



ZIMMERMAN/VOLK ASSOCIATES, INC.

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Research & Strategic Analysis

## EXECUTIVE SUMMARY

### UPDATE RESIDENTIAL MARKET POTENTIAL

#### Greater Downtown Detroit *City of Detroit, Wayne County, Michigan*

July, 2017

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This study re-evaluated the depth and breadth of the potential market for new market-rate rental and for-sale multi-family dwelling units, to be added through adaptive re-use of existing non-residential buildings and/or new construction, within Greater Downtown Detroit, with a special focus on the Central Business District.

#### CONCLUSION OF THE ANALYSIS

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Between 1,230 and over 1,500 new market-rate rental and for-sale multi-family units could be absorbed within Greater Downtown Detroit each year over the next five years—or from approximately 6,150 to more than 7,500 units over five years. The Central Business District could capture at least 35 percent of that annual absorption, or 430 to 527 units per year—between 2,150 and 2,635 units over five years.

Between 414 and 512 new rental and for-sale multi-family units affordable to households with incomes between 30 and 80 percent AMI could be absorbed within Greater Downtown Detroit each year over the next five years—or from 2,070 to more than 2,500 units over five years. The Central Business District could capture at least 35 percent of that annual absorption, or 145 to 180 units per year—between 725 and 180 new affordable/workforce units over five years.

#### SUMMARY OF FINDINGS

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- Over the next five years, households moving to Greater Downtown Detroit from outside the city will continue to make up an increasing share of market potential for new housing in the
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Greater Downtown—72.4 percent, compared to 69.0 percent when the same analysis was conducted in 2014, and 61.1 percent in 2010).

- An average of more than 22,000 households of all incomes comprise the potential market for new and existing housing units in Greater Downtown Detroit each year over the next five years.
- Those households comprising the potential market for new Greater Downtown Detroit housing units over the next five years include:
  - Younger singles and childless couples (66 percent, as a share of the market down from 73 percent in 2014);
  - Empty nesters and retirees (24 percent, as a share of the market up from 21 percent in 2014); and
  - Traditional and non-traditional families (10 percent, as a share of the market up from eight percent in 2014).
- The shifts in the composition of the potential market are largely due to:
  - Leading-edge Millennials beginning to have children, becoming family households instead of younger single/childless couple households; and
  - The growing perception that Greater Downtown is now clean and safe, making it much more attractive to older households
- Focusing on those households with preferences for multi-family rental and for-sale units, and with incomes at or above 80 percent of the Detroit AMI, an annual average of 11,275 households comprise the market potential for new multi-family rental and for-sale housing units each year over the next five years.
- In Greater Downtown Detroit, market propensities for market-rate multi-family rental housing continue to grow: the number of households with preferences for multi-family rental units rose significantly, from 6,570 households in 2010 to 7,370 households in 2014, to 8,190 in 2017.
- The number of households with preferences for market-rate multi-family for-sale units fell slightly from 3,120 households in 2014 to 3,085 households in 2017.

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- Twenty new rental projects have been developed in Greater Downtown since 2014, of which eight are located in the core Downtown—the Town Residences, Briggs Houze, The Ashley, Capitol Park Lofts, Detroit Savings Bank, Griswold Capitol Park, the Malcomson, and the Farwell; eight are located in Midtown—Kirby Center Lofts, the Brentwood, Finn Apartments, the Scott at Brush Park, Rainer Court, Forest Arms, the Strathmore, and Williamson House; one—DuCharme Place—is located in Lafayette Park; two are located along the Detroit riverfront—Orleans Landing and Waters Edge; and one in New Center—Regis Houze.
- Two new market-rate for-sale properties have recently begun marketing—Franklin Lofts and the Milwaukee Lofts. As of the survey conducted in April, 2017, none of the units in either property had sold.
- Construction of new rental units has lagged behind absorption forecasts. Based on annual absorption forecasts in the 2014 update, over a three-year period, 930 units could be absorbed in both Downtown and Midtown and 792 units in the other neighborhoods. However, just under 760 new rental units in the core Downtown, 530 rental units in Midtown, and 460 units in the other neighborhoods were actually developed, or approximately 750 to 1,000 fewer rental units than the absorption forecast.
- When affordable housing units, student units, and other specialized or income-restricted units that have been developed since 2014 are included in the total, approximately 76 percent of all the new units are market-rate and 24 percent are affordable or income-restricted units.
- Nearly 7,400 new dwelling units have been proposed for development over the next few years within the Greater Downtown Study Area. This study's absorption forecast of 2,600 units per year indicates that 7,400 new dwelling units could be absorbed in just under three years. Based on current plans, approximately 74 percent of the proposed new units are likely to be market-rate and 24 percent are likely to be affordable or income-restricted units.
- Based on the tenure preferences of draw area households and their income and financial capabilities, the optimum market position for newly-developed market-rate multi-family

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housing units that could currently be absorbed by the market in the Central Business District over the next five years is shown on the following table:

**Rent, Price and Size Ranges**  
**Newly-Created Housing (Adaptive Re-Use and New Construction)**  
**DOWNTOWN DETROIT (CENTRAL BUSINESS DISTRICT)**  
***City of Detroit, Wayne County, Michigan***

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
<b>FOR-RENT (MULTI-FAMILY)—</b>			
Microlofts	\$750–\$1,050/month	300–450 sf	\$2.33–\$2.50 psf
Open Lofts *	\$850–\$1,600/month	500–1,000 sf	\$1.60–\$1.70 psf
Apartments {Soft lofts†}	\$1,150–\$2,200/month	550–1,350 sf	\$1.63–\$2.09 psf
Luxury Apartments	\$1,950–\$4,000/month	750–1,800 sf	\$2.22–\$2.60 psf
<b>FOR-SALE (MULTI-FAMILY)—</b>			
Open Lofts *	\$165,000–\$250,000	750–1,350 sf	\$185–\$220 psf
Apartments {Soft lofts†}	\$225,000–\$325,000	900–1,450 sf	\$224–\$250 psf
Luxury Condominiums	\$385,000–\$650,000	1,200–2,100 sf	\$310–\$321 psf

\* Unit interiors of “hard lofts” typically have high ceilings and commercial windows and are either minimally finished, limited to architectural elements such as columns and fin walls, or unfinished, with no interior partitions except those for bathrooms.

† Unit interiors of “soft lofts” may or may not have high ceilings and are fully finished, with the interiors partitioned into separate rooms.

- Based on the unit types, sizes, and rents/prices outlined in the optimum market position above, the weighted average rents and prices for each of the market-rate housing types are shown on the following table:

**Weighted Average Base Rents, Prices and Size Ranges**  
**DOWNTOWN DETROIT (CENTRAL BUSINESS DISTRICT)**  
***City of Detroit, Wayne County, Michigan***

HOUSING TYPE	WEIGHTED AVERAGE BASE RENT/PRICES	WEIGHTED AVERAGE UNIT SIZE	WEIGHTED AVERAGE BASE RENT/PRICES PER SQ. FT.
Multi-family for-rent	\$1,703 per month	862 sf	\$1.98
Multi-family for-sale	\$338,263	1,273 sf	\$266

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- Due to higher values, an adjusted unit mix, and the addition of several unit configurations that are smaller than in 2014, and based on changes in target market financial capabilities and preferences, the 2017 weighted average rents and prices represent an increase of just under 13 percent for the rentals and just under five percent for the condominiums.





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### ASSUMPTIONS AND LIMITATIONS—

Every effort has been made to insure the accuracy of the data contained within this analysis. Demographic and economic estimates and projections have been obtained from government agencies at the national, state, and county levels. Market information has been obtained from sources presumed to be reliable, including developers, owners, and/or sales agents. However, this information cannot be warranted by Zimmerman/Volk Associates, Inc. While the proprietary residential target market methodology employed in this analysis allows for a margin of error in base data, it is assumed that the market data and government estimates and projections are substantially accurate.

Absorption scenarios are based upon the assumption that a normal economic environment will prevail in a relatively steady state during development of the subject property. Absorption paces are likely to be slower during recessionary periods and faster during periods of recovery and high growth. Absorption scenarios are also predicated on the assumption that the product recommendations will be implemented generally as outlined in this report and that the developer will apply high-caliber design, construction, marketing, and management techniques to the development of the property.

Recommendations are subject to compliance with all applicable regulations. Relevant accounting, tax, and legal matters should be substantiated by appropriate counsel.





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Zimmerman/Volk Associates, Inc. retains all rights, title and interest in the ZVA residential target market methodology and target market descriptions contained within this study. The specific findings of the analysis are the property of the client and can be distributed at the client's discretion.

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