

A NEW COMMUNITY AT NOVI

CENTER FOR COMMUNITY CHANGE

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Center for Community Change

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INTRODUCTION

Findings and Conclusions

The Metropolitan Detroit Citizens Development Authority (MDCDA) has requested the Center for Community Change to advise on the feasibility of acquiring and sponsoring the development of one or more "new communities" in Metropolitan Detroit.

This report is a preliminary assessment of the desirability of acquiring 765 contiguous acres in the recently incorporated City of Novi by MDCDA or a subsidiary entity. The authority, independently, or in conjunction with a quasi-public or profit entity, would develop the area as a socially and economically integrated community with facilities and amenities to improve the quality of living for the residents of the community and their immediate neighbors in Novi.

The Center recommends that the MDCDA take steps to acquire and develop the Novi land in view of the potential of the Novi site, the relatively low degree of financial risk involved, and the urgent need for dramatic new solutions to our urban problems.

Successful development of the Novi tract within the social philosophy of MDCDA could create a model for new communities in the Detroit area. In fact, it could well serve as a yardstick for a nation looking for an alternative to bitter, decaying cities and unconcerned sprawling suburbs. Because recognition of the imperative need and exciting promise of planned new communities is growing through-out the country, early development of models like Novi can have great national impact.

There are some risks. While financial failure seems unlikely, the creation of a new intractable black ghetto for the poor or a white enclave for the middle class would dissipate the energies of MDCDA and fail to meet its goals. In the Center's judgment, however, the potential benefits outweigh the risks.

This report is predicated upon these assumptions:

Novi and other underdeveloped areas in Metropolitan Detroit will rapidly urbanize within the next decade.

In the absence of public or non-profit corporations operating in conjunction with private enterprise and Federal, State and local bodies, tract development, poorly designed, single class, and largely restrictive, is likely to occur in Novi.

Such tract development will accelerate the polarization of the inner city's poor and minority residents and suburban whites with concomitant social and financial costs to the City of Detroit.

The City of Novi, urbanizing without planned new communities, will bear the brunt of increased taxes for schools and other facilities and the serious social costs of suburban sprawl. Novi's tax burden will inevitably rise. A planned community might well provide increased benefits at no greater costs.

The Center first addressed itself to this question: How serious would the risk of financial loss be if

MDCDA optioned or acquired these undeveloped lands
held them for a period while it developed a master plan
disposed of them if the plan proved incapable of implementation.

This was the most important question to be answered, since a decision on land option or acquisition must be made quickly. If this risk proved minimal and the land was acquired, MDCDA would then have the time to investigate a series of other critical questions:

- 1 Can a master plan for a well-designed open community for families of various income groups be developed which is likely to be implemented?
- 2 Given the total global development costs which are in the region of \$102,000,000, what "lead money" investment by MDCDA or associated groups would be required to generate the larger amount?

- 3 What Federal programs are available to encourage financing and ease the burden of development costs?
- 4 What incentives can be offered to the City of Novi to attain its necessary cooperation in establishing appropriate density and other planning standards and seeking state and Federal aids?
- 5 What incentives are available to encourage families of different races to acquire homes in a racially and economically mixed community?
- 6 What are the housing costs and transportation factors to be overcome if low income families are to be accommodated in the community?
- 7 What institutional forms and associations would be most effective in managing this large enterprise?

Relatedly, should MDCDA land bank and develop a plan for private development? Should MDCDA assume an equity position alone, or a joint venture with a profit entity? Should MDCDA finance land acquisition at an attractive rate of interest to private developers who would develop in accordance with MDCDA's guidelines?

It has not been possible to answer these questions in depth in this report. In fact, it was only during the course of the study that some of these critically important questions emerged.

Nevertheless, the Center has come to the conclusion that MDCDA can, with small risk of loss and a reasonable prospect of profit, proceed to acquire the Novi properties at an average cost of \$ 3,500 to \$ 4,000 per acre. At \$ 4,500 per acre the risk of loss is somewhat greater.

A master plan for a quality community with homes for approximately 13,000 residents of various income groups can be developed quickly and has a good prospect of implementation.

Lead or risk money at approximately $2\frac{1}{2}\%$ of development cost can provide the incentive for and generate the funds necessary for total development. This assumes \$ 1,200,000 for land acquisition (based on an 80% mortgage and 10% annual debt service for 2 years), \$250,000 for staff organization and studies during the first year, a comparable amount during the second year, and \$ 900,000 for development of 25% of the land during the following year (based on 60% of the costs being borne by the developer). To this should be added property taxes which would be approximately \$ 60,000 for the first year and somewhat higher on the improved land during the second year. During the third year income should begin to offset carrying charges and land development expenses.

MDCDA's concept of a genuinely integrated new community in the outer ring of a metropolitan area had little chance of success until recently. But several new factors point to the Center's measured optimism. They include:

New awareness by some of the most efficient bankers and builders in the country of the necessity for moving away from one class, one race tract developments if our cities and metropolitan areas are to survive.

New financial aids included in the Housing Act of 1968 and earlier legislation which provide insurance for new community development borrowings and grants for community facilities. Interest subsidies and rent supplements for housing for some income groups are also available. Additional capital grants and loans for the development of community facilities can be secured with the cooperation of Oakland County and the City of Novi.

Today's high interest money market which gives MDCDA leverage since an MDCDA lead money investment at prime rates or less will be attractive to builders. This would also provide the incentive to develop in accordance with MDCDA's standards.

The rapid development of industrialized housing and community facility construction systems which can hopefully bring construction cost to a reasonable level. There is even the possibility that Novi could be used for the industrialized housing effort contemplated in Operation Breakthrough and Section 108 of the Housing Act of 1968.

If the Center's recommendations are approved by the Board, five early actions are indicated:

- 1 Acquisition of the Novi tracts.
- 2 Development of a social, physical and economic master plan for the area.
- 3 Development of a plan for management, financing and marketing. This would include cost-benefit analyses, intensive

examination of Federal resources available to support community facilities, negotiations with Federal, state and local agencies and negotiations with developers.

- 4 Exploration of the prospects of a demonstration grant from HUD's Office of Research and Technology to provide organizational and overcost funds for this unique, coordinated development.
- 5 Exploration of the possibility of corporate or foundation guarantee against loss of a reasonable percentage of the required risk money.

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