominantly single-family home market (in excess of 70 percent), there are over 125,000 multifamily units, concentrated primarily in the Greater Downtown area. The citywide average rent amount is \$702. Based on federal guidelines, the average monthly rent in Detroit is affordable to households making just above 60 percent of area median income (AMI) – \$32,177 in 2015 – or more. However, 56 percent of Detroit's renter households make 50 percent or less of AMI (\$26,815 in 2015).<sup>1</sup>

Further, the study indicates that 97 percent of the city's rental units are affordable for those making 80 percent of AMI; 86 percent are affordable for those making 60 percent of AMI; and 67 percent are affordable to those earning 50 percent of AMI.

However, just 23 percent of the units are affordable for those making 30 percent or less of AMI. Slightly more than 30 percent of city's total renter households fall within this income category.<sup>2</sup>

## Renting is risky

The decrease in home values caused by the foreclosure crisis made Detroit a magnet for speculative investors, who began buying rental properties at the Wayne County tax auction at an alarming rate. Some of these entities began renting dilapidated, uninhabitable, and sometimes dangerous properties to individuals and families with few housing options due to limited monetary resources and/or subprime credit ratings. Further, many investors were not paying the property taxes.

As a result, homeowners who became tenants as a result of foreclosure were again faced with eviction when landlords were foreclosed upon. According to the website, [propertypraxis.org](http://propertypraxis.org), speculators now control nearly 20 percent of all land parcels in Detroit.

## Efforts to promote an environment of safe and habitable rental stock

By ordinance, all rental property owners in the city of Detroit are required to register their properties and obtain a certificate of compliance as proof that the property has been inspected and found to be in a safe and habitable condition. Failures to register or get a certificate of compliance are both punishable by \$250 fines. However, limited staffing has prevented the city from enforcing this requirement. In addition, the majority of rentals are not registered. The city has about 2,500 rental addresses registered, while U.S.

Census data estimate there are more than 136,000 rental housing units in the city. In 2016, Mayor Mike Duggan warned landlords that the city was gearing up for “a serious enforcement period,” aimed at helping strong landlords thrive and making it unattractive for those who abuse the system. The mayor has also proposed amending the ordinance to require that rental owners be current on property taxes to obtain a certificate of compliance for their properties.<sup>3</sup>

## Helping at-risk renters become homeowners

In 2015, the Detroit Land Bank Authority (DLBA) instituted a buy-back pilot program allowing eligible occupants of DLBA acquired homes the opportunity to apply to purchase their home. According to the DLBA’s January 2017 Quarterly Report, eligible occupants for the pilot program include:

- The most recent owner of record before the home was acquired by a public entity;
- The tenant of the most recent owner of record before the home was acquired;
- The tenant of someone who claimed to own the property;
- Persons who can demonstrate that they have made substantial improvements to the property; or
- Persons who have paid for utilities in the home for at least 12 months.

The occupant must agree to pay \$1,000 to the DLBA for the home and make a monthly payment of at least \$100 into an escrow account for future taxes, for a minimum of 12 months, or until the next tax payment is due if that date is longer than 12 months after the closing. The occupant is also required to maintain the exterior of the property, keep their water bill current, and participate in quarterly “home preservation” workshops. The deed is held in escrow until that period and conveyed to the occupant afterward. As of January 1, 2017, 182 occupants had completed the closings and taken advantage of the pilot program.<sup>4</sup>

## Limited affordable housing opportunities in downtown and midtown

In 2011, specified downtown and midtown companies began offering their employees incentives to live in those areas. These incentives for new and existing homeowners and renters succeeded in sparking resurgence. New and renovated housing units were developed to keep up with demand. By 2014, of the available rental units in downtown and midtown, 98 percent and 97 percent were fully occupied.<sup>5</sup> As demand has increased, so have rental rates. However, limited options have recently become available to assist in maintaining affordability for some residents.

## Stay Midtown

Current residents of Detroit’s midtown who are in danger of being priced out of their apartments by rising rents can receive up to \$4,500 over the next three years to help them remain in the booming downtown Detroit neighborhood. Stay Midtown – a partnership between Midtown Detroit, Inc., Capitol Impact Partners, The Kresge Foundation, and the Ford Foundation – targets midtown households earning 51 percent to 80 percent of AMI that spend over 30 percent of their income on rent.<sup>6</sup>

About \$400,000 is available for the pilot phase. To qualify, applicants must not be students and have to have lived in midtown for at least two years. Applicants must show proof that their rental rates have increased more than 10 percent from last year.<sup>7</sup>

## Micro-apartments

Scheduled for completion by mid-2017, downtown Detroit’s residential real estate market will have 218 brand new fully-furnished micro-loft rental residences with the addition of “28Grand.” Average unit sizes for the brand new apartment will be 260 square feet. The development will include 133 market-rate apartments and 85 apartments for residents who qualify for low-income housing tax credits from the Michigan State Housing Development Authority. Each unit will feature a full bath, kitchen, utilities, Wifi, custom

built-in cabinetry, and storage. All units are fully furnished, including a double bed and television, to provide residents with a turnkey living experience. The building will feature 4,500 square feet of first floor retail space and will be the largest ground-up residential development in the city's Central Business District since the 1980s.<sup>8</sup>

Though micro-apartments are more closely associated with expensive cities such as New York, Seattle, and San Francisco, they are also appearing in the downtown markets of Midwest states such as Indianapolis and Des Moines. The shift toward smaller apartments can be seen as simple economics: smaller apartments are more profitable for developers to build and more affordable for tenants to rent.

A study by the Urban Land Institute found that units smaller than 600 square feet rented for \$2.65 per square foot – 54 percent more than apartments between 600 and 1,000 square feet, and 81 percent more than apartments larger than 1,000 square feet. However, not everyone loves micro living. The study collected completed surveys from 110 micro-apartment renters, finding that they were less likely than traditional renters to be satisfied with the value they got for their money.<sup>9</sup>

## Tiny houses

Detroit's Cass Community Social Services (CCSS) is in the process of building 25 different "tiny homes" (250-400 square feet) on the north end of its campus, approximately three miles north of midtown. Each home will be on its own lot (roughly 30 x 100 feet) and foundation. Most will have a front porch or rear deck to increase the living space. The houses are primarily targeted to low-income households who are formerly homeless, senior citizens, or college students.<sup>10</sup>

The development will address three critical issues: transforming the homeless into homeowners; bringing density to an area that has vacant lots and abandoned houses; and creating inexpensive, environmentally friendly housing in the community. Also, residents in the tiny homes will be within walking or cycling distance to most of the other services available at CCSS, including educational,

recreational, nutritional, medical, mental health programs, and social activities.<sup>11</sup>

While the homes are affordable, residents must meet income qualifications. A 300-square-foot home will cost \$300 in rent each month, plus heating, which is estimated at \$32 per month in the winter. The organization is using a rent-to-own model, where tenants graduate from a rental lease to a land contract, with full ownership rights after seven years. A 300-square-foot home will cost about \$48,000 to build, a figure that could decrease as the organization achieves economies of scale. The Ford Foundation has contributed \$400,000 to this project.<sup>12</sup>

Tiny houses are gaining in popularity nationwide. YouTube.com is replete with videos of people building and promoting tiny houses as a method for downsizing to a simpler life, freeing themselves of stressful and excessive mortgage payments, or just getting "off the grid." There are even cable shows devoted to this population. These homes, usually 100 to 500 square feet in size, are not a new phenomenon. However, they are new to the city of Detroit.

## Proposed inclusionary housing ordinance

Detroit city leaders pulled together a work group of nonprofit housing advocates, developers, planners, and land-use professionals to address the issue of inclusion in Detroit. These efforts have resulted in drafting Detroit's first inclusionary housing ordinance with the goal of creating mixed income housing in new development and rehabilitation projects. The ordinance will mandate that developers, who receive city-owned property at less than true cash value and/or public funding, set aside 20 percent of their units for residents and families making no more than 80 percent of AMI for at least 30 years. It will create a mechanism for enforcement through an income verification process to ensure that the designated units actually go to low-income residents and families. The ordinance will also appropriate funds, collected from penalties assessed on landlords not in compliance, to create a housing trust fund, the Detroit Affordable Housing and Development Preservation Fund. This fund will address affordable housing needs for Detroit's most vulnerable citizens,

families earning 50 percent of AMI or lower, with a majority going toward individuals at or below 30 percent of AMI.<sup>13</sup>

## Conclusion

The foreclosure crisis changed Detroit's housing occupancy landscape. The city now has more renters than homeowners. City officials are working to study and understand the rental market and now have evidence that, though affordable options exist, a significant affordable housing gap remains, especially for residents in the lowest income brackets. The rental market is extremely competitive, with those at or below 30 percent AMI having the fewest choices and the greatest likelihood of living in the most uninhabitable conditions. As the new administration in Washington, DC, looks to include housing as part of its proposed budget cuts, Detroit's proposed inclusionary housing ordinance may offer a new opportunity in addressing the housing needs of the city's most vulnerable residents.

## Notes

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