THE FUTURE OF REAL ESTATE

PREDICTIONS BY THE U OF M NETWORK
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On Detroit’s Downtown Expansion to 20 Square Miles from 7.2

DETROIT CAN BECOME A FIRST TIER CITY

Over the next five to ten years, it is my view that Detroit has every opportunity to re-assert itself in the first-tier of American cities, at least from the perspective of what it offers to its residents, visitors, and businesses in terms of a center city experience. Our greater downtown is well on its way to becoming one of the more diverse and interesting city cores in the country, and based on our current trajectory, while we may never again have a shot at being the biggest city in the Midwest, becoming the coolest city in the Midwest is clearly within our reach.

“THE 7.2” CAN EXPAND TO “THE 20”

I believe we will see what we generally refer to as “the 7.2” - the 7.2 square mile area which most people think of as the city’s greater downtown – expand over the next decade to something more like the “20”. It is clear to me that the viable core of the city will essentially encompass the contiguous area bounded loosely by East and West Grand Boulevard, with a number of contiguous viable districts, such as Southwest, Boston Edison, and of course Indian Village. This area essentially represents the corporate limits of the City of Detroit around the turn of the 20th Century. Interestingly, it seems that our population is also on track to stabilize in and around the level of roughly 100 years ago.

POPULATION GROWTH POTENTIAL

The current influx of residents to the downtown core is really just the tip of the iceberg. Given the size of the metropolitan region’s population, and the inherent potential demand within that population for high-density urban lifestyle, I think it is entirely reasonable to envision an additional 15,000 - 20,000 residents in the greater downtown over the next decade. That would give Detroit a center-city population roughly the same on a relative scale to cities such as Cleveland and Minneapolis, and still well behind cities such as Baltimore. This of course assumes that we continue the current positive economic and policies trends of the past several years.
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On Office Markets, Workspace Trends, and Millennial Values

CHANGES IN URBAN PLANNING

Companies will continue to seek the vibrancy of cities to attract the intellectual class. Municipalities will continue to embrace mixed-use developments. Suburbs will need to become more walkable with more services to compete.

What will happen with parking? For the suburbs to survive, they need to become more diverse – like downtowns, they need to show mixed uses (retail, office, multi-family).

Cities will become more open to expanding the blended zoning uses that make their downtowns so attractive (allowing retail/multi-family/office to live symbiotically in an effort to eliminate cars/impervious surfaces) to the suburbs. Ann Arbor’s State/Eisenhower office/retail market is a perfect example – now a car-centric landscape, we need to make this area more pedestrian friendly by inserting pocket retail and multi-family towers. The savings from less impervious surfaces and not having to pay for cars will be reinvested into the quality of life.

While we will see autonomous cars, that will not end our desire to own our own vehicle. In big cities, autonomous cars may simplify the world of cabs. However, in suburbia, we will still need to park our own cars (not necessarily right next to our buildings since we can have the car drop us off at the office and then go to the closest parking facility). These facilities will be cheaper to build and maintain than current parking lots since they will not require all of the human safety features (lighting, walkways, etc.).

WORKSPACE CHANGES IMPACTED BY TECHNOLOGY (CONSTANTLY SHRINKING SPACE) & PERSONAL NEEDS (CYCLIC)

We know that space per employee has been consistently dropping, and I believe it will continue to drop to a point. Increased focus on productivity and flexibility combined with less space needs from fixtures, furniture, and equipment (FFE) has pushed the drop. However, counter to the constant technological improvements is that humans are social animals. And while the current trend is smaller workspaces and more collaboration, we’ve seen this before - the desire will fluctuate. Technology will allow better telecommuting for those individuals where it is appropriate, but it’s not always appropriate.

“While we will see autonomous cars, that will not end our desire to own our own vehicle.”

We’re getting better at understanding how important company culture is to productivity. Management is recognizing, more and more, that happy employees do better work, and space is a huge component of that. We will always need office space (think WeWork), but the format will continue to change.
As you look over time, even open space work environments have gone through cycles, from completely open space in typing pools of the 1950s, to the 6’ cubicles of the 1990s to provide people with more privacy, and now back to the shared work areas of the 2010s.

Will the next workforce demand more privacy? More offices? More individuality? For me, it’s important to be able to display photos of my kids – but the current generation entering the workforce is only just starting to have families. Will they want a personal space to display their family photos some day? Either way, we need to consider how we construct office buildings to be able to accommodate for this. Furniture systems will come into play more where entire offices and conference rooms may be more easily manipulated (but with better sound proofing than current collapsible systems). How long will the footprint required by office users continue to shrink? At what point will the millennials find themselves with families and going suburban when parking is cheaper?

As business’ swings become more severe and the world becomes more volatile, we’re seeing both small and large companies shying away from long term commitments for space. So how do we get buildings built on five year commitments? How do we do a custom build-out on a three-year lease? At the same time, lenders are getting tougher, with their underwriting and widening spreads to handle Dodd-Frank. And of course, municipalities are making new construction more restrictive. The net result suggests that new construction of office space will become more difficult. If that’s the case, the value of existing buildings will rise so long as the markets they are in are strong, because it will be more practical to acquire and improve than to build new.
On Detroit as Seen from St. Louis and Multifamily Trends

**MILLENNIALS WON’T WAIT**

The political infrastructures of Metro Detroit and St. Louis are dysfunctional. One of the biggest differences between Gen X and millennials is that the latter simply don’t care. They don’t care that Brooks won’t go south of 8 Mile. They don’t care that Kwame’s in jail. They don’t care that race has dominated headlines for 200 years. And despite a relative sense of entitlement, they won’t wait for the establishment to fix any of it. They will create and use an Uber. They will walk where their parents didn’t with the aid of a security app developed the weekend before.

One might call Dan Gilbert impatient; I call him a philanthropic realist sick of waiting. I see more of this from the millennials and Gen Z’s that he recruits. A 20-something tech company founder explained this to me earlier this year. When the taxi union had rendered St. Louis the only metro area in the nation’s top 250 without Uber, he was clear: “You aren’t going to stop it. Uber will happen. It’s just a matter of when.” We went on to discuss New York hotel magnate Jonathon Tisch’s admission that AirBnB is inevitable. The hospitality industry needs to learn from it, not block it.

There is little debate that bigotry wanes with time. Maybe not fast enough, but year by year, kid by open-minded kid, we turn the page on separation. Just like mixing uses, we’re mixing ourselves. Political leaders in Detroit had better get on board. That means regional mass transit, consolidated public services, and integrated job creation efforts. There are only so many Gilberts, and the youth will not wait. Look for these kids changing the region by themselves.

**JOB GROWTH AND IN-MIGRATION**

I think stakeholders should be careful to not lose sight of multi-family’s true drivers: jobs and in-migration. (But for weather and the rare entertainment-based economy, jobs and in-migration are one in the same).

The lowering of the homeownership rate produces tens of thousands of rental units for a metro area. Such growth is deck-share shifting but for in-migration. Millennials will eventually seek stability and schools. Entertainment-rich zones are not long term housing drivers unless and until they cross over to entertainment economies (e.g., Austin, Vegas, Nashville).

I foresee a continued drive toward mixed use, smaller residences, public spaces and public transit, but all of that is, in the long run, secondary to job growth. I shudder to think what this year’s topic would be but for Blue Cross/Blue Shield and Quicken Loans.

**ADVANTAGES OF GEOGRAPHY**

One of the most underrated aspects of Metro Detroit is its geography. Chicago, Cleveland, Indianapolis, Nashville and St. Louis offer little competition when considering SE Michigan’s tremendous natural landscape. Such beauty – from Macomb’s shoreline to Oakland’s tree-lined lakes – does not make the front page. You have to live it to get it.

It’s ironic that the suburbs may play a big role in attracting folks to Detroit proper. But I predict that despite the region’s expanse, a short drive to vacation-like living will gradually shift Detroit’s national reputation from one of concrete to one of greenery.
On Affordability, Creative Buildings, LEED, and Building Codes

**AFFORDABILITY**

Cities that thrive will make sure people can afford to live close(ish) to where they work. Portland, OR is an interesting case study. The city has a number of incentives that are costing the city nothing while directing growth and density where desired. For example: meaningful density bonuses for including affordability and/or locating new development where the city most wants it (transit hubs, etc). This can result in a windfall for developers, but potential profits have not derailed the conversation. It appears that the ruling opinion is: who cares if developers make money if the City gets development in the right areas? In contrast, Denver has no vision when it comes to serious affordability concerns. Their one effort has been to create a byzantine system grounded in a new tax to build funds for affordable housing. This is likely to frustrate the business community and do squat to help affordability. So while the city has benefitted from tremendous in-migration – a trend that is predicted to continue – the lack of affordability here is finally starting to have a ripple effect, and business owners are concerned.

**CREATIVE BUILDINGS**

All the high rises I worked on activated as much of their space as possible. Rooftops had gardens and shared amenity areas; property management happened not in back offices, but in well-lit lobbies, etc. I think this has been de rigueur in coastal cities, but I’d be surprised if it doesn’t become increasingly prevalent in all urban areas, regardless of whether space is at a premium. The coolest project we worked on involved designing a rooftop greenhouse that would have used the excess waste heat from the building as its heat source, and created a 12-month growing season, providing fresh veggies and herbs for the tenants and neighbors. (Unfortunately, the greenhouse didn’t get built, just designed. When I do my first high rise as Turnbuckle I’ll make sure it includes a net zero hydroponic greenhouse!)

**CODE**

It would be cool if American building codes could try to keep up with European innovation, as well as create space and allowances for experiments. As you know, I’m a big proponent of the LEED system (because without a true third party verification, ‘green’ stuff is pretty much bullshit, even if it survives VE), but we wouldn’t need ‘extra’ systems if our code could keep up. Code: so boring but so necessary.
On Construction Issues: Skilled Trades, Adaptive Reuse, and Smart Buildings

**REGULATION & LACK OF SKILLED TRADES**

The two most significant challenges that we face in construction are regulation and an increasing shortage of skilled trades. The regulatory environment is driving up the cost of development. Positive examples include storm water management and regular improvements to the energy code. They are improving the quality of the built environment. Negative examples include arbitrary municipal programs that tax new construction, without any special assessment to existing building stock. Ann Arbor fees for footing drain disconnects, affordable housing, and sewer/water connections have dramatically increased the cost of new development and placed the burden of solving macro social and infrastructure issues on a small number of new construction projects.

The unintended consequence of excessive regulation in codes and ordinance is that it is driving up occupancy costs in every product type and limiting the ability of the real estate community to quickly respond to the needs of the residential and business community. Ultimately, this creates a less competitive region for economic development. The regulatory issues can be addressed at a local, state, and federal level with some common sense policy reform.

The lack of a skilled workforce will need to be addressed with sweeping changes to our education system that provide incentives and opportunities for trade schools to become a respected alternative to a college degree. There is more demand for plumbers and electricians than lawyers, and we need to change the middle class perception that trade schools are for kids that are not smart enough to go to college.

**ADAPTIVE REUSE OF BUILDINGS RATHER THAN NEW CONSTRUCTION**

As a result of the regulatory environment creating difficulty with permitting and financing, our construction business has shifted from primarily new construction to the adaptive reuse of existing buildings. Existing buildings continue to trade at a discount to new construction, and they create an opportunity to avoid expensive compliance with all new codes. Finally, they allow for relatively quick delivery of construction.

There is a positive environmental and social impact to the reuse of aging and obsolete building stock. However, as stated above, there is a negative social consequence of a lack of new construction when there is real demand, but the project economics/feasibility is distorted by regulation and lack of financing.

“Now that technology is an important part of building planning and design, the rate of improvement to building performance should change rapidly.”
SMART BUILDINGS

The construction industry has lagged behind the rest of the economy in adapting available technology to improve building performance. However, the Green movement has brought focus to energy efficiency, indoor air quality, efficient transportation, and better planning of the built environment. Building operating costs remain a small percentage of occupancy cost. Low energy cost, for example, is not driving change. However, demand from an increasingly educated building user is finally pushing the adaptation of available technology into everything from better building materials, more efficient lighting and mechanical systems and better transportation infrastructure.

Now that technology is an important part of building planning and design, the rate of improvement to building performance should change rapidly. The only limiting factor should be how quickly the vast amount of new technology can be commercialized. This should result in everything from building materials that can be printed from 3-D printers, to building systems that can be controlled from the smart phones of each individual occupant. Ultimately, I would expect that smart buildings will use sensors, controls and algorithms to monitor everything (ambient noise and lighting, thermal comfort, air quality, building security, structural defects, moisture and pest infiltration, etc.) Buildings may even have an adaptable external skin, like a living organism, to change their appearance and performance in seasonally different weather conditions.

Futurist Ray Kurzweil predicts that 2045 is the date of the “singularity”, when artificial intelligence will surpass all human intelligence. If he is correct that we are at the elbow of an exponential technology curve, then buildings that can self-monitor, self-diagnose and self-adjust should be built over the next few decades. Improvements to alternative energy and battery technology may allow us to meet a rising power demand with efficient, cheap, clean, localized systems. That is important in the United States, but it is much more important in the developing world. I just returned from spending two weeks in China with my Chinese-born daughter. The massive urbanization of these transitional countries will certainly drive all the changes described above to mitigate environmental and social problems.
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On Millennial Trends

BRICKS-AND-MORTAR RETAIL

I do not see brick-and-mortar stores vanishing completely, but I do think that they will continually become more of a luxurious, status-y type of thing. With the rise of e-commerce, no one wants to run to Target to pick up a roll of paper towel. It’s too big and cumbersome a process to find a simple item.

On the other hand, I think that walking into a Coach or Gucci store will always have that same “Breakfast at Tiffany’s” type of experience, and these high-end retailers will be the ones who have physical stores. Think fine China, renowned designers (like the Varvatos store on Woodward), and boutique furniture shops. I think these will be easier to find than a Best Buy or other large retailer in the next 20+ years.

It was the same concept back in the Roaring ’20s. Going to Hudson’s was an experience, and customers dressed to the nines for going out like that. I believe that my generation will slowly move toward something like that when we can do 90% of our necessity-based shopping through Amazon.

JOBS

Location will ultimately determine where a lot of jobs go. Piggybacking off my point above, I believe that our economy will become increasingly logistical.

When we think of people on the manufacturing line at GM, we think of the usual middle-class job. I am inclined to believe that a new “middle-class” job won’t be in the manufacturing industry, but instead in the logistics business. People will be loading and unloading products into large, big-box warehouses for shipment, rather than building cars. Managers will determine shipping routes. Executives will be doing their best to land deals with various regions. It will be an interesting situation for American business in general.

This will mean that jobs in areas that are close to high-population areas will pop up, which is another reason I think Detroit is primed for a renaissance. The last article I read stated that nearly half the US population is within a 300-mile radius of the city. With the warehouses and distribution centers we already have located in the rough MSA of the city, the infrastructure is set for a lot of businesses to use the area as a shipping and processing hub.

RENTING INSTEAD OF BUYING

Home ownership will become a thing of the past. People my age don’t have enough of an idea of what they want to do 5 years down the line to purchase a home. They live year-to-year or month-to-month as far as their professional careers go. For many people, my age that means they would rather rent than buy - and I think that trend will continue as long as we flock toward city centers rather than suburbs.

This has a two-pronged effect: 1) developers will most likely enjoy higher rental rates as demand for these spaces continues to soar; and 2) developers will have to adjust their contract terms to reflect this change in consumer preferences - I don’t think it’s unreasonable to see the common lease for an apartment to be on a quarterly or semiannual basis rather than a yearly basis.

Of course, the second of the two prongs provides less stability for developers when they build or renovate these living areas. However, it will work in their favor if rental rates increase dramatically in a period of time. The flip side of that situation, though, would present a lot of risk to property owners and developers.
On Apps Impact, Millennial Family Trends, and Suburbs

APP-MEDIATED EXPERIENCE

More and more, we see Twitter and Yelp influence where people go, Waze and Uber tell them how they get there, and Instagram and Pokémon Go shape how they interact with a place when they get there and how they tell others about it. Having all of this information and connectivity in your pocket is still extremely new, but over time should heighten the advantages of unique, interesting places over more generic landscapes, while also reducing the cost (time and money) of moving around dense cities.

MILLENNIAL FAMILY HOUSING

Yes, Millennials’ housing needs will change as they have kids, but many will still want to live in or near a downtown, where they can walk to the park and the library and the coffee shop, rather than strapping the kids into car seats a dozen times a day. Millennials with kids will often be priced out of the hottest downtown districts - Midtown Detroit, Ann Arbor, or Birmingham - but will continue to drive demand for walkable urban housing options in smaller downtowns, like Ferndale, Dearborn, Plymouth, and Ypsilanti, and in near-downtown neighborhoods.

“Millennials’ housing needs will change as they have kids, but many will still want to live in or near a downtown…”

SUBURBAN COMMUNITIES EVOLVE (OR PERISH)

Too many of our communities are competing for residents with the same value proposition they’ve offered for 50+ years—“entry-level homes with good parks and schools, and good freeway access for commuting”. The metro Detroit region is already oversupplied with this type of housing and neighborhood, and the population of school-aged children will only decrease in coming decades. Not many communities will be able to stick to this formula; most will need to change, whether by choice or by default. Some suburban communities will be able to stake out an identity and a niche for themselves, most likely by creating small town center areas (or recreating them, where traditional centers have been neglected over time) and diversifying their housing options. Others will fail to adapt to change, and those without significant place assets or natural amenities will likely see accelerating loss of residents and businesses.
On the Sharing Economy, the Detroit Brand, and Design Excellence

THE SHARING ECONOMY WILL CONTINUE TO GROW

We will see apps and infrastructure created that will not only push technology forward, but will also effect the built environment and how we experience it. The Millennial generation’s desire to share, experience, and interact with one another will drive a lot of what happens. Multi-family amenities will shift away from the standard clubrooms and small fitness centers to a network of shared amenity space, enriched with technology and interaction. Retail space will search for authenticity to provide an experience for its patrons.

DETROIT WILL CONTINUE TO REDEFINE ITSELF AS A ‘MAKERS CITY’

An influx of artists, entrepreneurs, artisans, etc. has created a landscape that has captured an international audience. This is evident in the UNESCO City of Design Designation and Detroit being featured at the Venice Biennale. Detroit is thriving on the energy of the creatives as we repeatedly see stories of new companies, public art, and exhibitions. Lastly, more companies will find value and success in the ‘Detroit Brand’ just like Shinola Detroit has.

“Multi-family amenities will shift away from the standard clubrooms and small fitness centers to a network of shared amenity space, enriched with technology and interaction.”

THE IMPORTANCE OF DESIGN EXCELLENCE & AFFORDABILITY

The importance of design excellence & affordability will not be overlooked, especially for city and public approvals. Cities will be judged on the design of the buildings being built and the quality of their affordable housing, and they know this. In Detroit, their planning design staff will insert themselves early in the process, and if you are going for any public subsidy (most projects do), there will be an affordability requirement. In the larger picture, part of Detroit being an attractive place to live is that it’s relatively affordable compared to other major cities. People will continue to move here for that reason.
On P3, Wellness & Health, and Resiliency

**P3**

Public Private Partnerships (P3) will be critical to Detroit’s resurgence, especially for the infrastructure (transportation, digital, civic, etc.) as you saw in Long Beach. In general, P3 is in a very early stage in the United States compared to the rest of the world, and its potential is huge, especially in places that cannot afford to pay even current operating/maintenance of existing infrastructure.

**WELLNESS & HEALTH**

Wellness and health are the next big sustainability things; check out the WELL standards coming out of Delos/Mayo clinic. The impact of the horizontal and vertical built environment on our human wellbeing is finally getting the attention it deserves, and will become the next major lens through which we evaluate design/projects.

**RESILIENCY**

Resiliency, including the City Resilience Index, will become a critical lens for urban development. Detroit’s collapse showed its lack of resiliency (corrupt politicians, overly concentrated economy, lack of high value skills development, lack of educational infrastructure, etc.) A critical measure of city success going forward is how it responds to shocks and stresses. Detroit will need to focus on learning the lessons from its past and not repeating the mistakes. I’m optimistic it will.

“A critical measure of city success going forward is how it responds to shocks and stresses.”

Brian Swett
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On Infrastructure, Greening of the Cities, and Affordability

**INFRASTRUCTURE & LAND REDEVELOPMENT INVESTMENT**

After spending a majority of my career working as a land development manager for large scale public-private partnership economic development projects in Detroit, I predict that there will be more political consensus and support for ongoing and deliberate capital investment in infrastructure renewal in order to support commerce. It will specifically help businesses that have done their homework and see the value in locating and/or staying and expanding their operations and facilities in central cities. I also am optimistic that there will be more focused funding made available to cities to assist land developers to more swiftly acquire, assemble, clear, reconfigure, and consolidate underperforming and blighted land. Such support will increase the likelihood that the newly assembled land parcels will be brought to a higher and better use by the marketplace, and put the city on a path towards more financial independence than subsidization.

**THE GREENING OF CENTRAL CITIES**

In some older, central cities like Detroit and Cleveland, some vacant and underutilized land is ideal for repurposing for commercial and industrial uses, while other underutilized areas will be absorbed by the market for neighborhood retail and housing product due to the demand and the proximity to more stable areas. There will, however, continue to be areas of the city with little market activity and investment, lower density population, and growing land vacancy, among other challenges. Community development entities, fueled largely by the philanthropic sector, in Detroit, Cleveland, Buffalo, and cities like Youngstown have been at the forefront of finding ways to transform vacant and blighted land into pastoral and functional landscapes that do everything from beautifying neighborhoods, to helping cities mitigate storm water runoff. These landscapes can be configured around existing open space and recreational pathways, such as existing streets, parks, and rails-to-trails networks. I predict that we will see maturity in the way that vacant land treatments such as these are designed, how they function, how they will be maintained over time, and how they can positively influence property values.

**CLOSER RELATIONSHIP BETWEEN DESIRED EDUCATIONAL OUTCOMES AND INDUSTRY NEEDS**

While it’s an indirect factor, having and keeping a job is one of the key quality of life components. The more people are involved and contributing to Detroit’s economy, the better off we all are. What’s encouraging is that I’ve observed how many local business owners and leaders today are not under any illusion about what they will need in order to survive, sustain, and grow in the marketplace. They need good, qualified folks, and for some, the pipeline is under delivering.

Detroit, Cleveland, Buffalo, and cities like Youngstown have been at the forefront of finding ways to transform vacant and blighted land.

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As a result, businesses are being more aggressive about trying to bring closer desired educational and job training funding with their desired employment and retention needs today, and in the near future. For example, some of them even lead the training themselves, and offer internships to young people to expose them early to the possibilities. I predict that in the short term, the involvement of the local business leadership in metro Detroit to drive change will gain more steam and over time, will gain more community support for their efforts. Through dogged persistence, there will be successes in the pursuit to find better coordinated pathways for people young and old to be educated, and educated in something that will make them valuable and contributors to our modern and dynamic economy of which we are all intertwined.

**FLEXIBLE AND AFFORDABLE HOUSING POLICY**

Given the demographic and population characteristics of those who current live in or are moving to central cities, there will be growing need to adapt local land policy/ laws to allow existing and newly built housing to be used/designed to accommodate:

- The millennials/ Gen Y
- The elderly/ disabled elderly
- Veterans/ disabled veterans
- Anyone who, for a myriad of reasons, find themselves facing the responsibility of caring for children, siblings, elderly relatives, immediate and/or extended family, etc.

Generally speaking, older suburban areas and central cities have intact infrastructure, pockets of existing affordable housing stock in decent shape, relatively low land values, intact public transportation systems and medical centers, and typically have a more comprehensive and “tweakable” zoning ordinance in place. These attributes make these cities well suited to take advantage of these needs, especially if other factors such as public safety and access to better educational opportunities, can be improved over time.
NEW GROWTH ON THE EDGES

We’re going to see growth on the edges of different pockets in Detroit, which will eventually encompass the entire city. Even though the city itself has had mixed fortunes throughout, parts of it have remained very stable and have been quickest to grow. These areas, such as Downtown, Midtown, and Boston Edison (among others) will eventually be completely built up or renovated. As a result, developers will look to expand from pocket to pocket, gradually knitting together different parts of Detroit.

COMMUNITY ENGAGEMENT

We will need to come up with new ways of engaging the community. A major difficulty of developing in areas with preexisting residents and communities is the pushback developers receive. It doesn’t matter how legal the process is - if the community doesn’t want you there, something has to be done. It’s also a major concern of people who are not from Detroit when thinking about investing in Detroit. Why invest in a city where the residents are forcing me to consider all the stakeholders, when I could put my money somewhere else with people who are easier to work with? However, the views of community members who expect more from developers are fair after experiencing and living through years of broken promises, corruption, and lack of support. But community members and new developers and investors don’t have to be enemies, and I think new models of companies and organizations will come about, with different equity models or voting structures perhaps that make sure that everyone benefits from Detroit’s revival.

DETROIT’S COMEBACK TIMELINE

It will take a long time. A common negative response to “Detroit is coming back!” is “People have been saying that for years.” Well, neither group is wrong. It’s impossible to pinpoint exactly when Detroit began declining from its industrial glory, or when the current upward trajectory began. It hasn’t been a straight decline and then an exact rebound, and the path forward will not always be positive. But Detroit was definitely declining for at least 30 years, and it will reasonably take at least as long, possibly longer to bring back the number of people who once lived there. It’s going to take a while to reposition and rebuild the city; Rome was not built in a day. That being said, there weren’t any Detroiters on that particular job.

“Developers will look to expand from pocket to pocket, gradually knitting together different parts of Detroit.”
On Incentives, Environmental Remediation, and Assessment

**INCENTIVES**

In the next five years, the Detroit market will be stabilized to the extent that incentives will primarily be needed for the most environmentally and structurally challenged properties, and that the demand for new construction will focus attention on those challenged properties. Municipalities will be looking for more cost sharing when providing incentives, and will focus those incentives primarily on the tasks necessary to create development ready properties, leveling the costs for urban versus suburban development.

**ENVIRONMENTAL REMEDIATION**

Environmental remediation will be more presumptive, with standard construction details providing protection for human health on all but the most impacted properties. This will make development on urban and contaminated sites more cost effective, and more similar to suburban sites.

In the next five years, the Detroit market will be stabilized to the extent that incentives will primarily be needed for the most environmentally and structurally challenged properties…

**ENVIRONMENTAL ASSESSMENT**

Environmental assessment will focus almost exclusively on indoor air and groundwater impacts, with presumptive remedies for soils impacts. Agency enforcement will focus on owners’ obligations to operate contaminated properties so as to protect human health and the environment (Due Care Obligations). This will lead to developers being more proactive in constructing low-impact and green buildings.
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On Brick & Mortar Stores, Shopping Malls, and Detroit’s Rebirth

Interviewed by Peter Allen on August 17, 2016.

THE ROLE OF THE SHOPPING MALL AND BRICK AND MORTAR STORES

Amazon did $94 billion last year (including Zappos). Gap is downsizing from 24 to 12 stores. Bricks and mortar are terrified - only the best brick and mortar will thrive. The “experience per square foot”, not sales per square foot, is the new metric for store success. Everyone has to repurpose old shopping centers if they want to survive. They’re adding food, beverage, residential, and whatever else will drive new trips (especially multiple trips per week). The goal should be to make the consumer’s meal experience part of their social and activities experience for that day too.

“...The “experience per square foot,” not sales per square foot, is the new metric for store success.”

DETROIT’S REBIRTH

All of downtown Detroit needs place making. Turn everything upside down. Then use the faster, cheaper, and quicker formula - pop ups work really well, for example. Detroit is an industrial city going through rebirth. Detroit is the underdog story of America; the connection is automotive, hard-working, blue collar. Everyone I meet is optimistically predisposed to helping the city. We should emphasize the core of Detroit, and that it will grow organically. But keep the generational timeline in mind!
On Interest Rates, Multifamily Development, and the Single Family Home Market

**RISING RATES SHOULD NOT IMPEDE GROWTH**

Long-term interest rates will only rise by about 150bps over the next three years taking the 10-year treasury out to approximately 3.05%. This is still incredibly low from a historical perspective. Interest rates will not be an impediment to real estate growth. New development growth will more likely be stalled by a slowdown in equity capital as opposed to debt.

**SOFT LANDING FOR MULTIFAMILY DEVELOPMENT**

Multifamily development will slow from 2016 to 2019, not because of severe overbuilding like in the past. Any slowdown will occur submarket by submarket and not like the 2008 downturn where it affected all markets at once. Very few new multifamily only closed-end funds have been approved by pension funds in vintage years 2015 and 2016. The bulk of new pension fund investments for multifamily were in vintage years 2010 to 2014. This has already caused a slowdown in the flow of capital that we will see take effect in Q4 2016. It will result in a bump up in cap rates and a natural slowdown in Class A+ trades. I would call this a form of self-policing. Also watch for debt that was readily available at 70% loan to value to move toward 65% LTV. This is another form of self-policing. It is this slowdown in equity and self-policing in debt that will help multifamily have a soft landing, because all of the other fundamentals are extremely strong. As the vintage 2010 to 2014 closed-end funds return capital in 2018 to 2022, we will see another surge of equity capital deployed in multifamily and creating nice rebound from 2019 to 2023.

**DEMOGRAPHIC HEADWINDS FOR SINGLE FAMILY HOME MARKET**

The single-family home market is dead and will remain so relative to the mid-2000’s. The reason it will continue down is because there are more people dying than buying. The massive number of baby boomers leaving houses will eclipse the number of millennials looking to buy. Millennials will choose to live differently than baby boomers. This will create opportunities for townhomes and condos in urban areas as well as teardowns and renovations in inner ring suburbs at a pace not seen before. These are reasons to stay small and nimble in the single family business. In addition, be careful of the student loan debt crisis causing millennials to delay the decision process by more than just a few years.
On Residential Consumer Groups, Remodeling, Infill, and Autonomous Vehicles

FOUR MAIN GROUPS OF RESIDENTIAL CONSUMERS

Pre-family consumers prefer walkable communities. Presently this group does not value owning, which is likely due to their observations of the 2007-12 economic times, but that will change as inflation grows. They have small needs so smaller spaces are acceptable. However, studios/micro units may be more of a short-lived fad than a long term trend because human nature dictates that people always want more and get claustrophobic. Once the novelty of walking to the same places starts to wane, people will want new experiences. Landlords turnover costs will increase as a result, so developers will eventually build more 1 bedroom & spacious residences and places with more common amenities to retain people for longer periods.

Families with children in K-12 school years want to be near other same-aged kids for carpools (until autonomous transportation takes over). Common areas/parks are a plus, but most will accept the suburbs because in-town locations like Birmingham and Ann Arbor are very costly. If city planners allow for more density, this group of consumers will prefer communities with smaller lots that are more front yard-friendly, instead of sprawling yards with only private backyard spaces.

Empty nesters want to purge all the clutter they accumulated while they raised their families. They now see the home as a place to serve them, not the other way around. They will gravitate to smaller overall homes with less rooms but updated quality and less maintenance. Those that can afford it will also choose to have multiple homes in different parts of the country (Peter Allen predicted this when I was a student in the early 80s!)

Assisted Living has been under-supplied, but lots of supply is now in various stages of development. There are not many experienced operators, and experts forecast future consolidation in the industry as many underestimate the costs and labor required. Currently there are outsized profits, but as supply grows, consumer prices will flatten/drop.

OTHER TRENDS

Growth in remodeling will continue. For example, turning living and dining rooms into 1st floor bedroom suites (often for grandparents) or using space to expand kitchens, as well as eliminating a bedroom to expand the owner’s suite with a larger closet and bathroom. HGTV and Pinterest propel this demand.

Infill development, like tearing down schools for residential communities, and replacing industrial, retail, office properties, and older single family homes with updated versions. Also, adaptive reuse of shells of buildings will continue to gain popularity.

In the longer-term, autonomous vehicles will create major changes in how real estate is used: Residents will no longer need multiple bay garages (another boomerang conversion space?) Parking lots in high visibility/traffic locations will get used for new construction, parks, etc.
On Inclusive Growth, Age-in-Place, and Increasing Walkability

INCLUSIVE GROWTH

Inclusive growth means how we revive urban neighborhoods, attract redevelopment, and new residents while providing and including current residents - an alternative growth model to gentrification. Detroit has the land resources to be a leader in this type of urban redevelopment. Retain diverse communities with mix of incomes, abilities, backgrounds.

There is not only the need to address key services, such as schools, but also the appropriate diversity of housing typologies, safety, and a keen understanding of how children and parents interact with the city.

AGE-IN-PLACE

There is interest in urban living at both ends of the demographic spectrum, from young millennials to empty nesters. How do cities, public spaces, and architecture respond to the needs of a wide age-range of users? High quality design for youth to seniors, and moving away from single-use "senior housing" projects to mixed communities with a wide spectrum of ages. Crucially, this will also include how cities can adapt for families and keeping young millennials interested in urban lifestyles in the city as they begin the next phase of their lives. There is not only the need to address key services, such as schools, but also the appropriate diversity of housing typologies, safety, and a keen understanding of how children and parents interact with the city.

INCREASING WALKABILITY

The demand for denser, walkable neighborhoods is at a premium. How can cities that have been built around the automobile retrofit themselves for transit and biking, and infill to create more of the types of built environment that enable a walkable lifestyle? Changes are needed to zoning and regulation, parking requirements, public investment in streets, and transit and infrastructure for pedestrians and bicycles.
On the Spirit of Detroit, Disproportionate Wealth, and Third Places

SPIRIT OF COLLABORATION

Detroit’s economic history in the 20th century was marked by a fierce competition between three main motor vehicle companies. The surge of business growth in Detroit over the last several years has looked different in many regards, but there is one attribute in particular that I believe is worth highlighting: in the midst of intense competitiveness lies a spirit of collaboration and support. Although I am not so naive to think this goodwill spirit is pervasive in every industry, I have often witnessed a beautiful display of collaboration between people and organizations to support small business growth and budding entrepreneurs.

DISPROPORTIONATE WEALTH

One of Detroit’s big economic and real estate questions to solve: will more black people own land and businesses in the city? Despite the city’s 83% black population, there is a disproportionate amount of property and businesses owned by the black people who live in this city. Money is power and wealth disproportionately lies in the hands of white people. I see more and more people drawing attention to this socioeconomic issue. In order to shift this trend, there needs to be more education on racial issues in real estate, government policy and public/non-profit programs to support minority entrepreneurs, financial investments in minority-owned businesses, and collaboration between people of different ethnicities. One example of work being done to shift this trend is Peter Allen’s Real Estate class. He has a focused mission to equip the people in Detroit to buy distressed properties for their own use (out of three classes of 25 students each, 85% of the students identified as black).

THIRD PLACE DEVELOPMENT

There should be more development of “third places” from Downtown Detroit to the neighborhoods. It’s happening and needs to happen more! If people’s first and second place are their home and work, what’s the third place they go to spend time with friends and family? This could be anywhere from a children’s playground in a gorgeous park, to a city block packed with restaurant and retail business, or a neighborhood farmers market. Third places help create a sense of place and foster interaction. They are places of neutral ground where people from many walks of life feel comfortable.

“In the midst of intense competitiveness lies a spirit of collaboration and support.”
On Buying & Working Local, Home Ownership, and Public Transit

SHOP SMALL, WORK SMALL

In Detroit, and likely in many cities across the country, Millennials are opting out of traditional career paths. I believe that in Detroit we will begin to see an increase in the number of start-up companies, as well as individuals working for themselves as artists, designers, and makers of anything from specialty food products to ceramic planters and clothing. Younger people do not want to be restrictively tied to a job that may not represent their best interests. As we are all aware, gone are the days when one graduates high school, gets a job at a plant and patiently waits decades for the security of a pension. The employers are less loyal to their employees, so employees have become less loyal to their employers. Indeed, many prefer to start their own company and be their own boss. This shift pairs nicely with the desire to support locally owned and minority-owned businesses. Millennial consumers enjoy the idea of being able to purchase a majority of their goods within the local community. If financially feasible, Millennials desire sustainability, ethical sourcing, and being loyal to one’s local economy, even if it means paying a premium for the goods. Detroiters spend an alarming amount of money outside of the city each year. We are ready for a new paradigm in which the proliferation of small businesses located within one’s neighborhood allows Detroiters to spend a majority of his or her money within the city limits, while also drawing individuals from outside of Detroit to support retail. Detroiters want and will create larger pockets of self-sustaining neighborhoods. Mayor Mike Duggan’s 20-minute neighborhood plan, starting with Fitzgerald around McNichols/Livernois, and Southwest near Clark Park and West Village, in which residents can walk or bike 20 minutes from their home to get whatever they need further proves that is important to Detroit.

"Millennials resist cookie-cutter houses in aesthetically boring subdivisions. We want homes with character, emotion and are willing to work to add our creative stamp to our residence."

EARLIER HOME OWNERSHIP & FOR CREATIVE USES

Decades of Detroit on the decline led to a surplus of distressed homes. While home prices begin to slowly rise in some areas, others remain outrageously low. Some see this as a sign to stay out of the Detroit market, while resourceful and far-seeing individuals jump on the opportunity to get involved at the ground level. In this sense, Detroit presents an opportunity for younger individuals to own homes, a role traditionally reserved for older adults and married couples. Younger people see home ownership in Detroit as an investment in the city and for the city.
We already enjoy and will continue spend time outside of the boundaries of Downtown and Midtown, places where older individuals (including our parents) would not dream of visiting. We push back against the history of denigrating Detroit and, instead, want to coexist with a diverse Detroit community. Millennials resist cookie-cutter houses in aesthetically boring subdivisions. We want homes with character, emotion and are willing to work to add our creative stamp to our residence. Homeownership will not be reserved for families ready to embark on their next stage in life, but for the hardworking, the younger and the creative class as well. Younger people can see the potential and have the time (or will make the time) to work on improving their home’s condition. Artisans may ask themselves, why rent out studio space and an apartment if I can buy a spacious house to do just the same? As such, the home becomes less of a private place and more of a community-gathering hub. Detroiters love to show off their rehab work at a Brick + Beam Detroit potluck dinners, maintain the community garden with neighbors, and host free weekly yoga classes for their block, amongst other inclusive activities. In fact, from record stores to ice cream shops, Detroiters are already cashing in on the benefits of operating a business from one’s home. It will be interesting to watch trends in zoning changes to see if the city government embraces this idea as much as the community.

PUBLIC TRANSPORTATION, JOBS, & POPULATION

With one of the most inefficient and disjointed public transit systems of any major U.S. city and surrounding metropolitan area, Metro Detroit has to develop a tremendous amount if the area intends on competing with national rivals. Increasingly, Millennials preferring public transportation are opting out of the expensive and burdensome responsibility of car ownership. Moreover, using existing transit, “92% of jobs in Southeast Michigan cannot be reached within 60 minutes,” (A Coalition For Transit, 2016). This figure is alarming and, paired with Millennial preferences, it is ominous. Why would young people choose Metro Detroit over Chicago, for example? The trendy restaurants and culture events of Detroit may convince some, but for others, the area is simply impractical. The Regional Transit Authority (RTA) is up for vote on November 8, 2016 and is designed to connect Wayne, Oakland, Washtenaw and Macomb counties through Bus Rapid Transit, Regional Rail, Cross-County bus service, local busses and a streetcar. In turn, approximately 2 million existing jobs will be connected with employees as well as support the creation of more than 67,000 new jobs (A Coalition For Transit). People will have a viable public transportation route to get them to and from their place of employment. Metro Detroit, and especially Detroit, will become a more attractive destination for current residents as well as people outside of the state, likely leading to a much-needed increase in the city’s population. A vote “yes” will furthermore signal a softening of relations between the suburbs and the city, which have a long history of hostility, racism, and fear. Connecting the metropolitan area will lead to an increase in human interaction; greater knowledge and understanding of difference will naturally follow. The passage of the RTA would literally and figuratively connect persons like never before. Metro Detroit, let’s get moving!