Small-Scale Urban Developers as Agents of Real Estate-Led Economic Development

Presented by Rayman Mohamed

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Jennifer Bruen: My name is Jennifer Bruen and this webinar series is part of a new federally funded program. It is part of the EDA university center of regional economic innovation or REI. We are offering these webinars this summer as part of a collaborative effort with our network, and our network is built to over 500 members. These webinars will be available on our website. This one will be available within a week or two several have already been uploaded. The MSU EDA university center as I mentioned is financially supported by the U.S. Department of Commerce Economic Development Administration and it is designed to support innovative economic development strategies that may yield high growth entrepreneurship, job creation, and economic innovation for distressed regions in Michigan. The webinar today is development trends and developers in midtown Detroit with Rayman Mohamed from Wayne State University, and he is joined by Robin Boyle, both of these individuals are professors at the university. So I'm going to let Rayman get started and if you have any trouble or questions type into the chat box and we'll answer those accordingly. So go ahead Rayman and we'll get started.

Rayman Mohamed: Okay excellent thank you Jennifer, thank you once again. So once again this is a presentation on development trends and developers in midtown Detroit. Some background, I started interviewing developers about 2 years ago with a colleague of mine, and we were trying to understand the economic development impacts of developers and development in midtown Detroit. As I started this particular project over the last two months or so I realized that digging into the data and trying to write it up, the more interesting story isn't about developers as I initially thought it would be, but it is really about development trends in midtown Detroit and whether or not these can have any economic impact. Midtown Detroit is attempting to pursue what the literature refers to as real estate economic lead development. By that we mean they hope to soon get started a process whereby real estate development attracts residents, residents encourage more development, and we enter a virtuous cycle of demand and supply, that will result helpfully in population growth, specifically population growth that is of the young professional well-educated type. When we talk about real estate lead development in this context we are talking about attracting a young professional class that creates vibrancy, brings energy to the area results in more development etc. And so that is where this research led instead of my original intentions of just interviewing developers. As I interviewed developers more I realized the direct economic impact of developers is really very small, it's sporadic and comes and goes. The real economic development impact isn't going to be because of the direct action of developers but rather because of the people that move into their development, so that is where the research eventually went.

So lets proceed, I did this in midtown for those of you that don't know much about midtown, it is where a lot of people believe to be the happening place in Detroit. Midtown is leading the way of Detroit, though of course there is some activity downtown as well. So anyway this slide shows a map of midtown Detroit, the northwestern end is Henry ford hospital, in about the middle is Wayne State University, in toward the south is the Detroit medical center. These are the three anchor institutions of midtown Detroit. In large part these are the drivers of economic development in midtown Detroit. And we will talk again about real estate led economic development, we are talking about development that meets demand mostly as a result of people that work at these three anchor institutions. I will get back to that later on. I should also mention that the definition of midtown Detroit is a shifting definition. What I have up here is what you might think of traditionally as midtown but for different purposes people do redefine what midtown is and in fact for part of my presentation we will talk about attracting the young professional class, part of this definition of midtown will change. Particularly the northern or northeastern edge goes away, and there is a portion of midtown to the west of this current area that is part of this effort to attract a professional class to midtown. Anyway, this is the traditional or most stable definition of what midtown looks like. So the first thing I did on this project was try to get a sense of where development is going in midtown, and again there is a portion to the west that is not included, but in the traditional definition of midtown this is where development is going. It is important to point out that in the last three years or so there are two elements of this development one of which has been heavily funded by the neighborhood stabilization program and you will see that is mostly concentrated in the northern or northwestern portions of midtown, and it is quite a bit of development actually, I will talk more about this later. Non-nsp type development is located toward the middle and the south area. Let me mention that this information I have here comes from building permit data provided by the city. This is a good point to say that these data are carry caveats, and the presentation in general requires that I state one important caveat which is the building permit data that I got is not the clearest data, its not the most pretty data. The data are recorded differently in 2011 and 2010 as opposed to 2009 backwards. So making comparisons in 2009 and prior to comparisons 2010 and 2011 can be a little problematic. The data is not always clear on what is being developed. I suspect there is a lot of repetition in their data. For instance someone could request a permit in 2008 and do nothing then go back in 2009 and request the same building permit. Those are all quirks in the data that are really difficult to pull apart from the data that I got from the city because of the way they are rendered it would take a lot of effort to go through the records and figure this out. I should say that I started to look at this in 2006 because that was the year before the market started to deteriorate. It seems as though that's a good starting point, and going up to 2011 the latest year for which we have data seems like a good stopping point. The first thing I thought I would do is look at building permits within this midtown area, again starting in 2006 and ending in 2011, and look at building permits city wide and the building permits in midtown. The data show that building permit activity dropped of sharply both citywide and in midtown. If you look at this in percentage terms, building permit activity in the entire city in 2011 is just 32% of what it was in 2006 and in midtown the drop is slightly sharper, it is just 25% of what is was in 2006. Again I hasten to add that these data have problems, I suspect some of these are double counts etc, and it is hard to piece that out. Even if we are to accept that the data have problems, I think the trend line is clear. There is quite a drop off of development activity both citywide and in midtown in particular. I show this graphically because I think it helps demonstrate what the drop off looks like and in this picture it separates midtown and Detroit. What I want to point out in this picture and it shows up in this previous table also, is that this hike in activity in 2010 in midtown and even the activity in 2009 really is largely supported by NSP activity. If it were not for nsp activity the drop off in building permit activity both citywide and in midtown would be even sharper. I didn't do a graph just showing non-nsp activity, I should probably do one of those. In any case this is a combined chart of both nsp and non-nsp activty, and the spike in activity in 2010 the holding up of activity in 2009 is largely a result of nsp related building permits. Now the one problem with the data that I tried to overcome is that we should be aware that in midtown because of the anchor institutions, because of the university, a lot of the activity is apartment related. So you might have one building permit but for this one building permit you're building a large apartment building. Maybe 10 apartments, maybe 20 apartments, maybe 50 apartments. So building permit activity itself, at least not the way I interpreted the data, the data doesn't account for the number of units that might actually be in an apartment or a condo. So to get around this problem I tried to look at the estimated costs of development associated with each building permit. When you file a building permit the developers are supposed to say what the value of activity associated with this permit. Whether or not that is accurate data, I don't know, we are taking their word for it so to speak. Again this is an attempt to get around a problem that I can't tease out from the data, that one building permit might be responsible for 20 apartments. Which is a substance of development activity, and you want to take account of that because midtown is more likely to have apartment construction than the remainder of the city. So again here are the data, I normalize it to 2006. So the way it should be read is that in 2006 citywide about 147 million dollars of building activity was associated with the building permits issued. And in midtown it was about 17 million dollars. By the time we get to 2011 those numbers drop off sharply. According to this data compared to 2006 citywide, estimated cost of development activity is just 14%, in midtown its just 1%. Now I hesitate to believe this 1%, it seems like way too much of a drop off. Again however, I think we can't ignore the trend. If you look at the picture that follows, which graphs these data, these data highlight this trend. The spike in 2010 and the drop in 2009, is a result of nsp activity. Take away the nsp activity and the estimated value of development shows an even sharper drop from year to year. In any event by the time we get to 2011, the data suggests that nothing much is happening in midtown. Again I don't believe the data but the trend is something that one cannot ignore. So these are data that I looked at only as I started this project, and it was really hard to ignore this data. Especially given all the excitement there is in midtown, especially with all the incentives that we direct to development activity in midtown, it was really hard to ignore this data. It kind of made me realize that if were talking about real estate led economic development; we really have to first of all try to understand what is happening in midtown. It is a useful point to say that this data is not consistent with what we hear anecdotally. Anecdotally we everybody says that midtown is thriving, midtown is doing well, there is a shortage of housing. This data doesn't support those statements. It is entirely possible that maybe things have changed dramatically between 2001 and 2012, I don't know. I want to take account and meld that possibility. Anyway this brings me to the incentive program that we have currently in place, to move employees from the three anchor institutions to midtown, these are what the incentives look like. IF you work at Wayne State, DMC, or the Henry Ford Hospital you can get 20 to 25 thousand dollars in a forgivable loan over a five-year period if you buy a house here. You can get two thousand dollars over a one-year period for signing a new apartment, or one thousand dollars for renewing an apartment lease. And you can get up to five thousand dollars matched for exterior improvements to your privately owned property. I was able to obtain from Midtown Inc., and Midtown Inc. is an organization that runs and administers this incentives program. Indeed Midtown Inc. is one of the organizations that leads development activity and facilitates development activity in midtown Detroit. So these programs have 374 recipients, 108 from Henry Ford Hospital, 114 from Detroit Medical Center, and 151 from Wayne State University. I have been able obtain data on where these recipients are moving in midtown, unfortunately Midtown Inc. appears to not be collecting data on the age of these recipients, or the educational achievements of these individuals. Assuming they are not collecting this data, opposed simply not sharing it with me. Which is kind of bad that they are not collecting this data because if we are trying to attract the young professional class, we do want to know what their educational attainment is and we do want to know how old they are. But unfortunately this data has not been collected. The first thing I thought I would do is make a GIS map of where the recipients of these incentives going. There's a cluster up in the north and northwestern end, and there are clusters in the middle of the midtown area. The cluster in the northwest, I suspect are the folks associated with the Henry Ford Hospital, in the middle part of the map are the folks associated with the DMC and Wayne State University. It seemed to me the next thing to do is compare the locations of where people are going that received the incentives to move to midtown, to the locations building permits were issued between 2006 and 2011. The reason why I want to do this is because I want to see whether or not people who move to midtown are moving into newly developed properties or whether or not they're moving to properties developed prior to 2006 and therefore whether or not they're moving into older properties. If they're moving to properties developed between 2006 and 2011, that suggests to me that there is some demand for new properties, that there is some unmet demand, that it is a good idea to proceed with more development etc. If they are moving to properties that were not issued building permits since 2006 it suggests to me that they are still soaking up existing supply. One point I should add is that I noted earlier that there are 374 recipients who received these incentives. I whittled this number down a little bit to 344 by removing people who got incentives but live outside of my midtown area as defined. That is incentives were granted to people that lived in a slightly redefined midtown that is to the west of this map, so I took them out, that left me with 344 recipients. One other thing I did was look for unique locations among the 344 recipients, in other words of the 344 recipients, some of them went into the same apartment building. What I ended up with is 170 unique locations, in other words people moved into 170 different buildings, and that is what I'm comparing to where building permits were issued. So again this map shows with yellow squares where the building permits were issued, and the green dots show locations where people moved. So the next thing to do was go to GIS and manipulate the spreadsheets to try and get a sense of whether or not there is any overlap. Here is where again I want to be cautious because I don't want to over interpret the data. Of the 170 unique locations, less than ten, probably even zero went to locations that were issued a building permit since 2006. One other caveat is that in looking at this particular map about the location of building permits takes out nsp activity that is concentrated in the northern edges of midtown. It may well be that people moved into nsp rehabilitative projects, but those locations aren't included in the data of locations of building permits. I need to go back and look at that, maybe the numbers aren't as bad as I made them out to be, maybe some people didn't move into nsp rehabilitative properties. But even if that were the case again it suggests that new development in the middle of midtown and to the south of midtown seems like a hard proposition to support. So after I did this I didn't know what to say, surprise with the data, maybe the data aren't totally accurate, maybe the data exaggerates what I'm seeing. But it does pose some important questions. Are policy makers trying to drive this real estate led economic development initiative. It seems to me the question arises, where do you pour scarce public dollars to? Do you put it towards subsidizing movers? Or do you put it towards supporting new development? Or do you try to keep some balance between the two? I would have to say that based upon what I've done, unless things have changed dramatically since the last few months, I would have to say that perhaps dollars should be directed towards attracting residents with incentives to move to midtown, rather than incentives toward subsidizing development activity. This is because it seems to me as well that there is sufficient supply in the area, one needs to be cautious about whether or not the supply matches up with the kinds of people we're trying to attract. Its entirely possible that the people taking up these incentives are not in the professional class, or the professional classes that work within the three anchor institutions. It might be secretaries; it might be lower level non-professional staff. Maybe there is existing supply for those kinds of employees, but maybe we do need to build more development for the professional class. It is very difficult to tease this data out especially since data has not been collected on the type or educational attainment of those who have taken up these incentives. It's easy for me to say one should be careful about how you direct incentives. I realize in the real world that incentive money is not fungible, the incentives that are being given to move to midtown Detroit is provided by the three anchor institutions. On the other hand the incentives for development activity came from the federal government, or the state or local government, or foundations and so moving those monies around is easier said than done. It seems to me as though if you are going to provide subsidies for real estate development, under the current market conditions, under the conditions that suggest there is sufficient supply. The only way you are going to support development is if you offer more and more and more incentives to developers, otherwise why are they going to build? You might be caught up in a downward spiral, where to encourage more development you have to keep increasing amounts of incentives. It seems to me as though this data gives some pause as to whether or not that is a useful strategy. That is my presentation.

Jennifer Bruen: Thank you Rayman

Rayman Mohamed: Thank you

Jennifer Bruen: I do have a question for you. The incentives that you listed with the slide that showed gradually decreasing incentives. Where was the source for the incentives directed to people moving to midtown, because I know the city of Detroit doesn't have money to provide right now, where are those coming from?

Rayman Mohamed: That money is coming from the three anchor institutions and foundations.

Jennifer Bruen: Okay so there is some foundation money saying that if I signed a new lease down there right now, I would get two thousand dollars.

Rayman Mohamed: That's correct, for the year. They will mail you a check, actually it's a little more complicated than that, and to make sure no one is scamming the system. They send the check in chunks to the landlord.

Jennifer Bruen: So I can see what you're saying that this is not sustainable. Especially because we are in a downward economy, and we're still not coming back fast enough. It would be better to maybe incent the real estate developers.

Rayman Mohamed: No, Jennifer I'm saying it's the other way around. I'm saying that my data suggests that there is existing supply of housing out there, and so it doesn't make sense to incentivize the developers. Why would you want to incentivize new development when there is sufficient property out there? I'm suggesting incentivizing movers.

Jennifer Bruen: When you say development, I think that we probably need some clarification. Because remodeling and the rehabbing aren't new, right? That exists currently. Are you saying that the new or the remodeled are vacant?

Rayman Mohamed: I don't know which one is vacant, I don't know if its recently rehabbed properties or new properties. I don't know. All I know is that the people that got incentives did not move to properties for which building permits were issued.

Jennifer Bruen: Right, I understood that. I was wondering, you have the one slide of the map with yellow squares and green dots, and how the 5225 and 5173 tracts are strictly yellow squares. I'm just wondering if in 2015 or 2016 if we were to make this map again would we have more green circles in the area where the yellow is, which would then kind of say to us that because those real estate developers were building or rehabbing there, the green were moving into that area. I think we would know this after another five or ten years.

Rayman Mohamed: Yeah, that is entirely possible. I need to add on one quirk to this, I'm sorry. 5225 and 5173 are actually not part of the incentive are, and that's why they are all yellow. The incentive area, they chopped off 5225 and 5173. The reason for this being, speculation anyway, is precisely related to the fact that they themselves believed up to 2011, that there are sufficient properties outside of 5225 and 5173, and they want to consume those properties first before they get to 5225 and 5173. But even if I were to take out 5225 and 5173 the story that I have wouldn't change. The people that received incentives still did not move to properties that received building permits between 2006 and 2011. So let me see what Robin said.

Robin Boyle: "Real estate development in weak markets such as Detroit is a slow, protracted process, hence the decline in recent years is a reflection of the collapse in the economy in 2008-2010. The window of the study is therefore too small to capture the cyclical nature of real estate development."

Rayman Mohamed: It is entirely possible that the window of study is too small. But if that's the case I'm going to have to wait one or two more years to see what happens.

Jennifer Bruen: I would think so; you might have a much better picture on this.

Rayman Mohamed: That's entirely possible

Jennifer Bruen: When you first submitted your proposal we were all very intrigued because we've watched this rapid change in midtown, and how it did become a very vibrant community. I've done tours down there, and its really exciting to see all of it. The question for me always was, is this a government deposit place, are they putting their money all in this area? Or is this due to the students and younger people? Why is it becoming such a hot place to go? And how would you repeat that same process in other places in Detroit? Would it be possible? I was curious, I know developers in that area in Detroit and how they're purchasing these homes and rehabilitating them. Because I come from a historic preservation angle I think it's nice to see the rehab of the buildings rather than demolishing and building new. If you take a permit out to do electrical work that's different than getting a permit for an entirely different structure.

Rayman Mohamed: I would have to say that all that is happening in midtown is heavily government subsidized. Yes, students are moving to midtown but students are moving to midtown only because of the properties they are moving into, obviously there will be exceptions. Many of the properties they are moving into are larger apartment buildings, even the apartment buildings with 10 or 12 apartments. The redevelopment or new development of those properties is heavily, heavily subsidized by the government, by various subsidies, including in some cases, foundation money.

Is that sustainable though?

I do not know if that's sustainable or not. Part of me wants to believe it's sustainable. One part of me wants to believe that if we get a critical mass of people down here, maybe it will take off; maybe it will be self-sustaining. I cant say that for sure, but I would say to increase the chances of it being sustainable, based on the data that I've looked at, I think the incentives being offered by the three anchor institutions to move to midtown need to continue and perhaps be enhanced or improved. It appears to me that there is sufficient supply right now that we still need more people down here, and people are not as excited to move as we seem to think that they are. Whether or not we can replicate this in pockets of the city or across the whole city, my response would be no, only because the monies that we pour into this is so much. We put incentive money into this at both the supply and demand end that it seems to me as though repeating this in other pockets of the city, just don't seem sustainable. Maybe we can do it in the downtown, but I just don't see how we can keep doing this or how to do this in other parts of the city. I've spoken to a good number of developers who work in midtown, who work across the city, and in downtown and in the first ring suburbs, and their take on development is what I'm saying, it is they can't develop without the incentives. Coupled with a need for incentives, a whole host of problems developers also face, two of which are; there is still a huge problem with access to finance, and there are enormous problems with getting things done with the city. The city is still a bureaucratic nightmare. Getting permits from the city, going through the development process with the city still is very difficult. Getting financing from the banks is still very difficult. Developing under normal circumstances is a challenge. When developers tell me getting financing from the banks is problematic, when they say this as a complaint, I have to say that given the data I'm seeing I can understand why banks might still be hesitant to finance development activities in Detroit. It does seem as though it is a challenge unless you bring to the table enormous incentives from public dollars.

Robin Boyle: Time is important – Jennifer's excitement is the product of investment in the mid 2000. Investment today is important to bridge over the decline. The policy objective is to encourage and in the short term incentivize the real estate process.

Rayman Mohamed: I'm still concerned about incentivizing the real estate development activities when there seems to be supply.

Jennifer Bruen: There's an oversaturation maybe.

Rayman Mohamed: I would at least in the short term, hold off, on more incentives for developers. Before, I want to make sure that we are consuming existing supply and finding ways to attract more residents to midtown. And I know attracting more residents to midtown doesn't mean just giving the money or incentives to move to midtown, it includes amenities, restaurants, bars and gyms etc. And we surely need more of those; maybe if we give money to developers it might be directed toward retail development activity. Maybe that might be one way to go, strategically well located retail activity, rather than subsidies directed toward more housing. I think we should pause on the housing at least for a little while until we understand a little bit more about what is happening with supply.

Jennifer Bruen: And really see what the needs of the residents are.

Rayman Mohamed: Very disappointed that the incentive givers haven't gathered information on age or educational attainment. We don't quite know who is moving.