Detroit Dreams Deferred - 2024 Update

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Introduction

This data brief updates the 2021 report, <u>Detroit Dreams Deferred: Thousands Mortgage Ready but Many Miss Out</u>.[1] In that report, US Department of Housing and Urban Development (HUD) Form 9902 data was used for the first time to identify demand for homeownership in Detroit. This data was geocoded and overlayed with master plan defined neighborhoods in the City of Detroit.[2] These neighborhoods are in almost all cases a conglomeration of the neighborhoods Detroiters may more readily identify with, but provide for more identifiable reference points than a Census Tract or zip code. In addition,

	United States	Detroit
Homeownership Rate	58%	38%
Median Home Value	$281,900	$66,700
Median Household Income	$75,149	$37,761
Mortgage Rate	62%	33%

Source: 2018-2022 ACS 5-Year Estimate

Lower home values and a lower income base challenge Detroit's mortgage market compared to the U.S. overall.

property transaction data from the City Assessor was layered into the analysis. The resulting output showed that from 2015-2019, in approximately 2/3 of the city, fewer than 20% of residential property sales in Detroit included mortgage financing. Furthermore, less

than 20% of individuals participating in homebuyer education courses reported purchasing a home within one year of taking that course. The homebuyer class in question is required to qualify for all down payment assistance (DPA) programs.

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Much has occurred since 2019. Rehabilitation of the Michigan Central Train Station coupled with continued downtown investment, coincided with a period of very low interest rates that hit bottom in early 2021. Even as interest rates have remained comparatively high in recent years, demand for homeownership nationally has increased.

Many barriers remain in place that limit access to homeownership in Detroit. For example, the median home value was $66,700 in 2022. Such low valuations are an indication of systemic market challenges, including poor repair and deferred capital maintenance within the available housing inventory. In 2022, the median year of construction for residential housing in Detroit was 1947.[3] This means more than half of homes in the city are more than 75 years old. While not all older homes are in poor condition, many residents lack the financial resources to access costly maintenance, and tens of thousands of homes have been neglected through foreclosure and government ownership.

These challenges have not lowered demand for homeownership. Since 2019, the volume of mortgage lending has increased across the majority of Detroit's neighborhoods, although it continues to represent a small percentage of residential property sales overall


Image courtesy of the Ford Motor Company

Since 2019, home purchase mortgages have steadily increased. Nevertheless, the volume of mortgages is much smaller than the volume of residential property sales in Detroit.

In this report we identify that the growth in mortgage lending since 2019 has been equitably distributed across neighborhoods with a higher percentage of Black population. These neighborhoods struggled to have any home purchase mortgages just five years ago.

The report concludes by examining the scope of $25,000 DPA awards from the City of Detroit. This important policy intervention has made homeownership more accessible to residents. We identify neighborhoods where DPA has contributed most to mortgage lending.
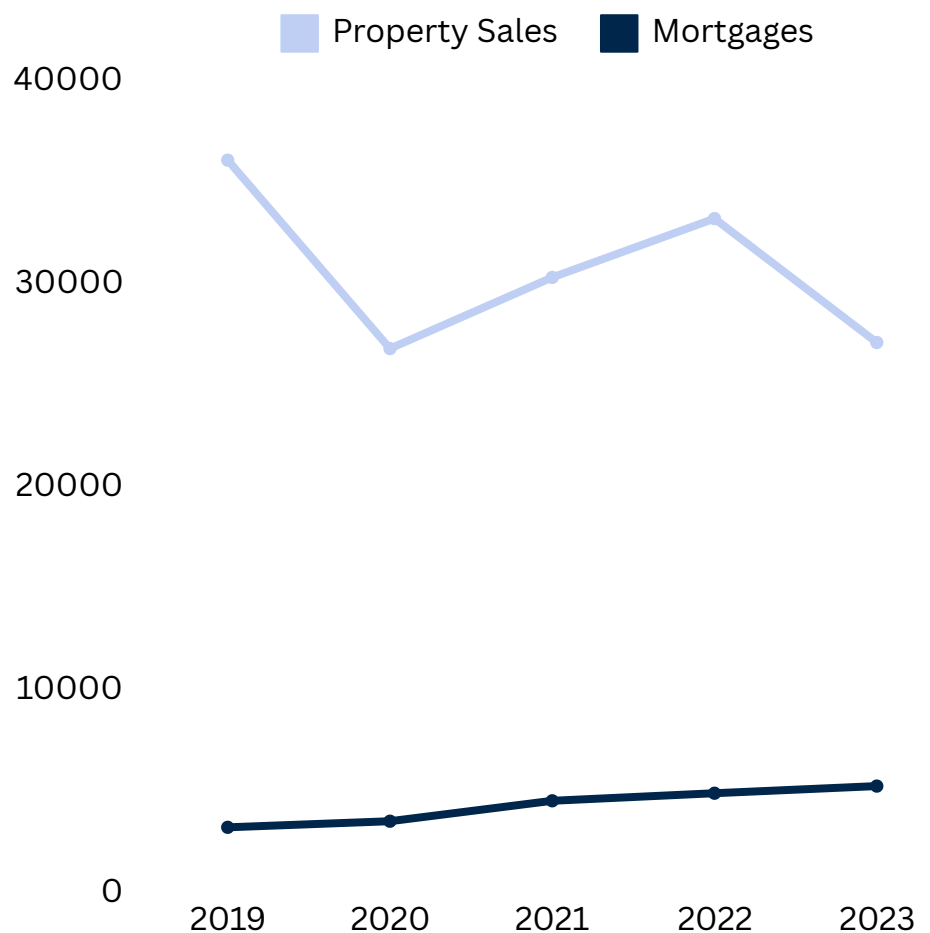
Sources: 2019-2023 HMDA data; 2019-2023 Assessor Office data on residential property sales
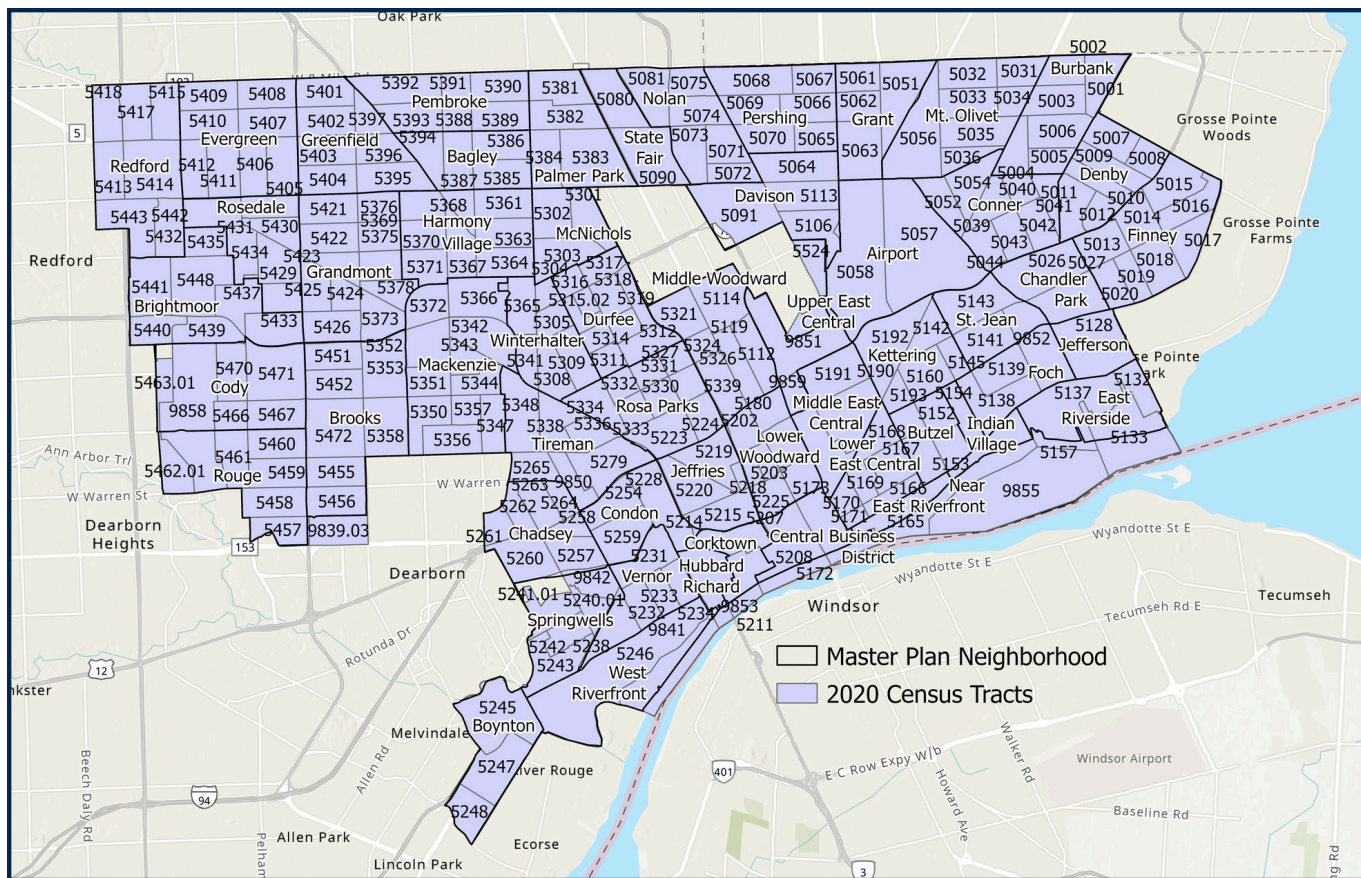
Sources: Master Plan Neighborhoods, Detroit; 2020 U.S. Census Tracts

Methodology

Our analysis of mortgage trends comes from data on home purchase mortgage applications from the Home Mortgage Disclosure Act.[4] This resource is available through the Consumer Financial Protection Bureau, and includes information on nearly all mortgage applications in the United States. Data include the race of the borrower, the lender applied to, the loan amount requested, the application decision, the census tract of the property in question, and more.

Accordingly, we include all home purchase mortgage originations in Detroit for principal residences from 2019 to 2023. Our sample includes data on 11,206 mortgage originations. Based on the census tract of the origination, data were aggregated to the neighborhood level using the key from the above map.

To better understand trends in the real estate market, we include 2019 to 2023 data on residential property sales from the City of Detroit Assessor's Office, available from the Detroit Open Data Portal. [5] These records did not include the census tract, so each transaction was geocoded using ArcGIS Pro. Our sample includes data on 117,098 residential property sales, which we totaled annually for each neighborhood.

We then merged mortgage data with census tract demographic data from the 2018-2022 American Community Survey 5-Year Estimate. Neighborhood-level demographics represent the average across all census tracts in the corresponding neighborhood.

Finally, data on Detroit $25k DPA was obtained through a Freedom of Information Act request of the City of Detroit. This included data on 434 DPA awards. The location of these awards were geocoded for each neighborhood. The FOIA data was augmented by transactional data from the Multiple Listing Service (MLS).

Mortgage Trends

A total of 54 neighborhoods were included in our analysis. Of these, 38, or 70%, had a higher volume of mortgage lending in 2023 than in 2019. In 22 of these neighborhoods, the 2023 lending volume was more than a 100% increase from 2019. The increase in lending activity has also been more equitably distributed across neighborhoods with a higher percentage of Black population, and not necessarily along the Woodward corridor nor the riverfront. Mortgage lending was already common in these neighborhoods in 2019, so it is meaningful that the growth in lending activity since 2019 is occurring in neighborhoods that did not previously have robust mortgage activity.

These increases, though, do not mean mortgage financing is a common method for purchasing a home in these neighborhoods. We simultaneously map the volume of residential property sales from the Assessor's Office. The scales of property sales and originations are not comparable, in either 2019 or 2023.

Neighborhoods near the redeveloped Michigan Central Station show closer alignment between mortgage volume and property sales volume.
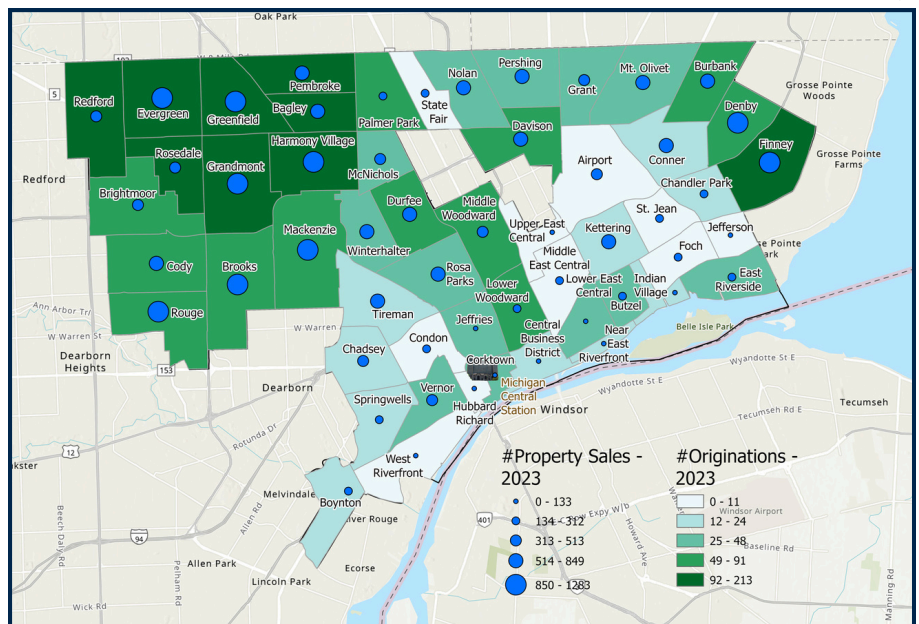
Sources: 2019-2023 HMDA data; 2019-2023 Assessor's Office data; 2018-2022 ACS 5-Year Estimate
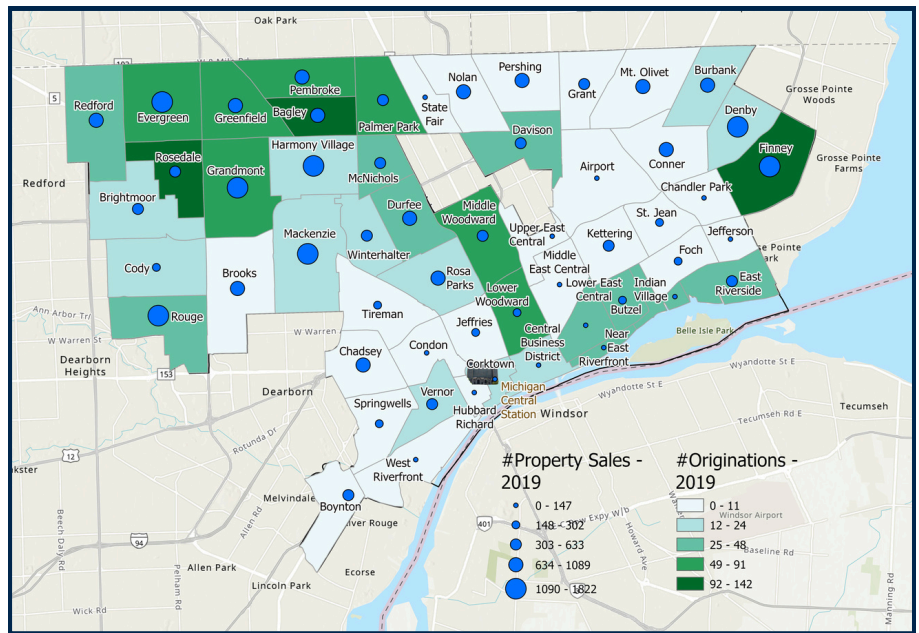
2019

| Neighborhood	%Increase 2019-2023	%Black Population 2018-2022 ACS
Brooks	800	67
Nolan	675	95
Chandler Park	550	98
Tireman	500	86
Harmony Village	473	95

2023

Detroit $25k DPA

Using funds from the American Rescue Plan Act of 2021 (ARPA), in 2023, the City of Detroit awarded up to $25,000 in DPA to qualified homebuyers. These homebuyers were required to meet a number of qualifications, including but not limited to: (a) being a resident of the city for at least 1 year prior to purchase, (b) meet income qualifications, (c) complete a HUD-certified homebuyer education class, and (d) qualify for a traditional mortgage.[6]

Our analysis shows that DPA appears to have been an important tool for overcoming barriers to homeownership in several of the Master Plan neighborhoods. For example, DPA has supported mortgage originations in upper east side neighborhoods where there was almost no mortgage activity in 2019.

The city's DPA program is the most flexible of any other program in the marketplace, allowing for a buyer to have public funds for down payment, pre-paid and closing costs, as well as buy down interest points, or dedicate the DPA to principal reduction. The city also allows and indeed encourages buyers to "stack" the city's DPA with other programs, like those of the Michigan State Housing and Development Authority, and the Federal Home

Sources: 2019-2023 HMDA data; 2019-2023 Assessor's Office data; 2018-2022 ACS 5-Year Estimate
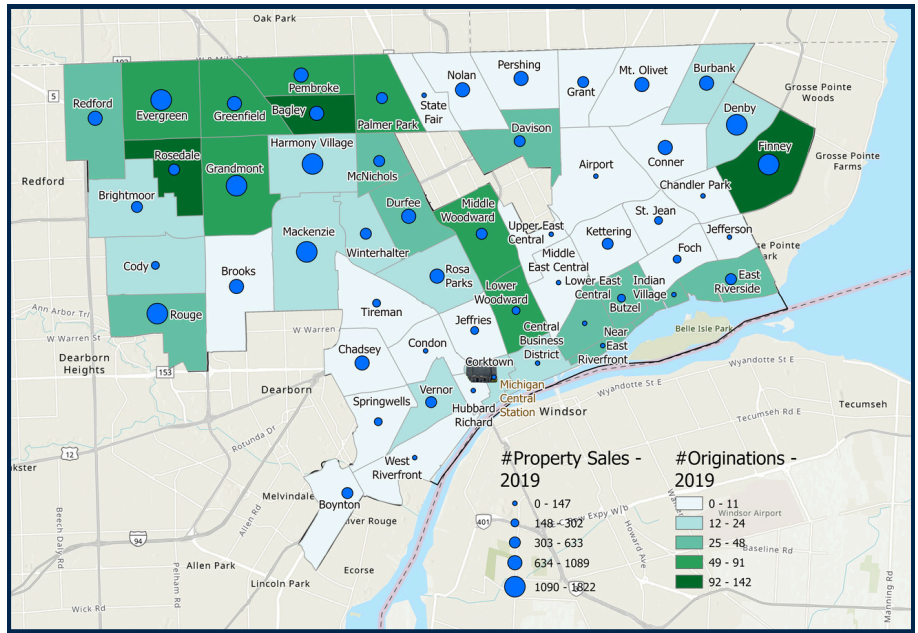
2019

Neighborhood	#DPA Awards	%All Originations 2023
St. Jean	1	100
Conner	13	59
Grant	15	52
State Fair	2	50
Chandler Park	6	46

2023
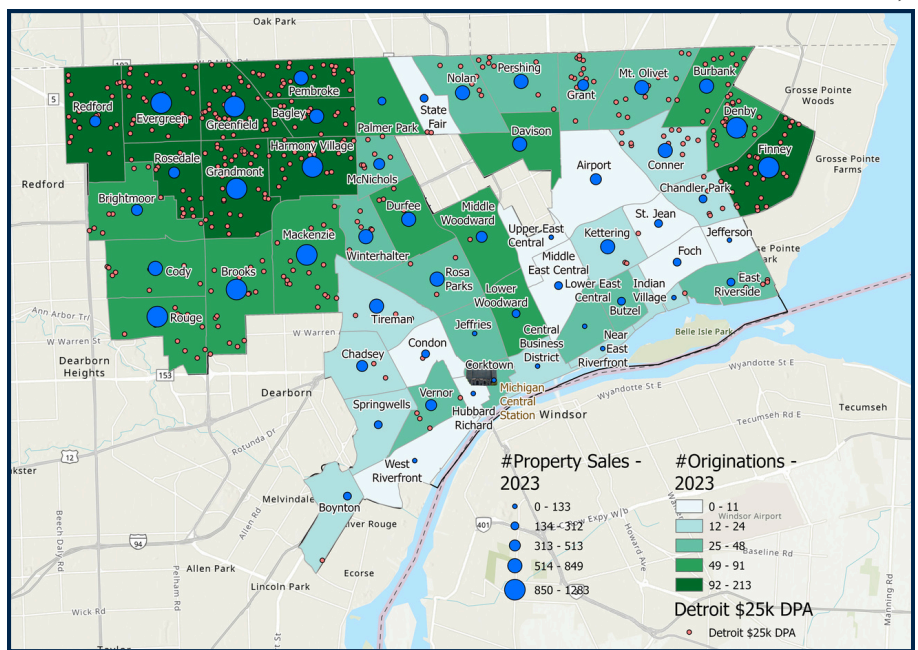
Loan Bank of Indianapolis. If an originating lender works with both of those organizations, a buyer could, in theory, "stack" up to $60,000 to purchase a home. This opportunity is detailed in this underline white paper published in 2023.[7]

With the positives comes a range of questions about the data for these DPA transactions. In order to obtain information on the city's DPA transactions, the authors had to send a Freedom of Information Act (FOIA) request to the city. The FOIA results disclosed a range of information about these transactions: the lender, the property address, the amount of DPA provided, and the closing date of the property sale.

When the transactional data from the FOIA was overlaid with an export of sales data from the Multiple Listing Service (MLS), a more complete picture of the DPA program began to emerge. The city's website promoting the DPA program originally included 13 preferred lenders. 44% of the loans using Detroit DPA were originated by these lenders. Reference the previously cited white paper for those lenders. The

FOIA showed, however, that there were 82 different lenders that originated loans for DPA transactions. Many of these lenders appear to be lesser known mortgage brokers. Additional research should be conducted to understand how these lenders have interacted with have interacted with Detroit's traditionally low-volume mortgage marketplace. It would also be helpful to understand the perspective of those administering the DPA program to know how easy or challenging it was to work with such a wide diversity of lenders.

The following table identifies the top 5 Detroit DPA lenders by total number of originations from March 2023 to May 2024. It appears that a number of the properties sold may not have been traditional arms-length transactions. In other words, the properties do not appear to have been listed for sale by Realtors, and marketed to the general public. One challenge, for example, homes sold that were not

listed in the MLS are much less likely to be considered by appraisers when seeking comparable sales for future transactions:

- Was the sale made by a landlord to a tenant?
- Were any of these properties expiring Low-Income Housing Tax Credit (LIHTC) sales?
- Did the buyer have independent professional representation when considering the purchase?
- Was the buyer knowledgeable about a range of due diligence regarding the pros, cons and liabilities associated with purchasing a home?
- Should off-market home sales be required to be listed in the MLS, even if to simply record the sale for the purpose of establishing a future comparable sale?

Additional research is required to determined the nature of these potentially related party transactions. The table details the top 5 lenders for sales not identified in the MLS.

Total Transactions		Seller Residency	
MLS sale	330	Owner Occupied	98
MLS Sale (Flip)	3	Investor	235
Not in MLS	101	Unknown	101

Sources: MLS, City of Detroit FOIA request

Top 5 DPA Lenders

Lender	Count
Rocket Mortgage, LLC	58
Better Rate Mortgage, Inc.	52
The Huntington National Bank	32
Flagstar Bank	30
Opportunity Resource Fund	27

Sources: MLS, City of Detroit FOIA request

Top 5 Off-MLS Lenders

Lender	Count
Rocket Mortgage, LLC	14
Opportunity Resource Fund	13
The Huntington National Bank	10
Citizens Bank, N.A.	8
Flagstar Bank	5

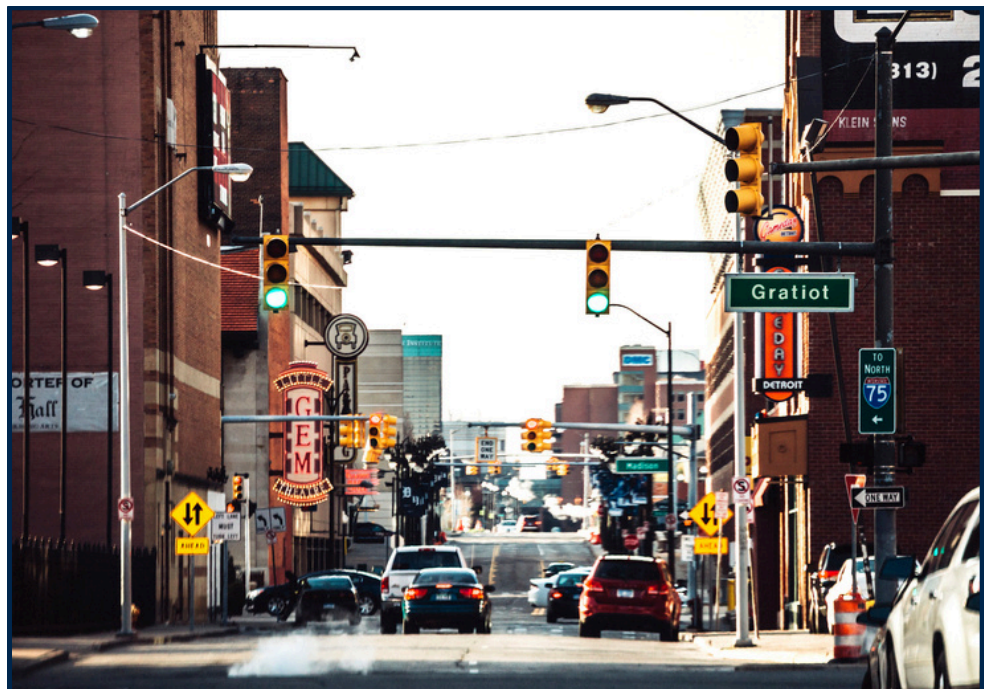Sources: MLS, City of Detroit FOIA request

The FOIA did not report on the number of DPA applications that failed, nor the reasons why those applications did not result in a mortgage origination. There will have been lessons learned by program administrators that should be of value to the marketplace. Additional qualitative research could be helpful in understanding the process utilized by program administrators in order to shape any long-term investment by the city and other local governments into a program that outlasts ARPA funding.

The $25k DPA awards from the city of Detroit can do a lot to make the dream of homeownership more accessible to city residents. The program appears to have supported mortgage originations in neighborhoods that previously had few, if any, sales utilizing a mortgage. Twenty-three percent of the Detroit DPA sales appear not to have been listed in the MLS, and thus are unlikely to be considered comparable sales, which are critical for appraisers hired to assess market value for future sales. Additional independent research should be performed to evaluate the city's DPA program for intended and unintended outcomes from the program.

Conclusions

Since 2019, mortgage lending has increased in many Detroit neighborhoods. Nevertheless, many challenges remain to making homeownership more accessible.

Detroit's aging housing stock is of little help to borrowers. With thousands of vacant parcels across the city, the development of new in-fill housing should be a priority. However, numerous challenges also exist to limit the growth of new construction, such as connecting vacant parcels to existing water and sewer service lines. Until a coordinated redevelopment plan exists homebuyers will have to rely on the city's existing housing.

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Notes

[1] https://ssw.umich.edu/offices/
family-community-wellbeing/past-
projects/dhch

[2] https://portal.datadriven
detroit.org/datasets/D3::master-
plan-neighborhoods-detroit/about

[3] Social Explorer Tables: ACS
2022 (5-Year Estimates)(SE), ACS
2022 (5-Year Estimates), Social
Explorer; U.S. Census Bureau

[4] https://ffiec.cfpb.gov/data-
browser/data/2023?
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[5] https://data.detroitmi.gov/
datasets/27dc11249f5c41c0873449
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[6] https://detroitmi.gov/depart-
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[7] https://deepblue.lib.umich.
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sequence=1&isAllowed=y

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