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**Plan B Paper**

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**Detroit Development Survey**

**How Do For-Profit Developers and Non-Profit Developer's  
Perceive Their Real Estate Development Experience In Detroit?**

**UP 889 Plan B**

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Urban and Regional Planning Program**

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**East Lansing, Michigan  
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# CHAPTER I

## Introduction

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### **Purpose of the Research**

This research attempts to examine the perceptions of four Detroit-based real-estate developers in both the for-profit sector and non-profit sector. The four respondents in this study were asked to express what they feel are the advantages, disadvantages and obstacles of developing real estate in Detroit. In addition, this research looks at factors that contribute to a successful real estate development project. This study does not draw any theories from the results of the investigations, but merely highlight various relationships in the developer's responses.

For the purpose of this research, a *developer* is someone that coordinates activities and harmonizes ideas into elements of real property. Also, the respondents in this study focus primarily on residential development ventures.

### **Need**

Real estate ventures are risky, however when done correctly, a successful real estate developer can yield a return on investment of 20% or more in less than five years. The market for real estate is prevalent, and dependent upon many social and economic forces. In cities such as Detroit, it is important to understand factors that contribute to successful development projects. Generally, development grows where markets exist. Good real estate development usually serves as a catalyst for subsequent development within the same region. On a micro-level, it is important to understand what motivates developers to invest in certain areas. In most cases, people will invest when the rewards outweigh the risks and initial financial investment. While the for-profit developer is influenced by return on investment, it does not lessen the importance of why we should understand what factors induce a developer to invest in specific area.

Understanding developer perceptions can help municipalities formulate ideas, policies and programs that will attract future investment in underutilized areas. Improving underutilized areas can spawn an economic boost for a region and increase the tax-base for a local government. What a developer may perceive as an obstacle or advantage can reveal other conditions of

concern for a particular environment. Non-profit developers are mission-based organizations and cater to the low-income populace. Non-profit developers utilize public/private partnerships and help local governments by means of providing affordable housing units, thus contributing to the reduction of homelessness. There is a need to understand this relationship for several reasons. First, to determine why certain underutilized areas are sought after in a community as opposed to other areas. Second, in what ways can local government improve the development process for a developer? Real estate forces drive the economy and therefore are important to understand from the prospective of the developer, because developers are the coordinators of the projects and the preparers of the property.

# CHAPTER II

## Literature Review

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### Real Estate Development 101

The real estate development process is multifaceted, and can vary from fixing up an existing structure to the purchase of raw land (Peiser and Frej, 2003). Similarly, *redevelopment* encompasses the redesign or adaptive reuse of existing properties (Miles, Berrens and Weiss, 2004). Real estate developers coordinate activities and harmonize ideas into elements of real property. Developers must possess a niche for being persistent, managing risks, building teams, and organizing multiple processes. Developers not only face financial risks, but also risk their personal and professional reputation with each project they conquer. Real estate development is detail oriented and driven by government policy and laws. It is a unique process that changes jurisdictionally and is dependent on the condition of the land and a series of political, market, and economic factors.

It is important to distinguish between the two kinds of developers, the private sector developer and the public sector developer. In this research, the public sector developers are the non-profit respondents, and the private sector developers are the for-profit respondents. The private sector developer usually has an up front development fee, which is direct remuneration for undertaking a development (Miles, Berrens and Weiss, 2004). Private sector developers may require long-term profit share, or long-term equity share in the project (Miles, Berrens and Weiss, 2004). The public sector developers engage in real estate initiatives that promote community housing, and economic development activities, they are key players in providing needed resources for local governments. In this case, the government assists the public sector developer by providing financial resources to projects, and assumes significant risk associated with the real estate project (Miles, Berrens and Weiss, 2004). Examples of selected financial resources are discussed in Chapter III of this monograph.

Developers work with many people and must be knowledgeable in many subjects; in addition they must be creative visionaries with the ability to manage many complicated projects. The key players of a development team almost always include, but are not limited to: private sector



developers, public sector developers, financial stakeholders, lawyers, land planners, appraisers, real estate brokers, property managers, contractors, market researchers, buyers, environmental consultants and transportation consultant (Miles, Berrens and Weiss, 2004).

### *Phases of Development*

Most real estate development processes follow the same pattern for development, however the details are different. The process can be broken down into eight major stages (Miles, Berren, Weiss, 2004):

- Inception
- Refinement of the Idea
- Feasibility
- Contract Negotiation
- Formal Commitment
- Construction
- Completion and Formal Opening
- Property, Asset, and Portfolio Management

### **Survey of Developers in Central Cities**

Members of the Urban Land Institute Community Development Council who were actively involved in real estate were surveyed about their experiences as beginning developers (Peiser and Frej, 2003). The respondent backgrounds were diverse, ranging from accounting to law. Results from this study showed that 57% of the developers owned their own companies, and 16% were partners of public companies (Peiser and Frej, 2003). Land development was the most cited initial project (Peiser and Frej, 2003). “In running their businesses, respondents focused primary attention to site acquisition, obtaining regulatory approvals, market analysis and design” (Peiser and Frej, 2003). Beginning projects often involved partnerships or joint ventures, due to lack of finances (Peiser and Frej, 2003). The study results showed that if the interviewed developers had the opportunity to redo their first projects differently, they would have selected team members with a higher level of competence, as well as managed their schedules more efficiently (Peiser and Frej, 2003).

## **Non Profit Community Development Corporations As A Force For Development**

Community Development Corporations (CDC's) are usually non-profit organizations that combine public and private resources to develop socio-economically disadvantaged urban and rural areas (Miles, Berens, and Weiss, 2004). Typically, they focus their initiatives on a specific area. These organizations seek to reinvest in low-income neighborhoods. They are catalyst for the production of many affordable housing efforts, and successful projects can attract private sector development into once desolate communities (Dewar and Deitrick, 2004).

In 1998, LISC published a document of recommendations to Mayor Dennis Archer of Detroit entitled "Detroit- Housing Strategy Framework". Community Development Corporations and Community Based Organizations were recognized as the best vehicles that centered on the needs of the low-income community (LISC, 29). Some of the unforeseen barriers of redevelopment include title clearance, and land assembly; CDC's often overcome these barriers of investment, in addition they use subsidies to surmount negative market forces (Dewar and Deitrick, 2004).

Both private sector and public sector developers redevelop on sites known as *brownfields*. In basic terms, the Environmental Protection Agency defines brownfields as "real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant." CDC's play a significant role in Brownfield redevelopment by "creating conditions that attract later investment" (Dewar and Deitrick, 2004). They also deal with issues that for-profit developers would perceive as negative externalities.

CDC's are diverse and play significant roles in efforts to educate, facilitate, intermediate and develop communities (Dewar and Deitrick, 2004). CDC's and other non-profits are actively involved in community awareness efforts about Brownfields. A recent study used Southwest Detroit Environmental Vision (SDEV) as an example. The SDEV runs workshops in neighborhoods that teach people the ins and outs of brownfields, and ways to invest on them. As intermediary or (pre-developers) CDC's also conduct many of the due diligence efforts including site identification, site assessment, and phase I environmental assessments. This is important because it reduces the risk and financial burden for the final investor of the property. Investing in

brownfields pose a major financial risk to developers, and is the most challenging risk for non-profit developers. In Detroit, CDC's such as Core City Communities and Bagley Neighborhood Associates have transformed land that was once abandoned, blighted, and contaminated.

There is a significant amount of risk and liability associated with brownfield redevelopment. However, owners of brownfield sites do attempt to reduce the property cost in efforts to decrease financial burden. A study conducted by Howland (2000) showed that the average price per acre of contaminated sites was substantially lower, on average about 55% lower compared to clean sites. The results of this study showed that site contamination did not daunt sales. One negative side is that the cost of buildings on contaminated sites did contribute to the price, even when they needed to be demolished.

A 2004 study conducted by Dewar and Deitrick identified several factors that contribute to CDC effectiveness in brownfield redevelopment in Detroit and Pittsburgh. The first conclusion was that redevelopments in Brownfields are new projects for CDC's and most of the organizations had not been developing them for long. The organizations that decided to tackle brownfields were usually very successful in other kinds of developments. Most of the CDC's had targeted former industrial sites. The second conclusion demonstrated that public/private partnerships increase the likelihood of successfully redeveloping a contaminated site. This usually involves working with local city and state agencies, while utilizing their skills to clean and prepare brownfield sites. Third, the researchers found that being a non-profit institution allows for CDC's to receive grants, gifts from government agencies and supporting foundations. Also, they are eligible to obtain certain tax write-offs. The lack of land control was identified as one of the major barriers to redevelopment. Fourth, public and private partnerships can allow the development process to flow much easier. For instance, CDC's can seal financing gaps with grants. Also, they can work with other CDC's to utilize their specializations. Lastly, community involvement from residents was a factor for successful redevelopment projects. CDC's have an advantage in this area because of "their expertise in organization and involving neighborhood voices". Community input is sought after in most cases and is said to increase the character of redevelopment projects.

As it related to Detroit, Dewar and Deitrick found that CDC brownfield redevelopments efforts did not increase the control of economic assets for poor residents. They also found that economic development projects did not emerge from organizing community priorities. However, they did find that CDC's initiated and completed projects that would not have otherwise come to pass. Furthermore, their results indicated that redeveloping weak land did not suddenly produce a market after remediation, in some cases, the land remained vacant. They even found that CDC's did not necessarily undertake projects that would not have been possible without the interaction of the public sector.

In 1998, LISC identified 31 community-based organizations in Detroit, which have housing a part of their mission (p.11).

### **Summary**

Real-estate development is a complex task and involves an acute level of team building, organizing, and persistence. Developers prepare raw land and guide the improvement efforts as well as rehabilitation efforts of existing buildings and coordinate the task involved in real property development. Public sector developers typically are mission-based and focus on affordable housing initiatives as well as economic development initiatives. Private sector developers tend to be profit driven. Public/private partnerships between local manipulates and Communicate Development Corporations are helpful because the government shares some of the risk associated with real estate development. The development team assists with all levels of the development phase, from aspects of planning to marketing and property management. Research conducted by the Urban Land Institute showed that if developers could go back in time and redo their first projects, most would have chose team members that were more competent of the development process; also, they would have managed their schedules more efficiently.



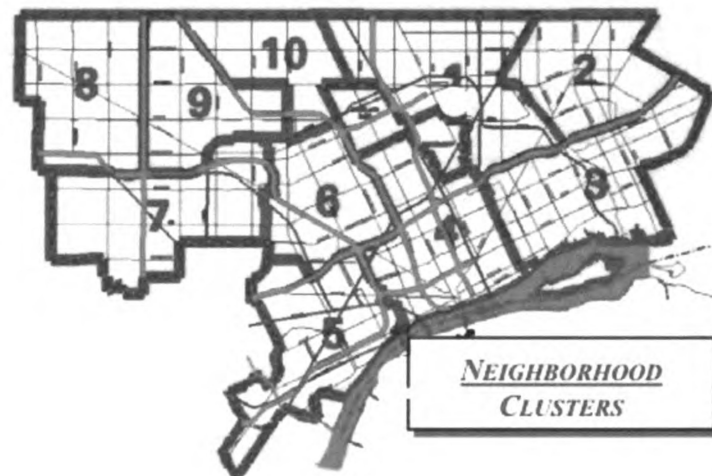
## CHAPTER III

### Context

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This chapter presents a brief demographic and socio-economic statistics of the City of Detroit. Also, it includes is a graphic analysis of the building permit trends in Detroit, without regard to the metropolitan areas. The chapter ends with a description of some of the most mentioned financial resources utilized by real estate developers for the financing of their residential projects.

The City of Detroit is partitioned into 10 geographic areas known as “clusters”, which house about 100,000 residents each. A populace of this size is said to support community-level retail and development (Rice, 2004). In 1998, as part of the Community Reinvestment Strategy (CRS), a group of public leaders and creative thinkers proposed a vision for each cluster in Detroit. Overall, the cluster approach is sought as a useful way to organize planning and development department staff and related representatives from other City Departments. Also, this is an active endeavor to advance and reinforce and the “Grow Detroit” campaign (Rice, 2004).

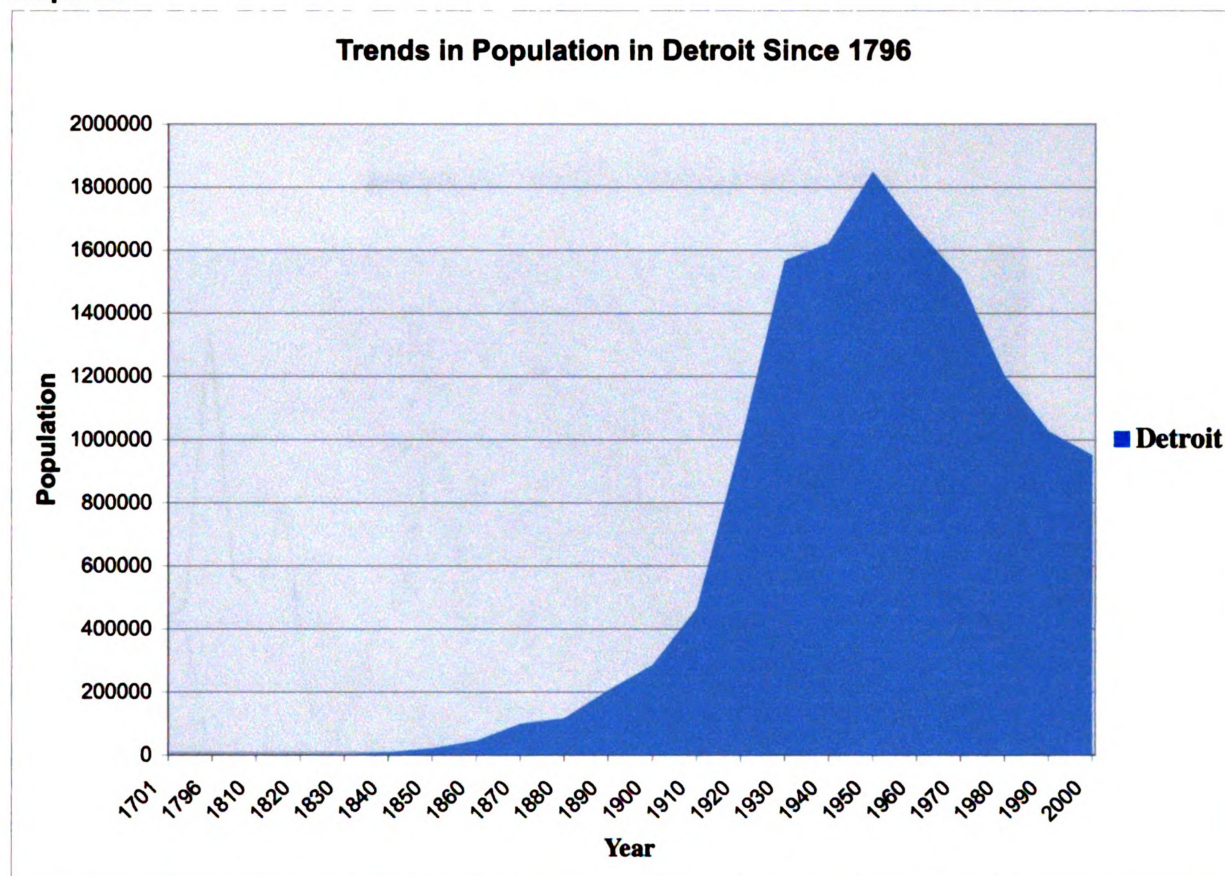


Source: <http://www.ci.detroit.mi.us>

In 2004 the U.S. Census recorded Detroit as having a population of 900,918, making it the 11<sup>th</sup> most populous city at the time. This population has lost a significant number of residents since the 2000 census when the populace was recorded to be 951,270. The once vibrant and booming metropolis housed 1.85 million people in the 1950s. This same city is now plagued with

economic hardships and a depreciating tax base resulting from the decline of the manufacturing industry. Detroit's population is steadily declining, having lost over 50% of its residents since the 1950's. From 1990-2000 Detroit population steadily decreased seven percent (77,000), while the surrounding southeast metropolitan region gained five percent (243,000) new residents (SEMCOG, 2001).

**Graph 3.1**



Source: SEMCOG, 2001 [U.S. Census Bureau, 1840 to 2000]

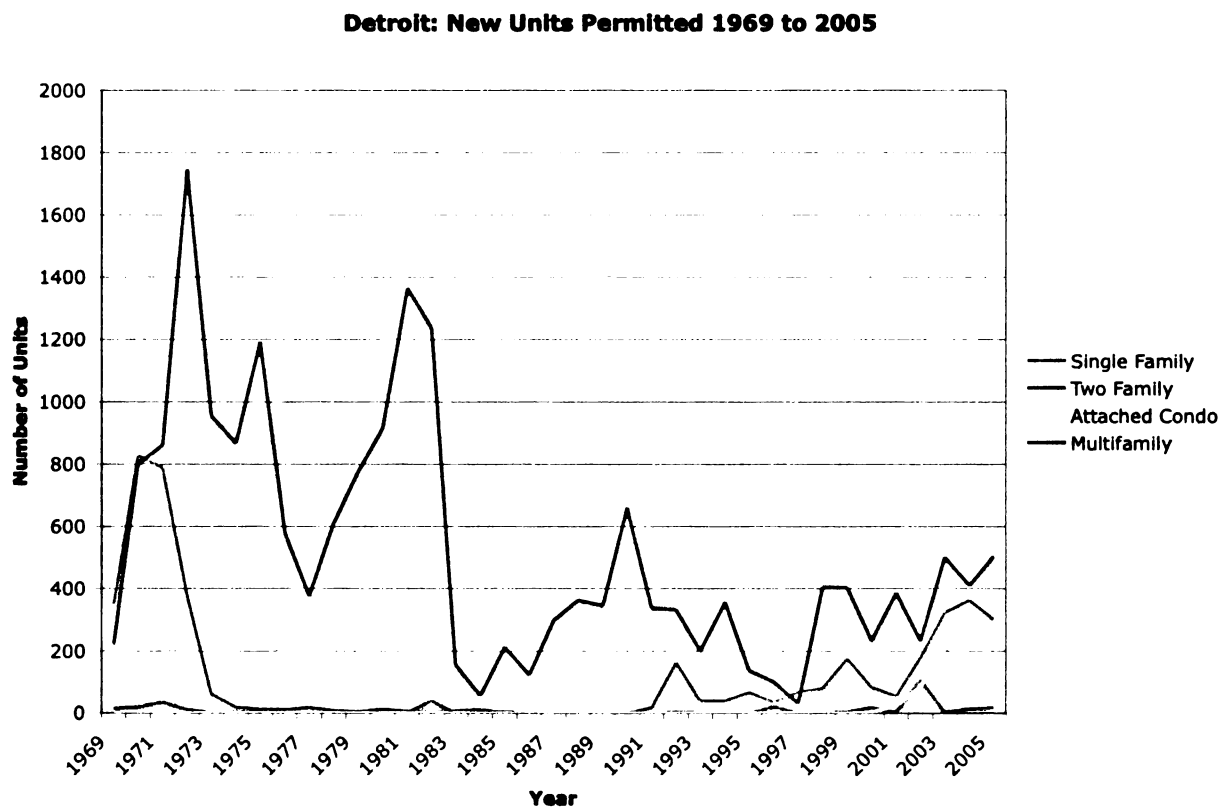
In 2000, there were 375,096 housing units in Detroit (U.S. Census). At the time Detroit's population was 6,881 people per square mile, and 2.7030 housing units per square mile (U.S. Census). From 1930 to 1940, there was slight growth in Detroit's population due to low birthrates; low residential construction; and economic stagnation as a result of the Great Depression (SEMCOG, 2001). From 1940 to 1950, World War II sparked an economic recovery with defense construction. In 1950 Detroit experienced its peak population of 1,850,000 persons,

however from 1950 and beyond the population as experienced a constant decline (SEMCOG, 2001).

### Building Permit Trends in Detroit

Anyone wishing to build a new structure, re-model an existing structure, or alter an existing building or land in Detroit must obtain a permit from the City's Buildings and Safety-Engineering Department. The graph below illustrates the New Permits issued from 1969 to 1996 within the City of Detroit, not including the surrounding metropolitan areas.

Graph 3.2

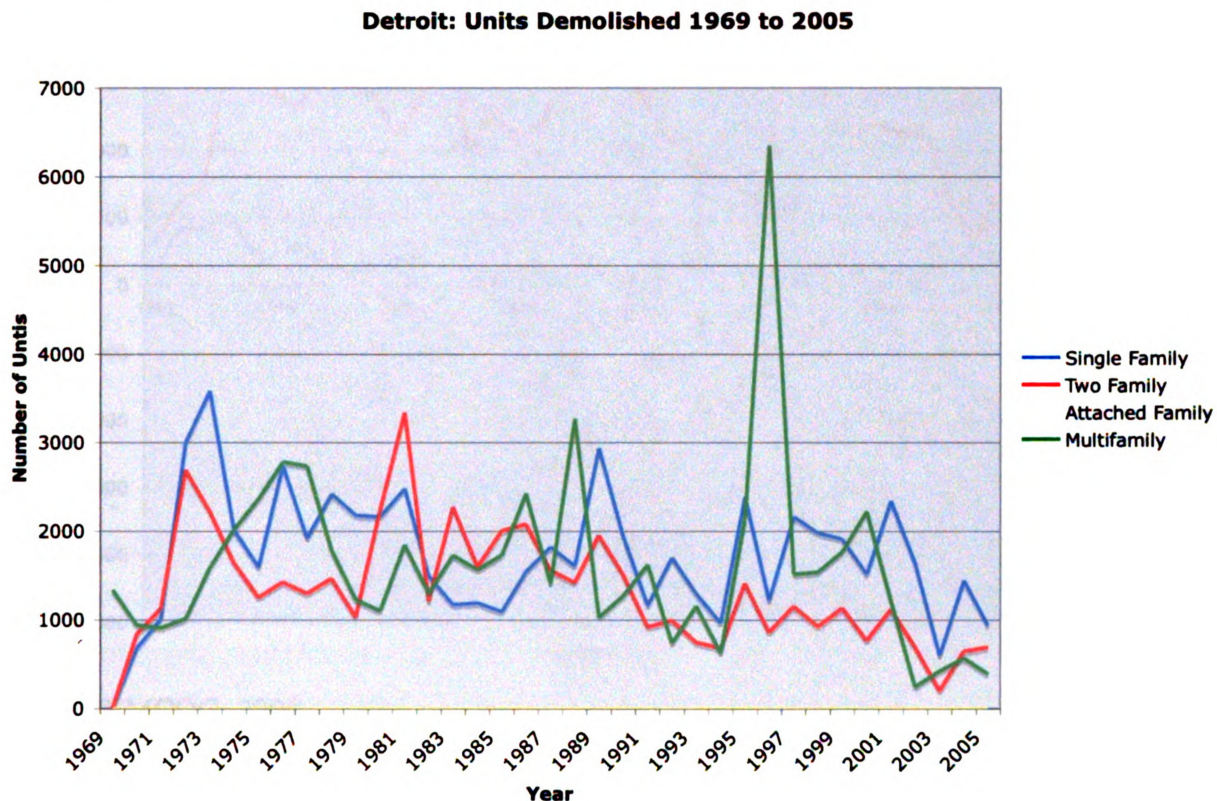


Source: SEMCOG, 2006



The below graph illustrates the kinds (single-family, multi-family, attached-family or two-family) units demolished in Detroit from 1969 to 2005.

**Graph 3.3**



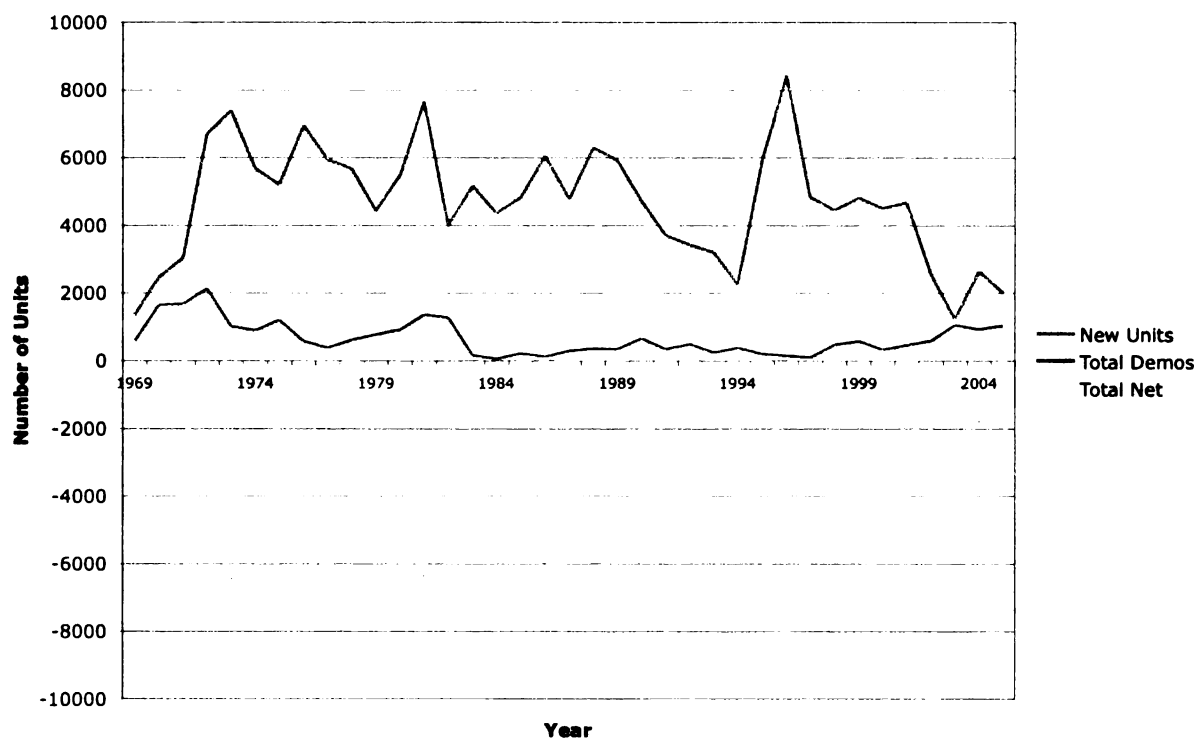
Source: SEMCOG, 2006

One of the most noticeable peaks in this graph is from 1994 to 1998. This period marks the first of two terms of the former Mayor Dennis Archer's Mayoral Administration. According to a 2001 report written for Mayor Archer, in 1994 the City demolished 16,450 dangerous homes ("Detroit: Building a Solid Foundation", 2001). Also, from 1994 to 2000, 707 miles of streets were resurfaced, compared to an average of 10 miles per year before 1994. By the end of 2000, the City removed 29,363 abandoned vehicles as a result of the "BIG Clean Up Campaign". From 1994 to 2001, 2,500 new and rehabbed houses were added to Detroit, 60% of which were low-income designation. Detroit development initiatives totaled \$10.4 billion dollars in investment from 1994 to 1998, and \$22.5 billion dollars by 2003.



**Graph 3.4**

**Detroit: New Units v. Total Demolished Units Permitted from 1969 to 2005**



Source: SEMCOG, 2006

In 2004, the city of Detroit ranked third, next to Macomb County (1,086 units) and Canton (1,067 units) with 925 units authorized for demolition (SEMCOG, 2004) in the southeast Michigan region. During this year, there were 2,622 demolitions in Detroit, which contributes to 66% of the total demolitions for the region (SEMCOG, 2006).

The next section of this chapter gives an overview of some of the most popular government based financial resources mentioned by the four respondents in this study. Developers in both the public sector and private sector have utilized these funding resources for residential development and commercial development as well. The programs listed derive from Michigan Legislation, with the exception of the Community Development Block Grant and HOME Funds, which are dispersed by the State's housing finance agency and funded by the federal government.

### **Financial Incentives and Resources for Developers in Detroit**

During the research process all of the developers mentioned financial resources that were used to fund their residential development projects. Below is a brief explanation of some of these tools.

#### *Core Community Fund*

Oftentimes, the development site must be located in a Core Community to qualify for state funding. The Core Communities Fund was created as a result of a \$50 million dollar appropriation to the Michigan Strategic Fund. The fund support projects that aim to redevelop urban landscapes, revitalize buildings and make infrastructure improvements through grants and government loans. The selection process for funding is very competitive.

The Michigan Core Communities Fund was established to assist a select number of Michigan communities with land acquisition and structural expenditures associated with economic development initiatives.

Michigan Core Communities Fund seek to<sup>1</sup>:

- Promote private investment and creation of jobs, especially those that focus on information technology, advanced manufacturing, and the life sciences.
- Encourage central city mixed-use development.
- Enable adaptive reuse of obsolete property or non-marketable sites.
- Effectively vie for interstate or international projects.
- Further the development of Certified Business/ Technology Parks.
- Reinforce the economic base while reducing sprawl and improve the quality of life.

The Michigan Economic Development Corporation awarded more than \$10 million from the Core Communities Fund for five development projects across the state. Of which, Detroit has received \$2.5 million. The city will use the award to develop the I-94 Industrial Park in parts of the city that are underutilized and that have experienced disenfranchisement. Also, the money is designated to demolish structures standing in the project area and for infrastructure requirements. The funding will attract and increase a number of profitable industrial properties. The industrial park will house nearly 2.2 million square feet of innovative, modern industrial facilities and will spawn an estimated 1,000 to 1,500 jobs within the designated I-94 Renaissance Zone (MEDC, 2005).

### *Neighborhood Enterprise Zones*

Core Communities may apply for Neighborhood Enterprise Zones (NEZ) incentives, a program that was established by Public Act 147 of 1992. It bestows tax incentives for the improvement and development of residential housing in dilapidated and underutilized communities. NEZ's promote the overall revitalization of neighborhoods, and encourage owner occupied dwellings by lowering property taxes. The city of Detroit has successfully used this program.

The NEZ program allows communities to reduce property taxes for home buyers for up to twelve years. It is important for developers and owners to get approval first before beginning the proposed NEZ initiative.

The two project types that may utilize the NEZ include a *rehabilitated facility* or a *new facility*.<sup>ii</sup>

- A *rehabilitated facility* is an existing structure or portion of an existing structure with a current true cash value of \$80,000 or less per unit that has or will have as its primary purpose residential housing consisting of 1-8 units.
- A *new facility* is a new structure or portion of a new structure that has as its primary purpose residential housing consisting of one or two units, one of which will be owner occupied as a principal residence. This definition is inclusive of a new condominium unit, in a structure of one or more condominium units, with the primary

focus on residential housing that will be owner-occupied as a principle residence. This is not inclusive of apartments.

### *Brownfield Redevelopment*

According to the Detroit Economic Growth Corporation, a “Brownfield” is a term used to describe an old problem, specifically the contamination, obsolescence, or blight of an industrial or commercial property redevelopment caused by the threat of liability for existing contamination. Liability protection allows one to take ownership of the site without assuming responsibility of its current conditions (Detroit Economic Growth Corporation).

Owners and operators of *blighted* and abandoned sites are no longer responsible for clean-up action or expenses, unless they caused the problem. Michigan law protects buyers and lenders from liability.

The Brownfield Redevelopment Financing Act (Michigan Public Act 381 of 1996) defines “blighted property” as meeting any of the following conditions:

- (i) *Has been declared a public nuisance in accordance with a local housing, building, plumbing, fire, or other related code or ordinance.*
- (ii) *Is an attractive nuisance to children because of physical condition, use, or occupancy.*
- (iii) *Is a fire hazard or is otherwise dangerous to the safety of persons or property.*
- (iv) *Has had the utilities, plumbing, heating, or sewerage permanently disconnected, destroyed, removed, or rendered ineffective so that the property is unfit for its intended use.*
- (v) *Is tax reverted property owned by a qualified local governmental unit, by a county, or by this state. The sale, lease, or transfer of tax reverted property by a qualified local governmental unit, county, or this state after the property's inclusion in a brownfield plan shall not result in the loss to the property of the status as blighted property for purposes of this act.*
- (vi) *Is property owned or under the control of a land bank fast track authority under the land bank fast track act, whether or not located within a qualified local governmental unit. Property included within a brownfield plan prior to the date it meets the requirements of this subdivision to be eligible property shall be*

*considered to become eligible property as of the date the property is determined to have been or becomes qualified as, or is combined with, other eligible property. The sale, lease, or transfer of the property by a land bank fast track authority after the property's inclusion in a brownfield plan shall not result in the loss to the property of the status as blighted property for purposes of this act.*

The Brownfield Single Business Tax Credit (SBT) (Michigan Public Act 143 of 2000) provides tax credit incentives for qualified redevelopment investments on brownfield properties. This credit does not concur with the Single Business Tax liability of the developer.

Michigan law requires that in order to make use of brownfield tax credits a local unit of government must put into operation a Brownfield Redevelopment Authority to guide the development of brownfield sites. Once this is done the Brownfield Redevelopment Authority may utilize Tax Increment Financing as well as allow developers to apply for Single Business Tax Credits. Since June of 2000, the program has awarded more than \$273 million in credits, spawning more than \$3.8 million of private investment in Michigan's older communities and suburbs.

#### *Single Business Tax Incentives*

On a case-by-case basis, the state of Michigan provides Single Business Tax credits to help with the expense of demolition, environmental clean-up and other remedial actions that are essential to the adaptive reuse of undesirable properties. Credits are available for up to 10% of eligible investments and are limited to a total of \$30 million. Single Business Tax credits must be applied for through the Michigan Economic Growth Authority (MEGA). The Chairperson of MEGA approves projects that are \$1 million or less, and \$30 million or less must be approved by the MEGA Board.

#### *Tax Increment Financing*

Developers of contaminated properties may also apply for Tax Increment Financing (TIF), which allows projects to utilize state, local property and school taxes to accommodate clean-up expenses. TIF projects must also be approved by MEGA.

The MEDC gives priority to projects that meet one or more of the following criteria<sup>iii</sup>:

- *The community participates in TIF, property tax abatements, Neighborhood Enterprise Zones or local revolving fund.*
- *The project supports “cool cities” redevelopment in downtown or is near downtown*
- *Project significantly improves site conditions*
- *Reuse of facilities enables manufacturers to create or retain jobs*

#### *Personal Property Tax Abatement*

Michigan Public Act 198 of 1974 allows businesses to receive tax credits for companies to renovate and expand aging manufacturing plants or to build new plants in Michigan. The local legislative government, in the case of Detroit, the City Council may grant the abatement for up to 50% on new plants. On a rehabilitated project 100% of the property taxes may be waived. These abatements may encompass both real and personal property. Since the inception of the law in 1974, 16,500 projects have been approved which retained 1.3 million jobs, created 500,000 new jobs and sparked \$81 billion in investment.

#### *Obsolete Property Rehabilitation Tax Abatement*

The Obsolete Property Rehabilitation Act (Michigan Public Act. 146 of 2000) defines “obsolete property” as commercial property or commercial housing property, that is one or more of the following: *blighted*, a facility that is defined under section 20101 of the natural resources and environmental protection act, *functionally obsolete*, is in the *obsolete property rehabilitation district*, is a qualified local government unit or is in need of *rehabilitation*.

#### *Community Development Block Grant (CDBG)*

“The CDBG program is a accommodating program that provides communities with resources to address a wide range of unique community development needs. Beginning in 1974, the CDBG program is one of the longest continuously run programs at HUD. The CDBG program provides annual grants on a formula basis to 1180 general units of local government and States.” (HUD, 2006)

### *HOME Funds*

The Michigan State Housing Development Authority (MSHDA) implements the HOME Team Advantage program. MSHDA was established in 1966, it is a housing finance agency that “provides financial and technical assistance through public and private partnerships to create and preserve decent, affordable housing for low- and moderate-income Michigan residents.”

The HOME Team Advantage program provides tax exempt financing and federal home funds to encourage rental housing development located in certain Michigan communities. Non-profit corporations and limited dividend housing associations are eligible to borrow under the Authority’s Act. Eligible developments consist of rental development for family or senior citizens that entail new construction and adaptive re-use of non-residential structures. New structures must be between 12 and 49 units, while rehabbed structures may be between 12- 100 units. For-profit developers can receive up to 90% of the development cost. Loans for developments in eligible distressed areas can receive up to 110% of the development costs. Ten percent of the total units must be for people with or below 30% of the area median income (AMI). The remaining 90% of those units will be rent restricted to 95% of 30% of 60% AMI. Typically the loans last 35 years and are tax exempt, fully amortizing (MSHDA, 2006).

### **Summary**

Over the last six decades Michigan has been plagued with a decline in population and weakening tax base, which has paralleled the decline of the manufacturing industry in spite of this, in recent years, Detroit has ranked third in new building permit approvals in Southeast Michigan.

There is a multitude of government incentives for developers that seek to restore contaminated property. These opportunities for funding are especially important because they attract investors to abandoned property. Legislation such as the Brownfield Redevelopment Authority Act provides tax incentives for qualified redevelopments. Programs such as this alleviate a portion of the financial burden for the developer, as well as disperse investment risk between the developer and the local government. The HOME Team Advantage Program, implemented by MSHDA allows for new construction and rehabilitated units to receive up to 90% of the development cost for multi-family dwellings at a below market interest rate. Overall, the state and local

**governments in Michigan offer a variety of programs for developers in the private sector or public sector development markets.**



## CHAPTER IV

### Methodology

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For this project, my colleague Ashley Miller, an Urban and Regional Planning undergraduate, and I interviewed two for-profit developers and two non-profit developers. Each interviewee has over a decade of experience developing and redeveloping real estate in Detroit. In this paper the developers are denoted as Non Profit Developers A & B, and For Profit Developers A and B.

The method used for gathering data was adopted from the principles of “grounded theory”. Grounded theory is a general methodology for developing theory that is grounded in data and systematically analyzed (Corbin and Strauss). From this methodology theory may be produced initially from data, or if existing (grounded) theories seem suitable in the area of investigation, then the incoming data may be modified and elaborated upon. Researchers may also use previous studies for research (Corbin and Strauss). Interviewers, field data and documents of all kind may be used in this method of research, and can be a variety of quantitative and qualitative data. Grounded theory may be an interpretive work, which must include the perspective of the people and voices of the persons studied. The research assumes the responsibility of interpreting what is observed, heard or read. Most grounded theory studies have been directed as developing substantive theory (Corbin and Strauss). Grounded theory may be effective and influential because of the constant making of comparisons, which includes the systematic asking of generative and concept-relating questions (Corbin and Strauss) This methodology is one of openness, as long as you interpret in “conditional matrix”. Also, the theory consists of plausible relationships proposed of concepts and a set of concepts (Corbin and Strauss). Grounded theory researchers are interested in patterns of action, or conceptually dense research, and are concerned with discovering process. Grounded theory connects multiplicity of patterns and process of action/ interaction that in turn are related to a set of conditions and consequences (Corbin and Strauss).

The research presented in this paper applied some, but not all the principles of grounded theory. This research was not meant to produce a general theory. Instead, a set of relationships from the

persons interviewed was analyzed and interpreted based on developer perceptions of the real estate development process in Detroit. Conclusions in this paper were drawn from these responses based on elements of commonality as it was backed up my documented researched.

Sixteen open-ended questions (Appendix A) were asked of each of the real estate developers in efforts to acquire in depth each developer's perception of the advantages, disadvantages and their overall motivations as it relates to developing or redeveloping real estate in Detroit. We decided to use open-ended questions in this study so that we can compare our findings with the background information presented in the explanation of the questions. This is helpful in examining specific relationships to specific problems. The findings were categorized in a matrix, and then juxtaposed in efforts to understand common relationships. On average, each interview lasted approximately an hour and a half.

# **CHAPTER V**

## **Summary of Findings and Discussion**

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In this chapter a discussion is presented on the findings concerning the developers' perception regarding their residential development experience in Detroit. One of the primary objectives of this research was to obtain the professional opinions about the advantages, disadvantages and obstacles of in Detroit real estate.

Each developer shared similar views about the amount of “inadequate housing” in Detroit. Non Profit A, emphasized how new housing units as well as updating old units would engage two problems in Detroit; “physical and social” ills. The four developers interviewed stressed the importance of forming coalitions and partnerships to accomplish development objectives. In the Case of Non-Profit A, Habitat for Humanity was one of their most significant partners that aided with development. Furthermore, all the developers stressed the importance in some way of how new houses increased the tax base in the city, and how important it is to assure the affluence of decent housing, school system and low taxes.

The four developers interviewed shared many of thoughts of what they perceived to be the advantages of developing in Detroit. Some perceived advantages side with in the fact that the infrastructure for development is already in place. Also, although there are a significant number of sites in the city that are brownfield, the fact that there are state and local development tools that leverage the risk and cost of developing contaminated, blighted, or obsolete site which is one of the major advantages. On the other hand, one of the most common perceived obstacles was the lack of contiguous parcels of land, and the hardships associated with land assembly and title clearance. One developer in particular perceived the market in Detroit as having great growth potential. All the developers redeveloped and participated in infill development and adaptive reuse projects in Detroit.

The below matrix juxtaposes the main developer perceptions of the perceived, advantages, disadvantages and obstacles faced by the four developers interviewed.

<b>Developer Perceptions</b>				
<b>Table 5.1</b>	<b>Non Profit A</b>	<b>Non Profit B</b>	<b>For Profit A</b>	<b>For Profit B</b>
What are the top <b>advantages</b> of developing in Detroit?	<ul style="list-style-type: none"> <li>Forming coalitions</li> <li>Economy improvements</li> <li>Diversifying tax base</li> <li><b>City owned property</b> has low property costs, high return on investment</li> </ul>	<ul style="list-style-type: none"> <li>Availability of <b>city owned property</b></li> <li>Availability of federal funds</li> <li>The market has "pent up" demand for housing</li> </ul>	<ul style="list-style-type: none"> <li><b>Redevelopment</b> opportunities</li> <li>Infrastructure is already in place</li> <li>Urban flavors</li> <li>Brownfield sites</li> </ul>	<ul style="list-style-type: none"> <li>The market has great growth potential</li> <li>Urban <b>redevelopment</b></li> <li>Social impact</li> </ul>
What are the top <b>disadvantages</b> of developing in Detroit?	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Detroit bureaucracy is hard to get through</li> <li>Physical and <b>environmental conditions</b> of the site</li> <li>Reputation of Detroit</li> </ul>	<ul style="list-style-type: none"> <li>Complexities and knowledge of the process</li> <li>Finding contiguous parcels</li> <li>No master planning in place from Detroit</li> </ul>	<ul style="list-style-type: none"> <li>Redevelopment as opposed to development takes more time</li> <li><b>Environmental challenges</b></li> <li>There is no mainstream market, its still a niche</li> </ul>
What are the top <b>obstacles</b> of developing in Detroit?	<ul style="list-style-type: none"> <li>Land assembly</li> <li><b>Title clearance</b></li> <li>Detroit doesn't seem to protect the land (i.e. weed removal)</li> <li>Clean up</li> </ul>	<ul style="list-style-type: none"> <li>Time it takes to get reimbursed from the city</li> <li>Time it takes to get contracts through the city</li> <li>Lack of code enforcement</li> </ul>	<ul style="list-style-type: none"> <li>Lack of coordination between universities, HUD/MSHDA</li> <li>A clear urban redevelopment process</li> <li>Land use zoning, land assemblage, <b>title clearance</b></li> </ul>	<ul style="list-style-type: none"> <li>Detroit's zoning ordinance is not geared toward "redevelopment"</li> <li>Tension between "affordable housing" and "market rate housing"</li> <li><b>Title clearance</b></li> </ul>

The above table illustrates how *title clearance* is one of the perceived by most developers. A title (often referred to as, "ownership") is, "evidence of ownership of real property", it indicates a persons right to possess, use and dispose property" (Meyers and Lyons, 2000). Title Company's investigate the ownership history of a property and determines the limitations and rights of usage for that property, then insures the legitimacy of the ownership (Meyers and Lyons, 2000).. Usually when the owner of a site defaults on property taxes, the title (ownership) goes to the local government. The local government then remediate the contamination or attempts to find the

proper developer to do so. Economic development tools such as tax incentives, markdowns on land, site assembly are among the resources used to lure investors (Meyer and Lyons, 2000).

Non-Profit A, feels that there are no disadvantages associated with real estate development in Detroit. The developer highlighted his opinions as follows, “As a real estate broker, I have not seen a piece of land that does not have a value. At a Detroit real estate auction, you can buy property for \$500; and with a little sweat equity, the place is worth \$50,000.” Furthermore, the developer contends that “blight” shows signs of promise and is a “necessary purging process” that can save a developer the cost of demolishing land.

The table below illustrates what the four developers perceived to be the top government incentives that contribute to successful development in Detroit.

<b>Table 5.2</b>	<b>Non Profit A</b>	<b>Non Profit B</b>	<b>For Profit A</b>	<b>For Profit B</b>
What are the top government incentives that contribute to a successful development?	<ul style="list-style-type: none"> <li>• HOME dollars</li> <li>• Tax credits</li> <li>• Tax abatements</li> </ul>	<ul style="list-style-type: none"> <li>• Empowerment Zone funds</li> <li>• Neighborhood Enterprise Zone</li> <li>• CDBG</li> <li>• HOME dollars</li> <li>• Tax abatements</li> </ul>	<ul style="list-style-type: none"> <li>• Neighborhood Enterprise Zone</li> <li>• Brownfield Act</li> <li>• DDA</li> <li>• Tax Increment Financing</li> </ul>	<ul style="list-style-type: none"> <li>• Neighborhood Enterprise Zone</li> <li>• Brownfield Act</li> <li>• Obsolete Property Rehabilitation Act</li> <li>• Single Business Tax Credit</li> </ul>

As illustrated in the above table, financial incentives such as tax abatements and brownfield credits play are among the top government inceptions perceived by developers that contribute to success. Developing within the Neighborhood Enterprise Zone area was the most mentioned incentive. A 1998 study conducted by LISC showed that the most frequently used resources for housing funds were CDBG and HOME, these are the primary sources for subsidies.

The developers were asked to indicate the level of importance when choosing a development site. While both for-profit and non-profit developers were open to developing on brownfield sites, being near an industrial district scored the least in for-profit developer decisions to choose a site.

<b>Table 5.3</b> <b>Level of importance when choosing a real estate site.</b>	<b>Outside of Detroit</b>		<b>In Detroit</b>	
	<b>For Profit A</b>	<b>For Profit B</b>	<b>For Profit A</b>	<b>For Profit B</b>
Nearness to a downtown	5	4	5	4
Nearness to a university or college	5	3	5	4.5
Nearness to a grade school	5	4	5	2
Nearness to a retail district	5	4	5	4
Nearness to an industrial district	3	1	3	1
Nearness to public transportation	4	4	4	4.5
Nearness to public infrastructure	3	5	3	5
Nearness to a commercial district	5	4	5	4
High-value location	3	3.5	5	4.5
Nearness to medical facilities	5	3	5	3

In table 5.4 no comparison was made regarding non-profit developers interpretation of developments outside of the city because they only focused on projects within certain areas in Detroit.

<b>Table 5.4</b> <b>Level of importance when choosing a real estate site.</b>	<b>In Detroit</b>	
	<b>Non Profit A</b>	<b>Non Profit B</b>
Nearness to a downtown	5	5
Nearness to a university or college	5	5
Nearness to a grade school	5	5
Nearness to a retail district	5	5
Nearness to an industrial district	5	5
Nearness to public transportation	5	5
Nearness to public infrastructure	5	5
Nearness to a commercial district	5	5
High-value location	5	1
Nearness to medical facilities	5	5

A score of 5 indicates "extremely important", and score of 1 indicates "not important at all"

Non-profit B is boundary based, so they are limited in where they choose to develop. Their boundaries are 16<sup>th</sup> street, Livernois, the railroad to the north and the Detroit River to the south. They choose to do projects mostly on the east side of Detroit, near St. Anne's church. They aspire to complete this east side area, Hubbard-Richard neighborhood. Non-profit B hoped to complete projects in this area by 2001. Presently they are still working on the renewing residences and infill development projects. They have done some new houses on the West Side with another group, multi-family buildings, as well as partnership with other Community Development Associations to expand markets. Presently they are working on a welcome center from the Ambassador Bridge that connects Canada and Detroit, and a Theatre.

Non-Profit B perceives nearness to downtown and a university as very important. "We're near several grade schools. We're right on the west side industrial corridor. There is a bus right on this street, and we have southwest clinic here. For high value location, one of the things that helped us starting out was that the average home here was worth \$7,000, so when we said we were going to sell these for \$50,000, people thought we were crazy, but now we're closing for 109 to 180 thousand, we're testing this demand." Subsidy and ability to raise prices help to alleviate the preponderating costs of developing and redeveloping real estate.

Non-Profit A felt that it is a good idea to focus on the school, good elementary and faith based, to build on a lasting community. "You can probably prepare any site with whatever you think is best for it." History of illegal dumping, and presence of oil just require going in and cleaning. Non Profit A is not inclined to develop houses within a hundred feet of a railroad, unless there exists a "green" buffer.

### **Developer perceptions of working with the City of Detroit**

The four developers interviewed shared similar feelings about working with the city of Detroit, either "satisfied" or "very satisfied". Mayor Kwame Kilpatrick's administration was said to be "very friendly for people who have good plans for development", and other developers shared the same sentiments. Also, developers felt that certain processes could be accomplished sooner, but also understood that some processes cannot be streamlined due to size of the City and legislative limitations.

**If you could instantaneously improve any parts of the real estate development process, what would it be?**

- **Non-Profit Developer A:** Greater access to moneys
- **Non-Profit Developer B:** Improve the planning process, more young people
- **For-Profit Developer A:** Greater communication with MSHDA
- **For-Profit Developer B:** Clear title for state, county and local property

<b>Table 5.5</b>	<b>Non Profit A</b>	<b>Non Profit B</b>	<b>For Profit A</b>	<b>For Profit B</b>
<b>In your Professional opinion as a developer what do you think hinders other developers from wanting to develop in Detroit?</b>	<ul style="list-style-type: none"> <li>• Investment Risk</li> <li>• Crime</li> <li>• Training</li> </ul>	<ul style="list-style-type: none"> <li>• Quality of education in Detroit</li> </ul>	<ul style="list-style-type: none"> <li>• Access to resources</li> <li>• Lack of knowledge about the real estate development process</li> </ul>	<ul style="list-style-type: none"> <li>• Negative perception of the bureaucracy</li> <li>• Stereotypes</li> </ul>

This above table illustrates a variety of reasons why developers feel investors are dissuaded from investing in Detroit. Sentiments toward the Detroit Public School system whether negative or positive is a very sensitive subject. Non Profit B regards poor education as a factor that hinders developers from locating to Detroit. Also, some felt negative stereotypes deter real-estate investment in the city. In someway each developer contended that access and familiarity with people create relationships and opportunities to open up new markets. Lacking knowledge of the City may also influence one's choice to develop in Detroit.

<b>Table 5.6</b>	<b>Non Profit A</b>	<b>Non Profit B</b>	<b>For Profit A</b>	<b>For Profit B</b>
<b>How do you evaluate the success of a real estate development upon completion?</b>	<ul style="list-style-type: none"> <li>• Stabilization of property residents</li> <li>• Property upkeep</li> <li>• Community involvement</li> </ul>	<ul style="list-style-type: none"> <li>• Visually</li> <li>• Appraisal</li> <li>• Psychological</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Financial return</b></li> <li>• Risk and reward</li> <li>• If it's a "Catalyst Project"</li> </ul>	<ul style="list-style-type: none"> <li>• Is it fully sold or fully leased?</li> <li>• Did the project meet budget expectations?</li> <li>• <b>Financial return</b></li> <li>• Positive impact on community?</li> </ul>

Non Profit A evaluates the success of real estate development upon completion if residents are stable within their properties after five years, or if the residence is turned over for ownership with good upkeep. However, if deteriorated then it's failed. Block club meetings for resident



investment in area help with crime and health problems and contribute to a positive evaluation. Non Profit B also evaluates the success on a visual basis regarding physical upkeep.

Profit A evaluates the success of developments on three basic factors, financial return, risk and reward, and whether the project was a catalyst for further development. For Profit B discussed a couple of ways of evaluating the success of development projects upon completion. “First, it depends on the nature of the project. Is it something for sale, or something for lease? Is it fully sold, is it fully leased? Did it meet your budget expectations? Did the development team make a profit on it? One thing for me personally, is whether it had a positive impact on the community, which is hard to measure. There are no formal means of measuring, just case by case.”

From the non-profit prospective some of the factors mentioned that contribute to successful real estate development projects include maintaining a good relationship with the city government, MSHDA, for profit partners and other organizations. Also mentioned was the importance of receiving feedback from community members via public meetings. Similarly, members of the for-profit prospective delved on the importance of maintaining good relationships with all members of the real estate sector. One of the for-profit developers contends that technical skills can be bought, but “the strength of a development projects, depends on the strength of our relationships” with the community and the real estate constituency.

## **Summary**

Overall, the developers maintained the importance of maintaining positive relationships with members of the real estate sector as well as vested stakeholders. As it related to financing HOME Dollars, Tax Credits, Neighborhood Enterprise Zones and Brownfield Credits were among the top resources used to fund real estate projects. “Nearness to an industrial district” was the lowest rated factor when choosing a develop site in Detroit, for all four developers. All of the developers work well with Detroit officials, and share common sentiments about the difficulty associated with “title clearance”.

# CHAPTER VI

## Conclusion

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Real estate development is a complex task from both the non-profit developer prospective and the for-profit developer prospective. However, both sectors of developers had similar sentiments regarding the advantages, disadvantages and obstacles of developing real estate in Detroit.

There were commonalties in each of the developer responses to the 16 open ended questions, from both the non-profit and for-profit prospective. Both non-profit entities cited “city owned property” as being advantageous to develop because of its low cost, and high return on investment. Others cited the market growth potential as being advantageous for development. On the other hand, complexities and knowledge of the real estate development process in Detroit was cited as a disadvantage. “Title Clearance” was the most perceived obstacle, by three of four of the developers. Also, half of the developers openly cited environmental challenges as being disadvantageous. One for profit developer criticized Detroit’s zoning ordinance for not being geared for “redevelopment”.

The public sector developers cited HOME dollars, while both sectors cited Neighborhood Enterprise zones as one of top government incentives contributing to a successful development. All of the respondents interviewed have redeveloped brownfield sites, and admitted to using government subsidy to fund development expenses.

From the for-profit prospective, “nearness to an industrial site” was the least important factor in choosing a real estate development site. When the developers were asked about which parts of the real estate development process they would improve, the answers varied from: improvements in the planning process, title clearance, increased communication with MSHDA and greater access to money. Collectively, the developers contributed crime, quality of education, investment risk, access to resources, negative stereotypes, and lack of knowledge about that development process as being some of the factors that hinder other developers from wanting to develop in Detroit.

As it related to evaluating the success of a real estate project, both for-profit developers cited financial return amongst other factors. Both non-profit developers evaluate the success of a project on aesthetics and resident upkeep, and the stabilization of the residents.

Money is the ultimate key to accomplishing any development goal. There are many federal and state funding tools that are intended to levers the expensive costs of developing and redeveloping property as well as reduce financial risks to the developers. The tools that were emphasized the greatest by the four Detroit based developers include Enterprise Zones, Brownfield Redevelopment Finance Act, Obsolete Property Rehabilitation Act, Low Income Housing Tax Credits, Single Business Tax Credits, and Tax Increment Financing. These tools not only are beneficial for developers, but are of benefit to the property buyers as well.

# APPENDIX A

## Interview Questions

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UP 889  
Detroit Development Study Interview Questions  
Spring 2006

1. In your opinion as a professional developer, what are the top three advantages of developing real estate in Detroit?
2. In your professional opinion as a developer, what are the top three disadvantages of developing real estate in Detroit?
3. In your professional opinion as a developer, what are the top three government or institutional obstacles you have encountered with developing in Detroit?
4. When choosing a development site in Detroit, do you prefer, or note prefer, to develop brownfield property and why?
  - a. Have you used special funding programs or resources for brownfield redevelopment?
5. When choosing a development site in Detroit, how important is it to be eligible for government property tax abatements or tax credits or special incentives?
  - a. Which financing incentives do you find most beneficial?
6. In choosing a development site in Detroit, how important is it to be located within any special zones such as Renaissance zone, or Neighborhood Enterprise zone and why?
7. How would you rate your experience with working with Detroit city officials in implementing Detroit based development initiatives? Please comment.

Very Dissatisfied	Dissatisfied	Neither Satisfied or Dissatisfied	Satisfied	Very Satisfied
1	2	3	4	5
8. If you could instantaneously improve any parts of the real estate development process in working with the city of Detroit, what would it be?
9. In your professional opinion, what are the top three governmental incentives that contribute to successful development projects in working with the city of Detroit?

10. Please rate the following according to importance when choosing a real estate site for development or redevelopment site in Detroit and outside of Detroit, where 1 is *not important at all* and 5 is *extremely important*.

	Outside of Detroit	In Detroit
Nearness to a downtown		
Nearness to a university or college		
Nearness to a grade school		
Nearness to a retail district		
Nearness to an industrial district		
Nearness to public transportation		
Nearness to public infrastructure		
Nearness to a commercial district		
High-value location		
Nearness to medical facilities		

11. How does the physical condition of the site effect its development? Please explain.
12. Do you favor larger lending institutions or smaller lending institutions and why?
13. In your professional opinion as a developer, what are the most important relationships that contribute to a successful development in Detroit?
14. In your professional opinion as a developer, what do you think hinders other developers from wanting to develop in Detroit?
15. How do you evaluate the success of a real estate development project upon completion?
16. In your experience what ways would you streamline the development process in Detroit?

# APPENDIX B

## SEMCOG Survey of Building Permits

	New Units Permitted				Units Demolished						
Year	Single Family	Two Family	Attached Condo	Multi family	Single Family	Two Family	Attached Family	Multi family	New Units	Total Demos	Total Net
1969	350	14	0	222	0	0	0	1,339	586	1,339	-753
1970	828	20	0	801	683	836	0	939	1,649	2,458	-809
1971	788	36	0	861	1,011	1,130	0	912	1,685	3,053	-1,368
1972	379	12	0	1,747	3,001	2,690	0	1,014	2,138	6,705	-4,567
1973	61	2	0	956	3,583	2,222	0	1,592	1,019	7,397	-6,378
1974	20	4	0	868	2,016	1,644	0	2,021	892	5,681	-4,789
1975	13	0	0	1,193	1,594	1,252	0	2,366	1,206	5,212	-4,006
1976	11	0	0	577	2,741	1,428	0	2,786	588	6,955	-6,367
1977	19	0	0	377	1,922	1,296	0	2,733	396	5,951	-5,555
1978	9	0	0	610	2,423	1,464	0	1,784	619	5,671	-5,052
1979	6	0	0	775	2,178	1,032	0	1,228	781	4,438	-3,657
1980	13	0	0	915	2,165	2,236	0	1,104	928	5,505	-4,577
1981	7	0	0	1,365	2,482	3,340	0	1,850	1,372	7,672	-6,300
1982	3	40	0	1,238	1,497	1,216	0	1,304	1,281	4,017	-2,736
1983	9	0	0	156	1,173	2,272	0	1,728	165	5,173	-5,008
1984	12	0	0	57	1,192	1,598	0	1,566	69	4,356	-4,287
1985	2	4	0	213	1,097	2,004	0	1,736	219	4,837	-4,618
1986	1	0	0	123	1,548	2,080	0	2,428	124	6,056	-5,932
1987	2	0	0	298	1,821	1,562	0	1,413	300	4,796	-4,496
1988	3	0	0	362	1,609	1,420	0	3,272	365	6,301	-5,936
1989	1	0	0	345	2,936	1,954	0	1,028	346	5,918	-5,572
1990	0	0	0	659	1,945	1,512	0	1,274	659	4,731	-4,072
1991	18	0	0	338	1,163	920	0	1,624	356	3,707	-3,351
1992	163	4	0	333	1,702	998	0	740	500	3,440	-2,940
1993	40	2	0	201	1,296	748	0	1,160	243	3,204	-2,961
1994	39	0	0	356	964	682	0	627	395	2,273	-1,878
1995	67	0	0	138	2,391	1,414	0	2,144	205	5,949	-5,744
1996	35	20	0	101	1,223	864	0	6,345	156	8,432	-8,276
1997	68	2	0	31	2,167	1,156	0	1,515	101	4,838	-4,737
1998	79	2	0	405	1,984	928	0	1,541	486	4,453	-3,967
1999	176	4	0	403	1,914	1,132	0	1,771	583	4,817	-4,234
2000	84	18	3	233	1,517	768	0	2,225	338	4,510	-4,172
2001	55	2	24	386	2,345	1,120	0	1,212	467	4,677	-4,210
2002	179	108	82	234	1,638	692	0	248	603	2,578	-1,975
2003	324	4	223	501	600	204	0	427	1,052	1,231	-179
2004	362	14	148	411	1,445	648	0	569	935	2,662	-1,727
2005	302	18	215	504	936	696	0	390	1,039	2,022	-983
Totals	4,528	330	695	19,293	63,902	49,158	0	59,955	24,846	173,015	148,169

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<sup>i</sup> <http://www.crcmich.org/EDSurvey/financg-taxauthorities/tbp.html>

<sup>ii</sup> <http://medc.michigan.org> "Enterprise Zone"

<sup>iii</sup> <http://medc.michigan.org> topic "Business Incentives > Brownfields" 11/20/2005



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