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U.S.

Detroit's Resurgence Brings New Housing Concerns

Surprise luxury apartment boom has the city grappling with the downsides of gentrification

In Detroit, some 2,000 new apartments are under construction or recently finished, primarily in the downtown area. *PHOTO: TIM GALLOWAY FOR THE WALL STREET JOURNAL*

By **LAURA KUSISTO**
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DETROIT—Concerns about the downsides of gentrification are coming to the country's poorest major city.

After decades of decay, Detroit is experiencing a surprise luxury apartment boom, with some 2,000 new units under construction or recently finished, primarily in the downtown area.

The trend toward urban living has made its way to Detroit, leading to a sharp uptick in demand for downtown apartments. The downtown has seen an influx of about 20,000 jobs over the past six years, and many of those workers want to walk to work.

The boom has helped transform abandoned office buildings and bring retail and restaurants to the area. In recent weeks, Shake Shack and eyeglass seller Warby Parker have both opened in downtown Detroit.

Now the city is grappling with a question that has long plagued places like New York and San Francisco: whether such prosperity has a downside.

The greater downtown Detroit area has 22,000 occupied multifamily units, of which 86% are rented and the rest are condos, according to a study to be released

Monday by Capital Impact Partners, a nonprofit community development lender.

Detroit for years struggled with high vacancy rates and decaying apartment stock. But today, apartment buildings in the downtown area are 99% occupied and new units are renting for about $2,000 a month on average—roughly three times the rents in other neighborhoods.

The higher rents are driving up prices for older units downtown and in nearby areas that have long been affordable. That makes it more appealing for developers to push out lower-rent tenants to redevelop apartments.

“While [development is] great and we very much need the new tax base to come into the city, there is a way that we can do that without displacing the people who have historically lived in those areas and they’ve seen the really bad times in the city,” said Melinda Clemons, a senior loan officer at Capital Impact Partners in Detroit.

The median household income in the downtown area is just over $21,500 a year, according to the report, meaning a typical family can afford rent of just over $500 a month. The national median household income is about $56,000.

Of the more than 16,000 renters in the downtown area in the study, 45% were cost-burdened, meaning they spend more than 30% of their incomes on rent and utilities. That level is the cutoff point for what economists consider to be financially sustainable.

Black renters are even more likely to report difficulties affording rent: Some 51% of the study’s nearly 12,200 black renter households were cost-burdened. That situation is likely to worsen as prices in the area rise, the report said.

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The report finds limited evidence of widespread displacement, in part because many of the new developments have been created by renovating abandoned buildings. But as those structures become harder to find, developers are more likely to turn to occupied buildings, the report says.

What is more, the report notes there is a high risk of displacement from even modest market rent increases because a large share of families are cost-burdened already.

In one instance, a developer cleared out a low-income building downtown to make way for luxury apartments, displacing some 100 seniors, many to poorer neighborhoods or outside the city. The sudden displacement of such a large number of people fanned fears that economic improvement downtown will push out the people who held on when it was at its nadir.

“They lived there with the promise that restaurants and stores would come and now that they are coming is the time when some of them may not be able to remain in their places,” said Tam Elisabeth Perry, an assistant professor of social work at Wayne State University in Detroit.

As rents rise, city officials ay they are putting safeguards against gentrification in place—something that would have been unimaginable a few years ago. City officialsare working on a requirement that all new apartment projects that receive city subsidies or discounted land set aside 20% of units for affordable housing.

“This is a town that hasn’t had an affordability problem,” said Jed Howbert, executive director of the jobs and economy team for the mayor’s office. “Now we’re in a position of dealing with development pressures.”

One nonprofit, Develop Detroit, launched last year with a goal of creating multifamily housing in some of the single-family neighborhoods that still struggle with blight. The group’s aim is to draw more young residents there and provide well-maintained, affordable units for those displaced from elsewhere.

Sonya Mays, the group’s chief executive and a former investment banker, plans to build more than 500 units over the next couple of years.

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