



DOWNTOWN DETROIT

IN FOCUS: *A Profile of Market Opportunity*

October 2006

*The Urban Markets Initiative, Brookings Institution Metropolitan Policy Program
The Social Compact, Inc. • University of Michigan Graduate Real Estate Program*

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and the Downtown Detroit Partnership



PREFACE

Over the past 15 years, there has been a renaissance in American downtowns.

Downtown revitalizations have taken place in metropolitan area downtowns that were “dead” two decades ago—San Diego, Denver, Seattle, Portland, the Chicago “Loop”, Washington, D.C., Philadelphia, Baltimore, Lower Manhattan, among many others.

According to a Brookings Institution study, the number of households living in a sample of 45 U.S. downtowns increased 13 percent from 1990 to 2000, reversing a 40-year decline. This trend has accelerated significantly in this decade. This downtown growth and development has taken place despite suburban zoning laws spurring sprawl, significant

subsidies for fringe development, and real estate and financial industries that have limited understanding about how to build and finance high-density, mixed-use alternatives.

Many factors have been bringing Americans back downtown. The memory of the vibrant downtown as the central place for gathering and business, the irreplaceable historic buildings that are increasingly valued by communities and, most important, the pent-up consumer demand for walkable, vibrant places in which to live, work, and play have been the driving reasons for recent downtown revitalizations.



The appeal of traditional downtowns and other similar places—and the defining characteristic that sets them apart from low-density suburban development—is "walkable urbanity": the ability to obtain many or most needs within a safe, connected walking distance (about 1,500 feet). Downtown areas vary in their physical condition, institutional assets, consumer demand, history, and civic intent, requiring that any approach be customized to redevelop walkable urbanity.

Every downtown has a unique set of strengths. It is these strengths that must be built on in developing a revitalization strategy. With enough consumer demand and the intent to succeed, there is a way. Downtown Detroit has proven that it has both.



The City of Detroit, the Detroit Economic Growth Corporation (DEGC), and the Downtown Detroit Partnership (DDP) are in the process of refining existing strategies for downtown development. This publication is the first step toward this goal by providing a picture of the market potential for downtown Detroit.

The University of Michigan Graduate Real Estate Program is facilitating the strategic planning and urban design update process for DEGC and DDP.

The following summary of market analysis for downtown Detroit espouses the principles of Progressive Analytics for Downtown Development. It builds on best practices in market analysis with new data sets and methodologies to identify the realm of possibility for alternative futures for downtown; futures that are different from its current trajectory.

Progressive Analytics for Downtown Development is a collaborative effort led by the Urban Markets Initiative at the Brookings Institution Metropolitan Policy Program. The Urban Markets Initiative aims to improve the quality of the information available on urban communities and use it to unleash the full power of those markets while connecting them to the economic mainstream.

Key partners in this effort are The Social Compact, Inc., and the University of Michigan Taubman College of Architecture & Urban Planning. The Social Compact's primary analytic tool, the market DRILLDOWN, was developed with the support of corporate leaders to address some of the key barriers to private investment in and around inner-city neighborhoods by uncovering the informal economy, undercounted populations, and rapid changes in the market that cannot be unearthed between decennial censuses.

EXECUTIVE SUMMARY

Downtown Detroit has the right assets to continue its transition into a vibrant place to work, play, and live.

Fifteen years ago, downtown Detroit was a traditional central business district (CBD) dominated by office users and offering little else, such as housing, entertainment, or retail. Over the past decade, more than \$15 billion has been invested downtown by the private and public sectors, according to the Tourism Economic Development Council, building two new professional sports stadiums, live theater and opera venues, gaming casinos and hotels, major new Class A offices for General Motors and Compuware, rental residential, retail, restaurants, and nightclubs. As a result of these investments, the character of downtown Detroit has fundamentally changed.

Given these changes, the Brookings Institution Metropolitan Policy Program Urban Markets Initiative, The Social Compact, and the University of Michigan worked together to evaluate the market size and potential of downtown Detroit. To do that these three organizations used progressive analytics for downtown development to create this report. Most notable is the DRILLDOWN technique, one that is field-proven in leading urban markets such as Washington D.C., Harlem, and Oakland, to quantify opportunities in downtown Detroit.

Using these market analysis techniques, this report finds the following opportunities in downtown Detroit:

- An increasing downtown population with growing incomes
- Strong, continued demand for residential construction and conversion
- An underserved retail market for groceries and consumer goods such as clothing and clothing accessories, electronics and appliances, building materials and garden equipment, furniture and home furnishings
- A thriving critical mass of urban entertainment venues and quality public space

Downtown Detroit will continue its transition into a vibrant place to work, play, and live. The population is larger and has greater disposable average household income than indicated by conventional census-based data sources.

The rental and for-sale housing markets in downtown have been and will continue to be strong. The City of Detroit has led all other municipalities in the state in residential building permits for 2004 and 2005 for the first time in decades. Nearly all of this activity is in or adjacent to downtown, and is projected to continue.

Downtown Detroit has a high concentration of corporate headquarters, sports, entertainment, and tourism. Yet, it is underserved in key retail categories for residents living downtown and in the surrounding neighborhoods, as well as for the city's regional audience. To fill this gap, our findings indicate a significant market opportunity for clothing and clothing accessories stores, furniture and home furnishings stores, electronics and appliance stores, and building material and garden equipment stores. A DRILLDOWN analysis also indicates opportunity for grocery stores.

Various state and local incentive programs for job relocation to downtown Detroit provide significant financial advantages for new office and other commercial development. These incentives have proven important in attracting major office employment and development. Significant owner-occupied office opportunities, as opposed to multi-tenant development, exist on highly desirable parcels controlled and marketed by the City of Detroit within downtown. However, downtown would also benefit from a sophisticated business attraction program targeted at prospective commercial tenants.

Weakness in the convention center performance can be improved with the new hotel rooms that are currently under construction and the Book-Cadillac Hotel renovation. Although capacity constraints to the existing convention facility still must be addressed, such as the size of the facility and operating issues, increasing the inventory of hotel rooms within walking or People Mover distance is an important step forward.

Downtown Detroit is a center of urban entertainment. According to visitor surveys, downtown, Detroit is viewed uniquely among peer Midwestern cities as a trendy, adult-oriented destination. For example, it has a nationally significant concentration of professional sports, nightclub, and theater venues and has the third largest concentration of pedestrian-friendly gaming facilities in the country.

In sum, downtown Detroit has the market foundation to become a vibrant, 24-hour residential, commercial, and entertainment district. With additional and strategic investments in retail and housing, downtown Detroit has the potential to be a strong center for its region.

Downtown Detroit and the Neighborhoods Oriented Toward Downtown

The areas of analysis for *Downtown Detroit in Focus*: Downtown, Downtown and the Neighborhoods Oriented Toward Downtown, the City of Detroit, and the Six-County Detroit Metropolitan Area



Source: City of Detroit, University of Michigan

MARKET SIZE, STABILITY, & POTENTIAL

Downtown Detroit has a strong and growing residential population, and surrounding downtown-oriented neighborhoods offer a strong base for future development.

At the center of the eighth largest and the twelfth wealthiest metropolitan area (U.S. Census Bureau, 2005), downtown Detroit and the neighborhoods oriented toward downtown have a growing residential population that will provide a strong base for future development.

Key findings:

- **Higher than expected household incomes.** \$59,300 average household income in downtown Detroit.
- **New downtown residents are highly educated.** On the whole, 83 percent of new downtown residents have a college degree or better, compared with the national average of 26 percent. Additionally, one-third of these new downtown residents have a master's or other professional degree, compared with the national average of 10 percent.
- **Larger population base than currently understood.** 6,500 downtown residents; and 74,300 residents in downtown and neighborhoods oriented toward downtown.
- **\$1.4 billion in annual aggregate income for the residents of downtown and the neighborhoods oriented toward downtown.**
- **80,500 downtown workers**, composing 21 percent of the city's total employment.
- **15 million annual downtown visitors** according to the Detroit Metro Convention and Visitors Bureau.

Larger population estimates and higher residential density in downtown and adjacent neighborhoods

- The residential population (74,300) is 13.3 percent greater than indicated by 2006 census trend projections (65,500).
- The DRILLDOWN found 33,600 households in downtown and the neighborhoods oriented toward downtown. This is 6.4 percent higher than the 2006 census trend projection (31,564).
- Density is an important characteristic of urban populations that must be considered when developing urban markets. The DRILLDOWN estimate of residents per acre, the standard measure of density, was higher (9.65 residents/acre) than the 2006 census trend projection (8.51 residents/acre).

Aggregate and average incomes were higher than 2006 census trend projections. The DRILLDOWN for downtown Detroit uncovered an *average* household income (\$59,300) that is 33 percent higher than 2006 census trend projections (\$44,600).

Downtown Detroit also attracts 15 million visitors annually.

Visitors view downtown Detroit uniquely among peer Midwestern cities, positioning it as a trendy adult destination. This is specifically related to its concentration of sports, entertainment, and theater venues and its position as the third largest walkable gaming concentration in the U.S.

Downtown Detroit is the Center of a Metropolitan Economy that Supports 2.3 Million Jobs

Analysis of the Concentrations of Industries in 2006 (Location Quotient Analysis) and Projected Growth and Share of Employment from 2006 to 2012 (Projected Shift-Share Analysis).

Although Detroit has experienced economic change, it is still the eighth largest metropolitan area in the United States. Metropolitan Detroit employs 2.4 million. In addition, with 80,505 employees, downtown Detroit has a large concentration of jobs and is home to 21 percent of workforce employment of the city of Detroit.

Mature industries have the highest concentration of jobs, and although growth is not expected to outpace US, these industries continue to be strong. Specifically, strong growth is expected in plastics & rubber products manufacturing, primary metal manufacturing, fabricated metal product manufacturing, machinery manufacturing, and transportation equipment manufacturing.

"Up and Coming" industries have a lower than expected concentration but are growing faster than expected in the United States as a whole. "Below the Radar" industries have a lower than expected concentration and show job growth slower than expected in the United States. "Strengthening" industries have a high local concentration, and faster growth than the United States. Currently, Detroit shows no industries in this quadrant.

Mature Industries

- Manufacturing
- Wholesale Trade
- Professional & Business Services
- Education & Health Services

Up and Coming Industries

- Construction
- Specialty Trade Contractors
- Construction of Buildings

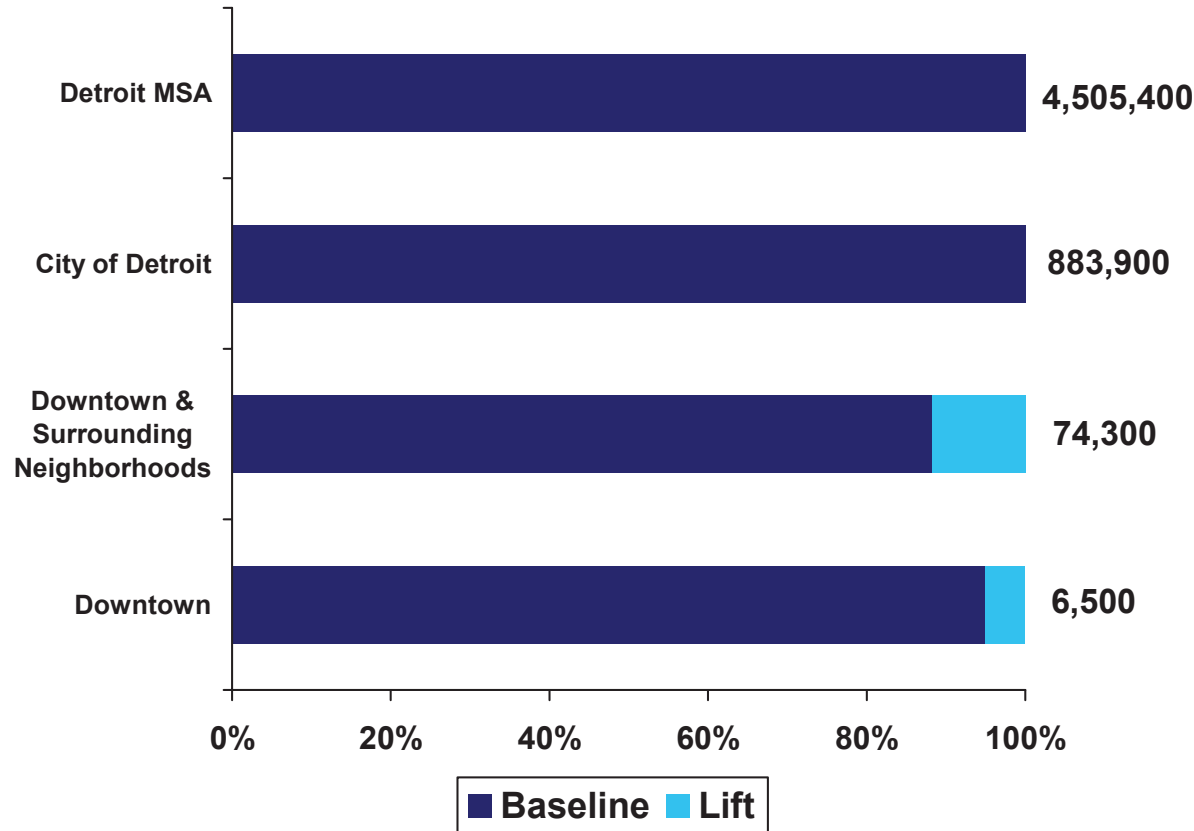
Industries Operating Below the Radar

- Retail Trade
- Transportation, Warehousing & Information
- Financial Activities
- Leisure & Hospitality
- Government
- Utilities

Source: Moody's Economy.com, Urban Markets Initiative

Higher Population Found in Downtown Detroit and Neighborhoods Oriented Toward Downtown

Population of Downtown Detroit, Surrounding Neighborhoods Oriented Toward Downtown, the city of Detroit, and the Detroit MSA, 2006



Analysis of current tax assessment records, building permits, commercially provided sales data, and credit bureau records reveals that the current population is larger than census trend projections for downtown Detroit and the surrounding neighborhoods. Using multiple sources of real-time, transactional information provides a "lift" to the "baseline" population estimated by census trend projections.

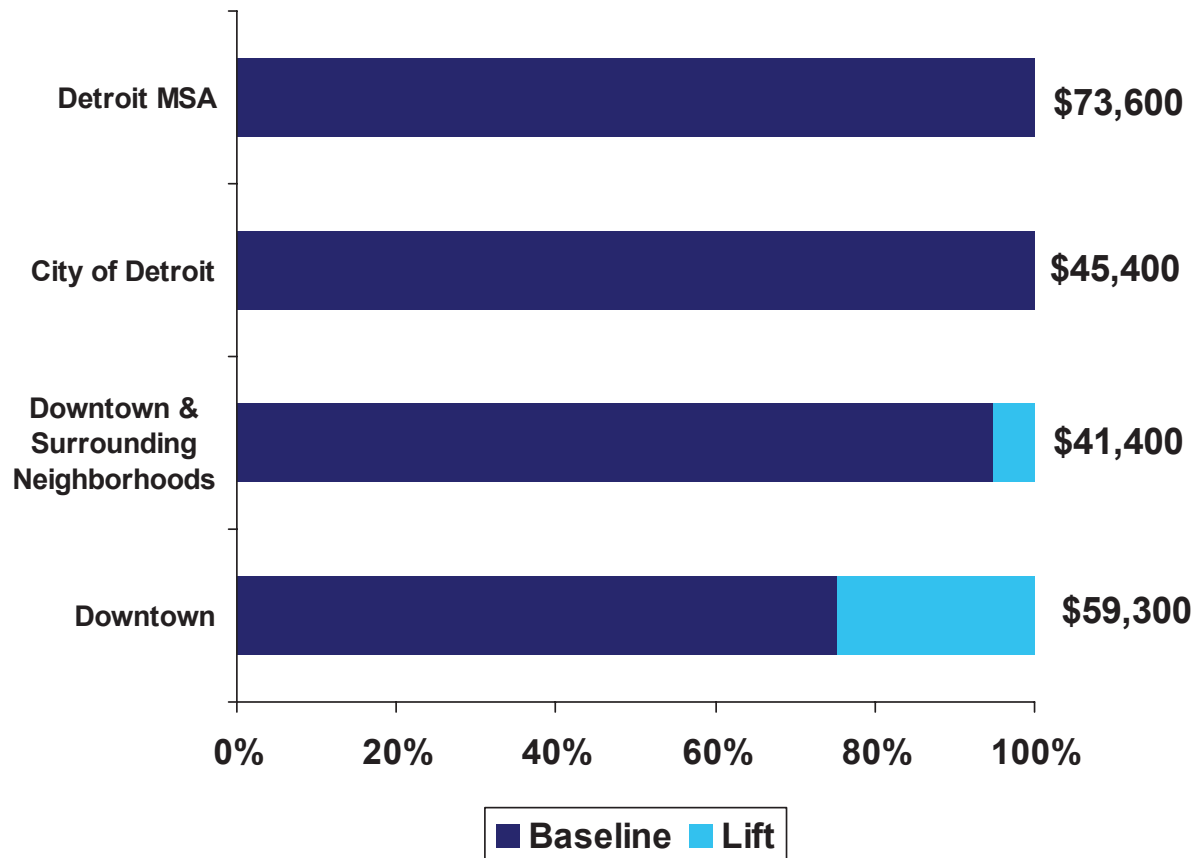
The population of residents in downtown Detroit is 5 percent larger than previously understood.

In total, the population of downtown and its surrounding neighborhoods is 13 percent larger than expected.

Source: Claritas 2006, Social Compact DRILLDOWN 2006

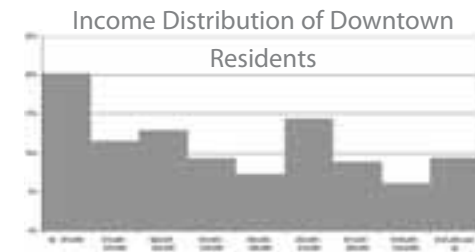
Higher Incomes Found in Downtown Detroit and Neighborhoods Oriented Toward Downtown

Average Household Incomes of Residents in Downtown, the Surrounding Neighborhoods Oriented Toward Downtown, the City of Detroit, and the Detroit MSA, 2006



Using multiple sources of real-time, transactional information and incorporating the cash or informal economy provide a "lift" to the "baseline" average income estimated by census trend projections.

Average incomes are 33 percent higher in the downtown and 6 percent higher in the neighborhoods oriented toward downtown than expected.



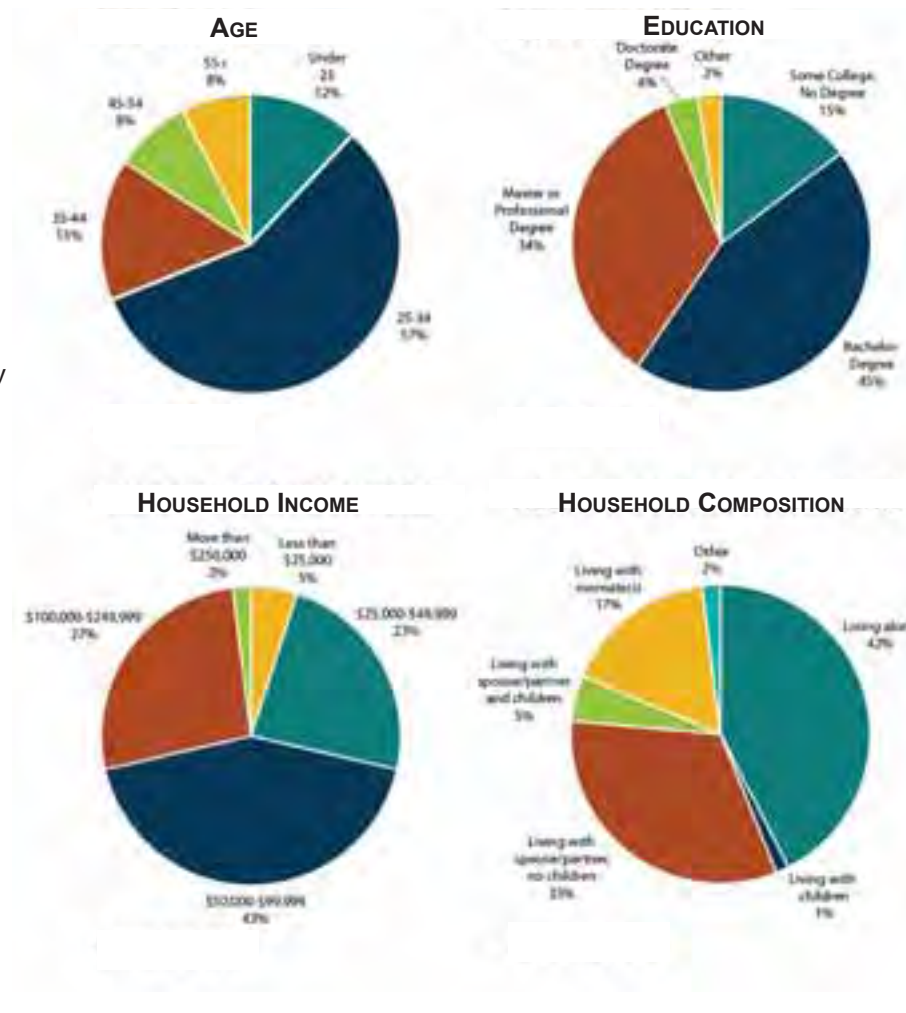
Source: Claritas 2006, Social Compact DRILLDOWN 2006

Most New Downtown Residents Are High Earning, Young Professionals

Characteristics of New Downtown Residents, 2006

It seems to be commonly understood among real estate professionals that the market for new downtown development in Detroit is a niche that is distinct from many other markets in the region. To gain an understanding of descriptive characteristics of people who compose this niche, an attitudinal survey was taken of greater downtown Detroit residents.

The survey results describe a young, well-educated, and relatively wealthy population. These trends roughly align with downtown populations nationwide. In downtown Detroit, nearly 60 percent of respondents were between the ages of 25 and 44. Over three-fourths of respondents have at least a bachelor's degree, and 72 percent report having a household income of \$50,000 or higher.



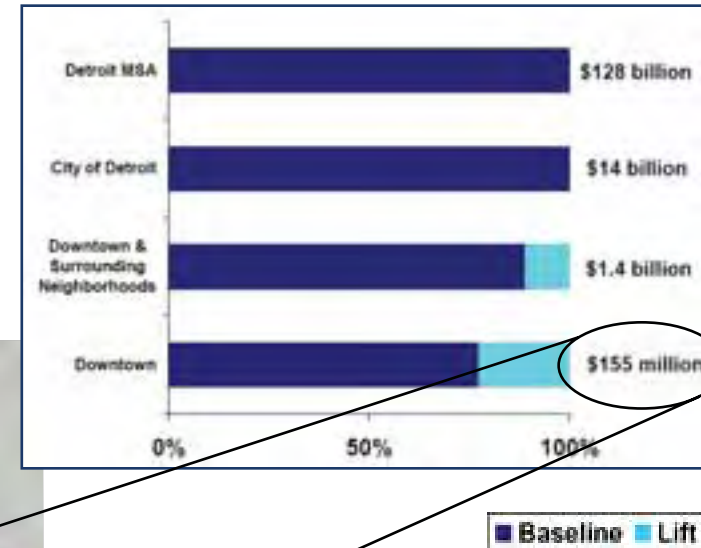
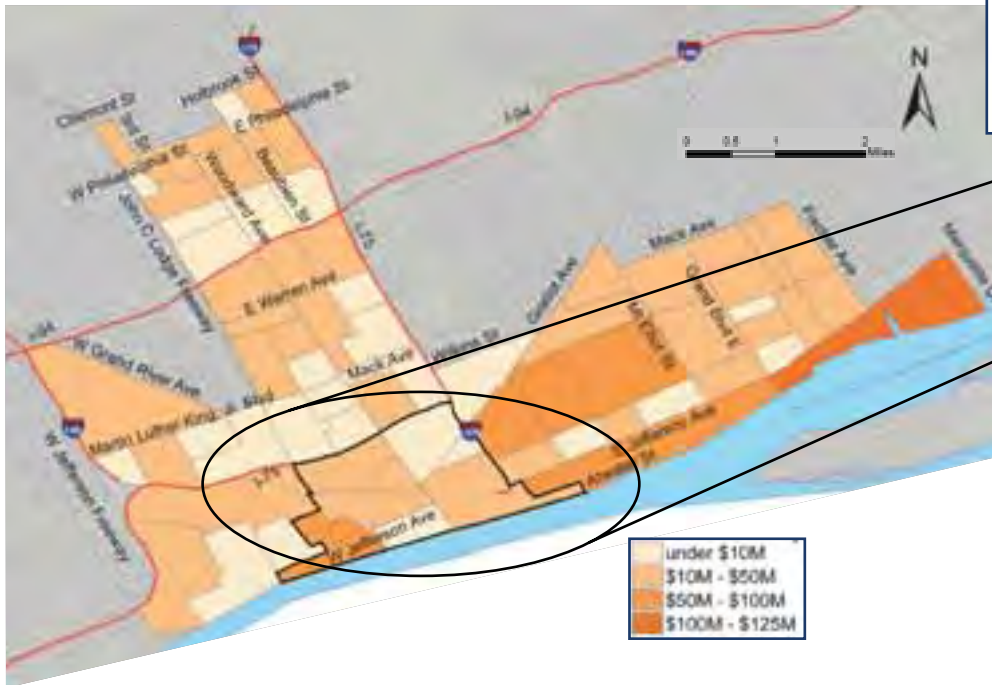
Source: Katherine Beebe & Associates for the Detroit Renaissance Lower Woodward Housing Study, 2006

Neighborhood Aggregate Income in Downtown and in Neighborhoods Oriented Toward Downtown Higher than Previously Understood

Neighborhood Aggregate Income of Residents by Census Block Group, 2006

Downtown is a stronger market than previously understood. There is a slightly larger residential population whose incomes are larger than expected. The neighborhoods oriented toward downtown are also strong.

Density in the surrounding neighborhoods oriented toward downtown and higher average incomes translate into higher neighborhood aggregate income. Using multiple sources of real-time, transactional information provides a "lift" to the "baseline" neighborhood aggregate income estimated by census trend projections.



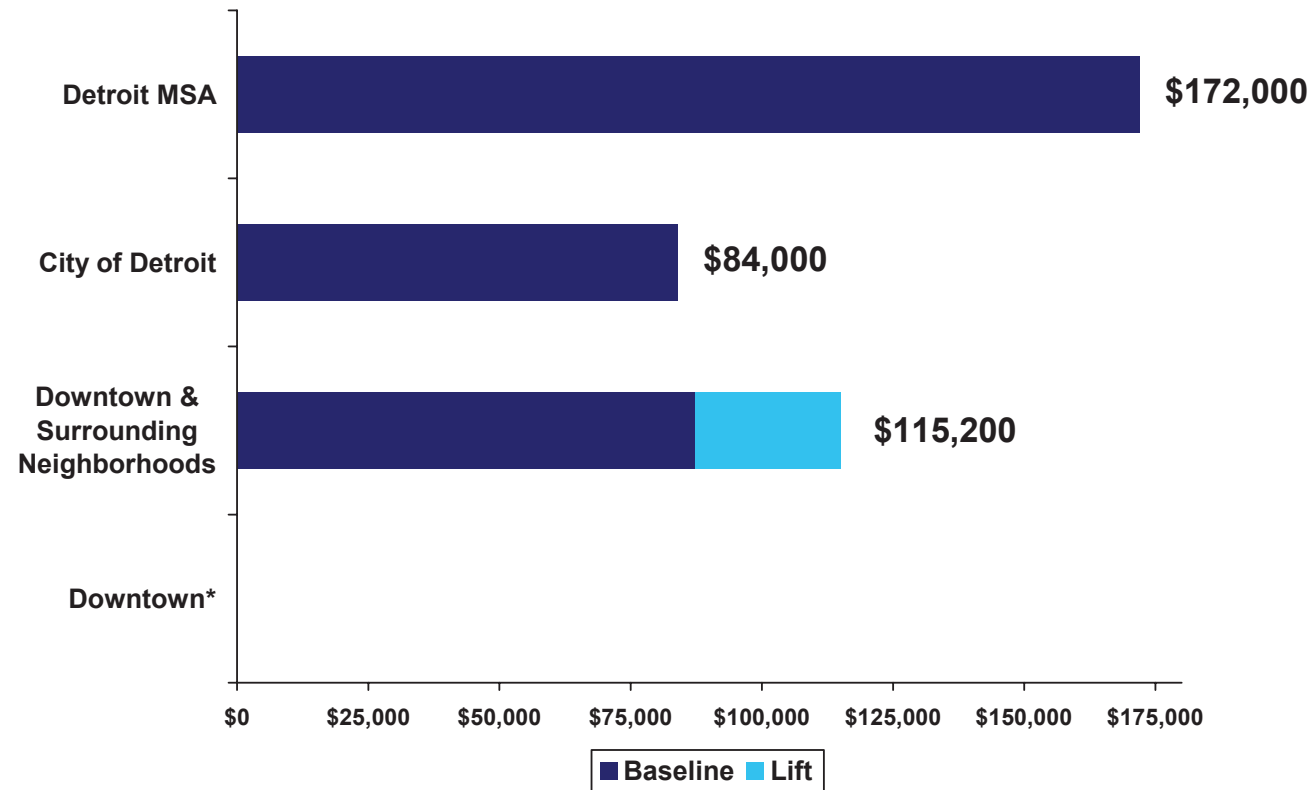
The aggregate income of the surrounding neighborhoods oriented toward downtown is \$1.4 billion, a 13 percent increase over census trend projections.

The aggregate income of downtown residents is \$155 million, a 29 percent or \$35 million lift from baseline estimates.

Source: Social Compact DRILLDOWN 2006

Median Home Values in Neighborhoods Oriented Toward Downtown 30 Percent Higher than Previously Understood

Median Home Values for Downtown and the Surrounding Neighborhoods Oriented Toward Downtown, City of Detroit, and the Detroit MSA 2006



Recent municipal and commercial transactional sales data indicate higher than expected median home values. Using multiple sources of real-time, transactional information provides a "lift" to the "baseline" home values estimated by census trend projections.

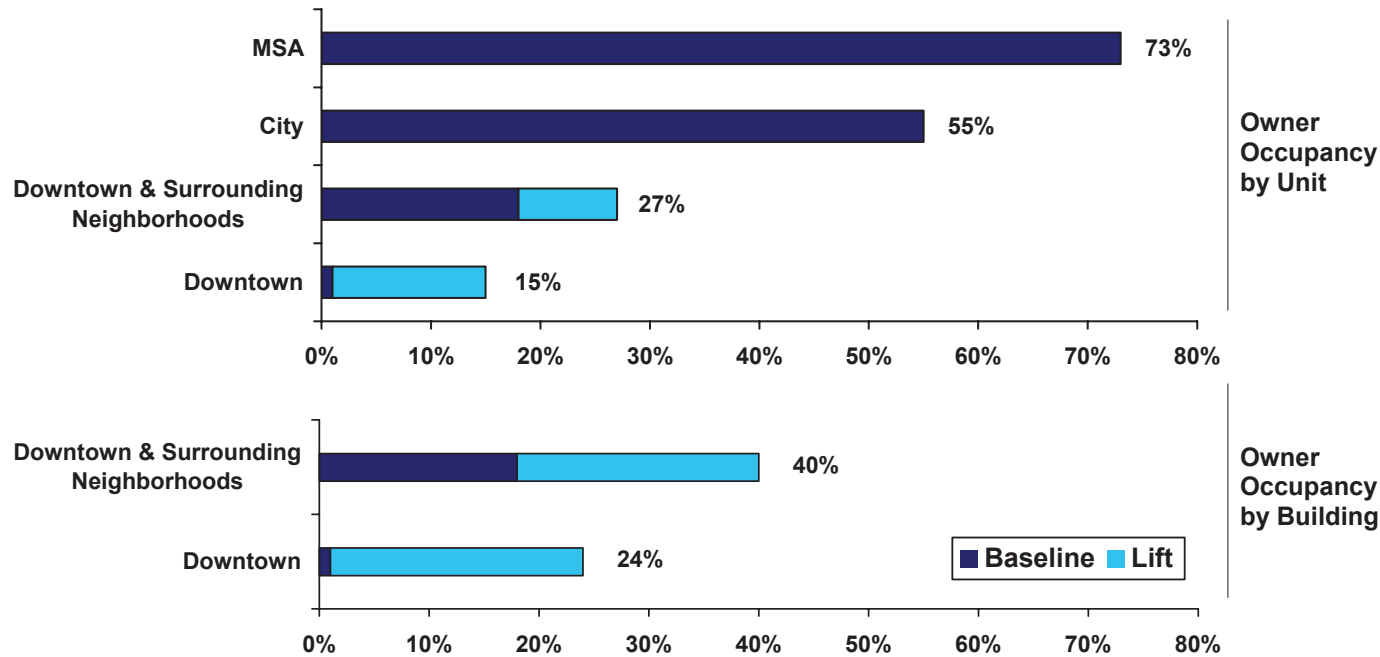
The median home value in the downtown and surrounding neighborhoods is \$115,200, a 32 percent lift from the baseline estimation.

*Insufficient data for home sales in downtown Detroit

Source: Claritas 2006, Social Compact DRILLDOWN 2006

Homeownership in Downtown and Neighborhoods Oriented Toward Downtown Stronger than Expected

Residential Owner Occupancy, 2006



Although measuring homeownership by unit maintains a relationship to population density, measuring homeownership by building puts the indicator in the context of the housing stock.

In urban areas, where the housing stock consists primarily of multifamily dwellings, measuring homeownership by unit may distort the understanding of the presence of homeowners (or individuals/families with a stake in the community). In contrast, in suburban areas the housing stock tends more toward single-family dwellings (that is, in an urban area, a property

owner may own one unit in a four unit apartment building and rent out the other three units; the owner-occupancy at a unit level would appear to be 25 percent, however, at the building level it is, in fact, 100 percent).

Beyond measuring homeownership at the unit level (15 percent and 27 percent, respectively), homeownership for the downtown and surrounding neighborhoods oriented toward downtown was quantified at the building level, demonstrating still more robust levels of homeownership.

*According to the 2000 Census, the national average for homeownership by unit in urban areas is 56.2%

Source: Claritas 2006, Social Compact DRILLDOWN 2006

Detroit's Main Sports and Entertainment Venues Bring 3.6 Million Visitors Downtown; Detroit is Major Gaming Destination

Attendance Rates in Downtown Detroit Stadia and Major Venues

Venue	Attendance/Year	Capacity/Year	Attendance Rate
Cobo Center	2,000,000	13,500,000	14.81%
Ford Field	500,000	780,000	64.10%
Comerica Park	2,000,000	3,200,000	62.50%
Joe Louis Arena	800,000	1,000,000	80.00%
Fox Theater	300,000	750,000	40.00%
Subtotal without Cobo	3,600,000	5,730,000	62.83%
<i>Total w. Cobo</i>	<i>5,600,000</i>	<i>19,230,000</i>	<i>29.12%</i>

Detroit is a Major Gaming Destination for Americans

Top Three Walkable U.S. Casino Markets, 2005

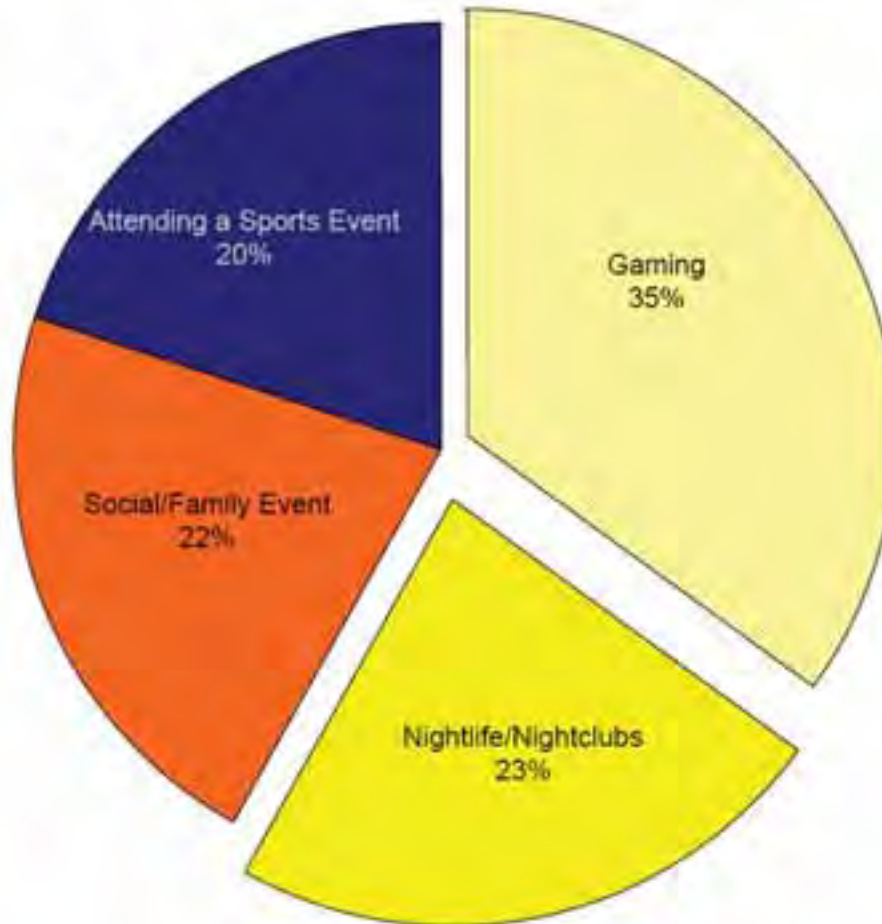
Location	Revenue
1. Las Vegas Strip, NV	\$ 6.031 billion
2. Atlantic City, NJ	\$ 5.018 billion
3. Detroit, MI	\$ 1.229 billion

Source: Public information on each venue, University of Michigan, Brookings

Gaming and Nightlife are Major Attractions for Visitors to Metro Detroit

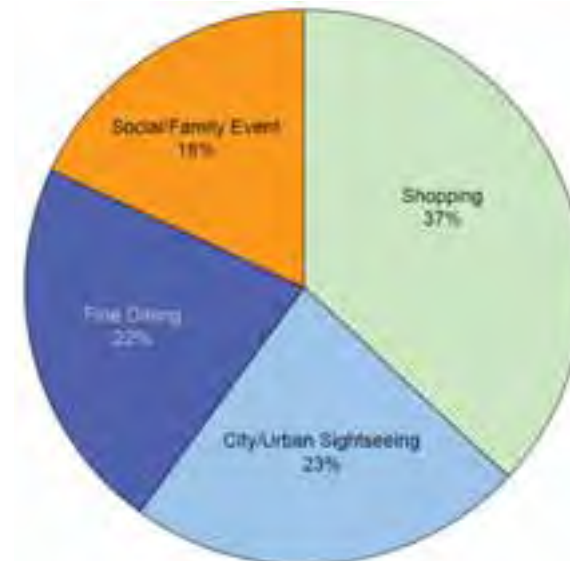
Top Four Draws for Visitors to Metro Detroit (Macomb, Oakland, and Wayne Co.) and Metro Chicago

Reasons for Trips Made to Detroit by Midwesterners



In contrast to Chicago, visitors come to Detroit for urban entertainment that appeals to adults, as opposed to families, such as gaming, nightclubs, and professional sports, nearly all of which are concentrated downtown. This allows Detroit to occupy a unique position in the Midwest visitor market.

Reasons for Trips Made to Chicago by Midwesterners



Source: Adapted from Strategic Marketing & Research, Inc. 2006 for Detroit Metro Convention and Visitors Bureau

Metro Detroit is a Unique Visitor Attraction

Perceptions of Travel Destinations by Midwesterners, 2006



Source: Adapted from Strategic Marketing & Research, Inc. 2006 for Detroit Metro Visitors and Convention Bureau

REAL ESTATE OPPORTUNITY

Downtown is the largest mixed-use development in the Detroit metropolitan area. Its current market opportunity, building on its major urban entertainment base, lies in housing and retail real estate product.

Downtown Detroit is one of only four regional-serving “walkable urbane” places in the metropolitan area.

Given the increased demand for walkable urbanity throughout the country and the relative lack of supply, downtowns and adjacent neighborhoods are well positioned for the future. Detroit’s downtown is the densest of the four walkable urbane places in the metropolitan region – the others being Birmingham, Royal Oak, and Midtown Detroit. Downtown Detroit thus provides a unique experience that will not be replicated in the region.

In order to quantify this market opportunity, analyses for retail, office, and public use facilities were undertaken. Katherine Beebe and Associates concurrently undertook a housing market analysis. Their findings are reflected in this document.

There is an opportunity to adequately provide retail for the downtown and neighborhoods oriented toward downtown:

- 389,000 sq.ft. of unmet demand for clothing and clothing accessories; furniture and home furnishings; electronics and appliances; building materials and garden equipment
- 125,000 sq.ft. of unmet demand for grocery stores

- **A residential market in the greater downtown that is growing faster than the region.** Demand for 1,700 residential units (340 annually) in the central business district through 2011
- **An emerging Midwestern perception of downtown Detroit as an entertainment destination for trendy adults**

The City of Detroit is a market lacking in retail services.

In the past six years, the number of retailers downtown has increased, but critical mass has not been achieved, leading to less than anticipated revenue for existing retailers. The distance between downtown’s current assets presents opportunities for infill retail development to enhance existing areas. However, our findings indicate a substantial market opportunity in and near downtown for the following types of retail:

- Clothing and Clothing Accessories Stores
- Furniture and Home Furnishings Stores
- Electronics and Appliance Stores
- Building Materials and Garden Equipment Stores

DRILLDOWN analysis demonstrates a need for full-service grocery stores to service downtown and surrounding neighborhoods.

The office market is flat, but owner-occupied development can benefit from unique state and local incentive packages.

At the end of 2005, the city of Detroit's overall office vacancy rate had exceeded 20 percent. Vacancy rates continue to rise not only in downtown Detroit but throughout the metropolitan Detroit region as the automotive industry continues to adjust to market realities in addition to other factors. There is a shortage of quality tenants to fill the vacant space. Rents have been flat for the past five years.

Incentives can lower the effective rent for new construction by \$6-8 per square foot. In addition to these incentives, the City of Detroit and its Downtown Development Authority own several high-quality, highly desirable commercial locations and have shown a strong commitment to enabling development through innovative deal structuring. The availability of this land, coupled with the incentives, can encourage unique headquarters-style buildings. However, new multi-tenant speculative space should be discouraged.

Downtown Detroit has a nationally significant critical mass of urban entertainment venues and public use facilities.

Downtown has robust entertainment opportunities, some of which are connected by the People Mover system. The distance between some of these urban assets presents opportunities for infill retail development to enhance existing areas. An inventory of the top public facilities in downtown indicates a good utilization rate (63 percent) according to national standards. The outlier is the Cobo convention center, whose low utilization reflects facility obsolescence, operating issues, and the lack of hotel rooms within walking distance.

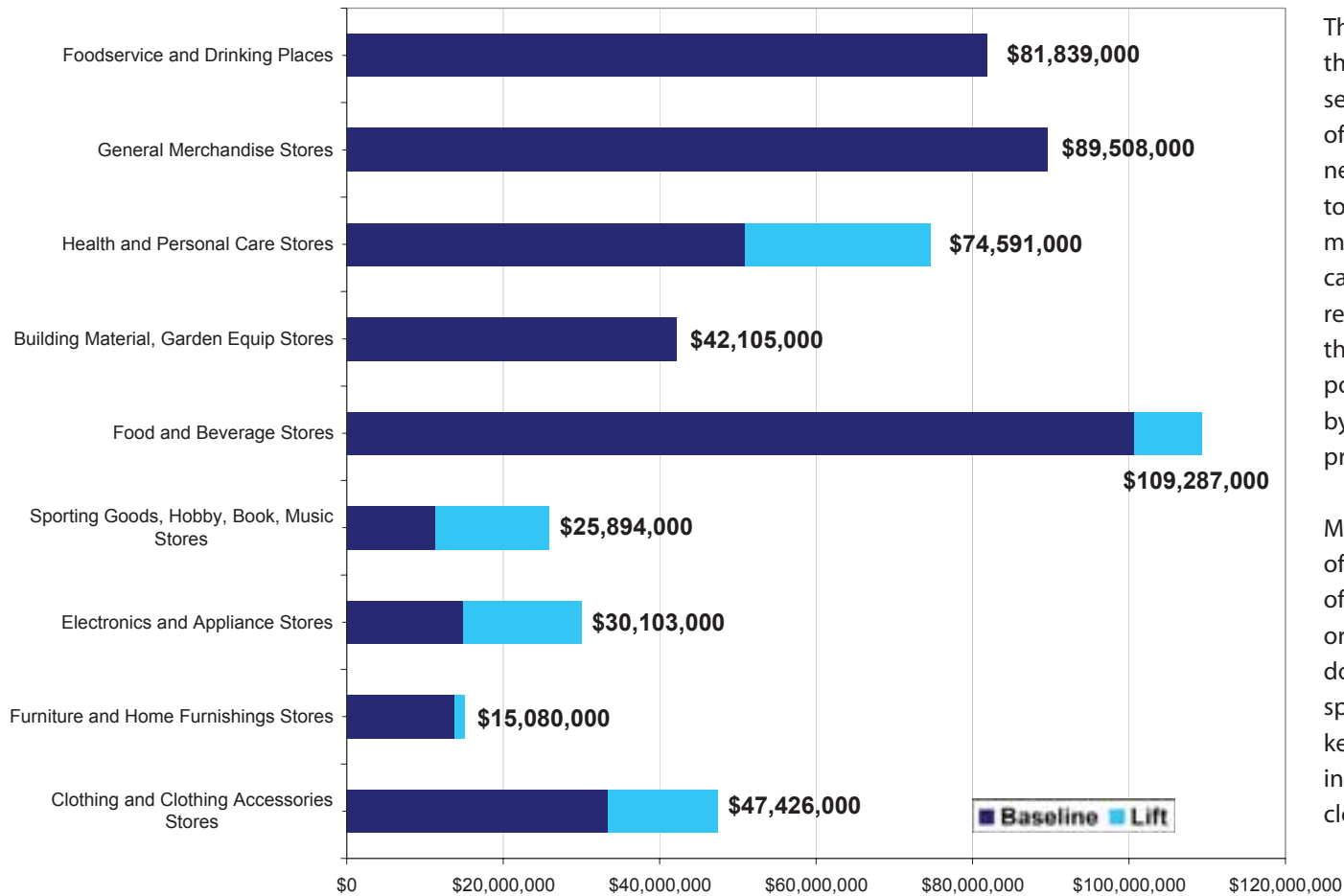
Additional hotel capacity, along with the many urban entertainment venues, may allow for growth in downtown convention business and destination tourism. There are 1,200 new rooms under construction by the downtown gaming facilities. These will complement over 850 rooms added by the renovation of Book-Cadillac Hotel and the market entry of Hilton Garden Inn and Holiday Inn Express into downtown.

Countertrend success: Despite challenging economic conditions in the city and the region, the greater downtown residential market is doing well.

More than 2,400 residential units have been developed in the greater downtown since 2000. Approximately 1,400 of those units have been developed in the last three years, with good absorption. According to a recent housing study by Katherine Beebe & Associates, several developers reported they would not change their approach given the opportunity to do so, because the project performed well. People move to these areas, and move around within them, because they value a diverse, downtown urban environment. This study demonstrates that there is market demand for an additional 1,700 market-rate residential units in the next five years in the central business district alone. The challenge is making supply available at that pace.

Residents Downtown and in the Neighborhoods Oriented Toward Downtown Have More Demand for Local and Regional Retail than Previously Understood

Retail Demand by Category for the Downtown and Surrounding Neighborhoods, 2006



This chart describes the demand for retail services by the residents of the downtown and neighborhoods oriented toward downtown. Using multiple sources that capture current market realities provides a "lift" to the "baseline" purchasing power estimated by traditional trend projections.

More accurate estimates of the household income of the neighborhoods oriented toward downtown suggest higher spending in several key retail categories—including furniture, clothing, and restaurants.

Source: Urban Markets Initiative, Social Compact DRILLDOWN

By Adequately Serving Residents in the Downtown and the Neighborhoods Oriented Toward Downtown, Significant New Retail Can Be Supported

Retail Development Opportunity in Dollars by Selected Retail Categories, 2006

	Neighborhoods Oriented Toward Downtown	City of Detroit	Detroit Metropolitan Area
Clothing and Clothing Accessories Stores	\$14,666,090	\$289,116,509	\$470,834,105
Furniture and Home Furnishings Stores	\$12,294,949	\$128,298,963	\$196,201,294
Electronics and Appliance Stores	\$20,317,142	\$153,031,562	\$327,114,126
Sporting Goods, Hobby, Book, Music Stores	(\$19,936,436)	\$44,652,139	(\$508,403,692)
Food and Beverage Stores	(\$77,102,729)	(\$367,285,290)	\$237,672,489
Building Materials, Garden Equipment Stores	\$34,673,670	\$640,295,659	\$2,806,593,419
Food Service and Drinking Places	(\$127,705,665)	\$136,923,300	\$826,604,790

Food service and drinking places are a regional serving businesses that indicates the demonstrated opportunity to import spending from the metropolitan area. Demand for retail outstrips the supply of retail in clothing, furniture, electronics, and building materials. Furthermore, capturing a share of the demand by residents in the city of Detroit and the Detroit metropolitan area presents further opportunity justifying development. Note that the residential purchasing power findings are not inclusive

LEGEND

Positive figure indicate leakage or retail opportunity.
(Negative figure) denotes sufficient supply with some uses likely drawing demand from a larger area than downtown.

of the strong worker food and retail purchasing power conservatively estimated at an additional \$348 million annually for the downtown and surrounding neighborhoods oriented towards downtown.

Source: InfoUSA, Social Compact DRILLDOWN, International Council of Shopping Centers, Urban Markets Initiative Brookings, 2006

Retail Leakage Translates into 389,000 Square Feet to 23.6 million Square Feet of Retail that can be Supported in Downtown Detroit

Retail Development Opportunity in Square Feet by Selected Retail Categories, 2006

	Downtown & Neighborhoods Oriented Toward Downtown	City of Detroit	Detroit Metropolitan Area
Clothing and Clothing Accessories Stores	70,109	1,382,076	2,250,749
Furniture and Home Furnishings Stores	52,642	549,319	840,047
Electronics and Appliance Stores	71,932	541,801	1,158,131
Sporting Goods, Hobby, Book, Music Stores	0	158,089	0
Food and Beverage Stores	0	0	784,942
Building Materials, Garden Equipment Stores	194,785	3,596,965	15,766,493
Food Service and Drinking Places	0	474,374	2,863,792
TOTAL	389,000 SF	7,986,000 SF	23,664,000 SF

Updated estimates of the income distribution and population in the downtown and surrounding neighborhoods oriented to downtown indicate higher demand in particular retail sectors.

LEGEND

Positive figure indicate leakage or retail opportunity.
Null Values denote sufficient supply with some uses likely drawing demand from a larger area than downtown.

Source: InfoUSA, Social Compact DRILLDOWN, International Council of Shopping Centers, Urban Markets Initiative

DRILLDOWN Analysis of Grocery Sales Finds Over 125,000 Square Feet of Opportunity for Development

Map of Grocery Stores Larger than 2,500 Square Feet in Downtown and the Neighborhoods Oriented Toward Downtown

Although food and beverage retail shows sufficient supply according to the leakage analysis, grocery as a subset of that category shows opportunity based on an analysis of the competitive environment. Although grocery stores exist in the study area, there are no large national or regional chains active in the marketplace. Of the 67 stores categorized as grocery stores, 30 are smaller than 2,500 square feet—mainly convenience stores, not what is typically considered a grocery store. No store is larger than 10,000 square feet.

An analysis of revenue of existing grocery stores indicates that revenues are far above the average sales per square foot for a comparable grocery store. There is the potential to capture demand by developing a larger, full service grocery store.

The market opportunity for a full-service grocery store is \$38,086,000. This translates into approximately 125,000 square feet of grocery store retail opportunity.

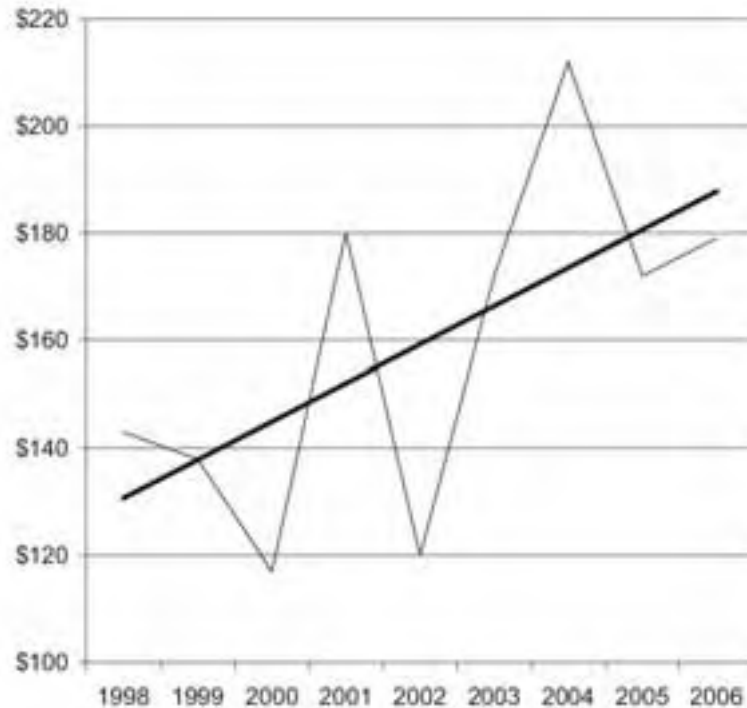


Source: InfoUSA, Social Compact DRILLDOWN, 2006

REAL ESTATE OPPORTUNITY - HOUSING

Downtown Housing Market is Strengthening

Average Sales Price Per Square Foot, 1998 - 2006



The value of residential housing downtown has trended upward since 2000 and averages \$200 per square foot since 2004. In 2006, average sales price per square foot was approximately a 50 percent gain over average sales value in 2000.

Roughly three quarters of units built since 2000 have been absorbed and the remainder (24 percent) are still on the market. Those units not yet sold, almost 300 in total, have been on the market an average of 21 months.

New projects were absorbed into the market at an average rate of 13 percent of the units in the project per month. This translates to an average absorption across all projects of 4.52 units per month that the project has been on the market.

Absorption of For-Sale Projects in Downtown Detroit, 2000-2006

	TOTAL UNITS	UNITS ABSORBED	UNITS REMAINING	% OF UNITS REMAINING	UNITS REMAINING: AVERAGE TIME ON MARKET (MONTHS)	AVERAGE PROJECT ABSORPTION (%/ MONTHS)	AVERAGE PROJECT ABSORPTION (UNITS/ MONTH)
COMPLETED PROJECTS	1074	841	235	22%	25	10%	2.13
PROJECTS UNDER CONSTRUCTION	177	112	62	35%	14	26%	15.30
TOTAL FOR SALE PROJECTS	1251	952	297	24%	21	13%	4.52

Source: Katherine Beebe & Associates for the Detroit Renaissance Lower Woodward Housing Study, 2006

Building on Key Development Sites Will Continue to Build Critical Mass in Downtown

Map of Existing Buildings and Vacant Lots, Identifying Potential Development Sites

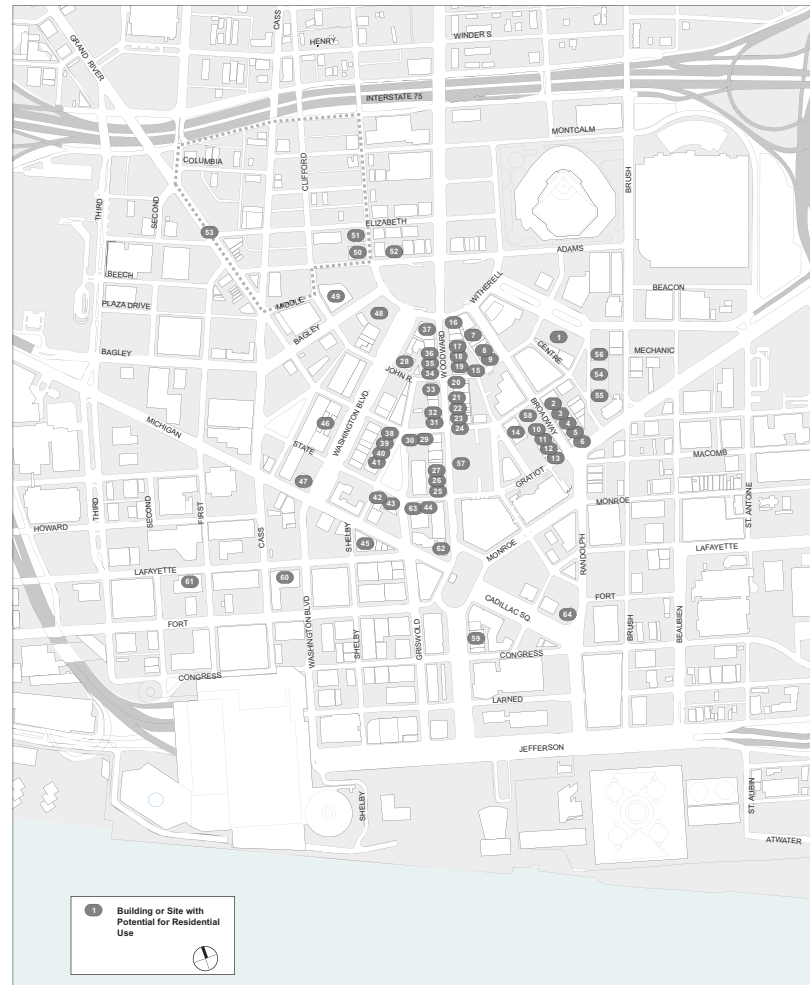
Studying recent representative residential developments in downtown Detroit, Katherine Beebe & Associates found that most of the new rental units in the greater downtown are located in mid- to high-rise projects in the downtown. The representative projects (The Kales Building, Lofts of Merchants Row, Lofts at Woodward Center, The Eureka) have added 442 market-rate rental units to the downtown market. Currently, these projects are about 92 percent occupied.

According to a survey of new residents, Beebe & Associates found that new residents see downtown housing as a wise investment, prefer urban environment, and are excited about Detroit's recent revitalization.

The pace of housing development in the greater downtown has increased since 2000. The pace has been above 400 units annually since 2003. Including all projects currently under construction, about 470 units will come online by the end of 2006. All projects surveyed are adaptively reused former commercial or renovated residential buildings. There has been no development of new-construction, market-rate rental units in the greater downtown since 2000.

Beebe & Associates has identified key development sites, with opportunity to construct an estimated 3,000 units, which is enough capacity to meet the expected demand for 1,700 market-rate units in downtown over the next five years. Building on this demonstrated demand in key locations will build the critical mass to continue the gain of downtown residents.

Source: Katherine Beebe & Associates for the Detroit Renaissance Lower Woodward Housing Study, 2006



CONCLUSION

Downtown Detroit has a strong and growing residential market with demand for 1,700 new housing units over the next five years.

Downtown and adjacent neighborhoods demonstrate 389,000 sq.ft. of unmet demand for clothing and clothing accessories; furniture and home furnishings; electronics and appliances; building materials and garden equipment; and an additional 125,000 sq.ft. of unmet demand for grocery stores.

Thriving entertainment venues are driving an emerging Midwestern perception of downtown Detroit as a visitor destination for trendy adults. Highly desirable parcels are available through the city of Detroit for signature headquarters-style office developments.

Investors and developers across a variety of markets looking for opportunities in southeast Michigan should strongly consider downtown Detroit.

METHODOLOGY

The progressive analytic methods used in this analysis for downtown development incorporated best practices in market research and new ways in which communities are now analyzing their unique data.

One significant method was the DRILLDOWN, pioneered by The Social Compact. Working closely with community and corporate leaders over the past decade and a half in Chicago, Cleveland, Houston, Jacksonville (FL), New York, Oakland, Santa Ana (CA), and Washington, D.C., Social Compact has pioneered an understanding of inner-city markets and created accurate, business-oriented profiles of these neighborhood markets through its Neighborhood Market DrillDown.

As the decennial census cannot provide current snapshots of neighborhoods and frequently undercounts within dense urban environments, the DRILLDOWN was established to provide a current population and market analysis for urban neighborhoods. The specific focus on the DRILLDOWN was to understand downtown Detroit and the neighborhoods oriented towards downtown. DRILLDOWN in neighborhoods across Detroit could find significantly more population, income, and purchasing power than uncovered in this analysis.

This analysis provides an alternative assessment of population, income, and housing that does not rely on dated decennial census data or private-sector updates. This study uses current municipal and national transactional data to take a current-year census through indirect

methods and provide an analysis of small urban geographies, which are prone to rapid shifts.

The DRILLDOWN builds on current, finely sieved, reality-based market information drawn from a spectrum of diverse commercial, proprietary, and local government sources (for example: tax assessment, building permit, commercial credit companies, and realtors).

The foundation of the Downtown Detroit Neighborhood Market DRILLDOWN is a real estate inventory derived from three core sets of data: private and public tax assessor data and building permits. Addresses were further validated using first source credit data and home sales data.

Buying power was assessed based on first source credit data reinforced by DRILLDOWN informal economy indicators, including locations of alternative financial service providers, the percentage of under-banked households, and immigrant populations.

Using this data, we developed the following indicators of market size and stability, noted on the next page, in "Definitions."

DEFINITIONS

Geographies of Study

Downtown central business district: Downtown Detroit is defined by the eight block groups defined by the area between the loop formed by I-75, I-375, and Freeway 10. Downtown Detroit contains over 6,000 people, is responsible for over 20 percent of the revenue for the city of Detroit, and employs over 80,000 people.

The neighborhoods oriented toward downtown: These neighborhoods immediately surround the downtown and have potentially strong ties to downtown Detroit, as determined by the downtown Detroit Partnership and the Detroit Economic Growth Corporation. This area consists of 70 block groups and over 7,700 acres. Analyzing downtown and its surrounding neighborhoods provides a broader context in which to understand downtown and its larger residential and retail base.

Detroit Metropolitan Area: Metro areas are established by the federal Office of Management and Budget (OMB) to represent a collection of highly populated communities that exhibit a high degree of economic interdependence. As such, they roughly characterize regional labor markets. Where metro-area-level data are presented in this databook, the Detroit metro area—which OMB designates as the Detroit, MI, MSA—consists of Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne counties.

Greater Downtown Detroit: As defined by Katherine Beebe & Associates for *Detroit Renaissance Lower Woodward Residential Market Study (2006)*, the greater downtown is composed of the districts New Center, Midtown, Central Business District, East Riverfront, and West Riverfront. These districts function together as a residential market. People move to these areas, and move around within them, because they value a diverse, downtown urban environment.

Census block groups: Block groups is a technical term for geographic areas that contain between 600 and 3,000 people, with an optimal population of 1,500. The block group allows for a fine-grained understanding of micro-dynamics within particular neighborhoods. Maps are used to describe the data at the block group level.

Indicators of Market Size and Stability

Households: The current municipal tax assessor records provide the foundation for the household database. Municipal building permits, sales records, proprietary real-estate data, and credit bureau data augment the data. In the U.S. Census, census trend projections, and the DRILLDOWN, a household is defined as an occupied unit.

Population: Population is determined by multiplying the number of households by a current estimate of the average household size for each individual block group. In Detroit, the average household size was modeled from commercial 2006 census trend projections and credit bureau information.

Aggregate Neighborhood Income: Aggregate neighborhood income is calculated specific to each block group's estimated average household income and number of households. Average household income is estimated using 2006 credit bureau data, Consumer Expenditure Survey estimates projected to 2006, and an informal economy indicator below.

Cash or Informal Economy: The informal economy includes income not reported to the IRS, such as cash transactions from earnings and tips. The measure of informal economy used in this analysis is modeled from a number of sources, including the Consumer Expenditure Survey spending estimates, the income estimates described above, and a survey of nontraditional financial institutions.

Retail Expenditures and Leakage: Current income estimates, retail expenditure patterns, and current proprietary business revenues were used for an up-to-date analysis of expenditures and leakage at the neighborhood level.

Homeownership: Homeownership is an indicator of neighborhood stability. Current estimates of homeownership are calculated using municipal data and credit bureau models of homeownership.

Baseline: The database line for 2006 is estimated data from Claritas, a leading market information and demographics firm.

Lift: The amount of increase gained over census estimates on the basis of the DRILLDOWN indirect census method.

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