



AEI Housing Center

[AEI.org/housing](https://www.aei.org/housing) | February 2026

# **Closing Detroit's Appraisal Gap: A Market-Based Strategy to Revive Vacant Neighborhoods**

*Lessons for Struggling Cities Across the Nation*

**Tobias Peter**

**Co-Director and Senior Fellow**

([Tobias.Peter@aei.org](mailto:Tobias.Peter@aei.org))

**Edward Pinto**

**Co-Director and Senior Fellow**

([Edward.Pinto@aei.org](mailto:Edward.Pinto@aei.org))

We grant permission to reuse this presentation, as long as you cite as the source:  
AEI Housing Center, [www.aei.org/housing](https://www.aei.org/housing).

## Detroit's scale of distress

- Population decline of nearly two-thirds since 1950.
- Detroit continues to have a massive vacant residential lot problem.
  - The AEI Housing Center estimates that Detroit has:
    - 134,000 vacant lots.
    - 36% of its residential lots vacant.
- Notwithstanding 60+ years of efforts, Detroit has been unable to achieve widespread residential renewal.

Map of Vacant Parcels in Detroit

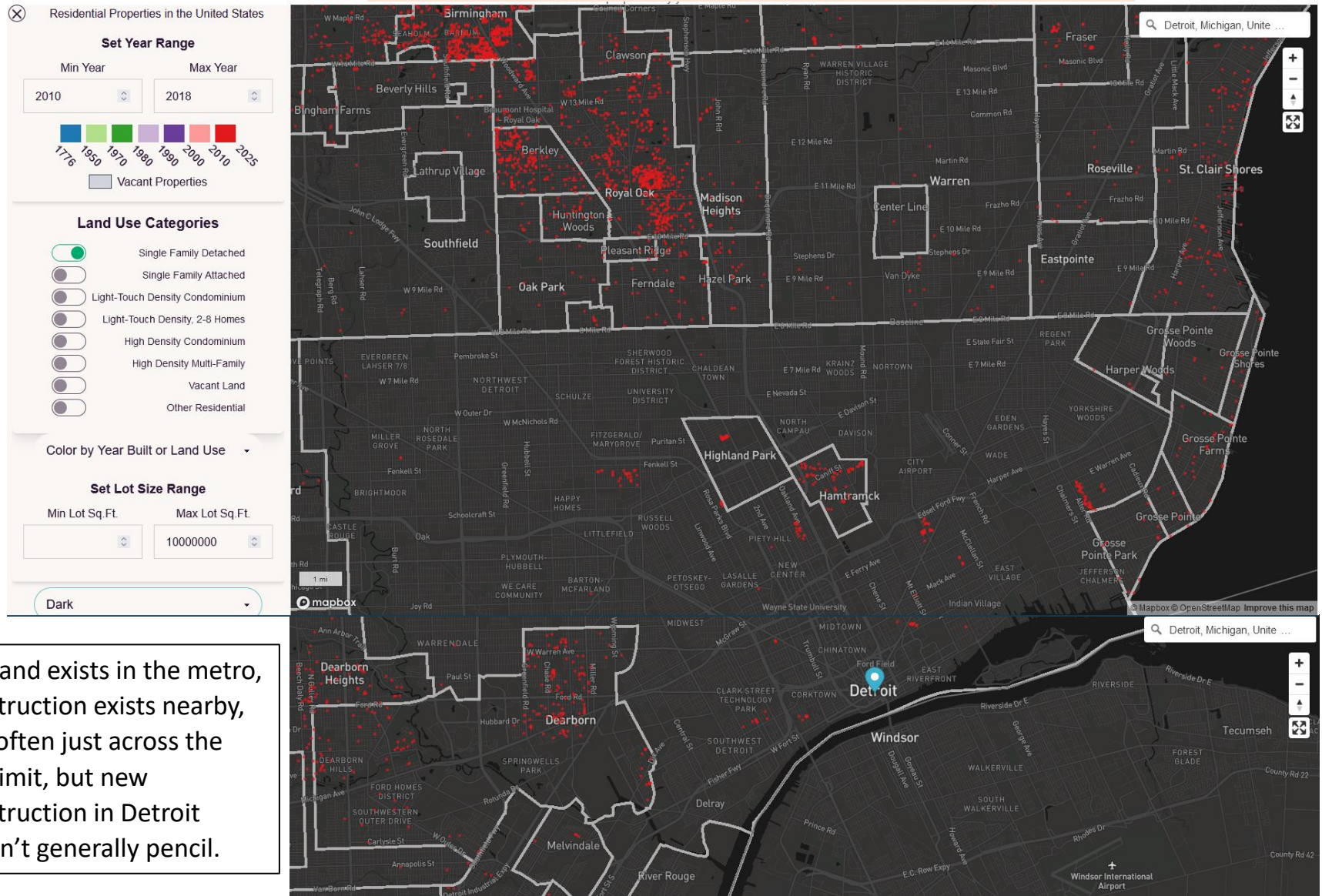


Note: The map for the entire country, can be accessed here: [https://heat.aehousingcenter.org/toolkit/year\\_built\\_map](https://heat.aehousingcenter.org/toolkit/year_built_map).

Source: AEI Housing Center, [www.AEI.org/housing](http://www.AEI.org/housing).

# Why do the suburbs (including enclaves) build, but not Detroit?

## Map of Single-Family Detached Homes Built from 2010-2018 (Detroit)\*



Demand exists in the metro, construction exists nearby, and often just across the city limit, but new construction in Detroit doesn't generally pencil.

\* Due to reporting latency for Wayne County public records, 2018 is the most recent reporting year for newly constructed homes.

Note: The map for the entire country, can be accessed here: [https://heat.aeihousingcenter.org/toolkit/year\\_built\\_map](https://heat.aeihousingcenter.org/toolkit/year_built_map).

Source: AEI Housing Center, [www.AEI.org/housing](http://www.AEI.org/housing).

## Why do the suburbs (including Detroit enclaves) build, but not Detroit?

---

- Detroit’s combined tax rate on primary residences is generally much higher than nearby neighbors in Oakland County.
- Given Detroit’s tax rate compared to its neighbors, higher annual property taxes are capitalized into lower home prices — suppressing appraised values relative to construction costs. It’s one of many reasons why builders/developers are unable to build and sell at a profit.

**2023 Property Tax Rates (Principal Residence)**

<b>Municipality</b>	<b>Total Millage (2023)</b>
<b>Detroit</b>	<b>69 mills</b>
Berkley	38 mills
Royal Oak	38 mills
Huntington Woods	45 mills
Madison Heights	46 mills
Ferndale	49 mills
Oak Park	57 mills
Hazel Park	69 mills

Note: Millage varies by tax year and can differ by school district/levies; figures shown are 2023 total rates.  
Source: State of Michigan [Property tax rates \(2023\)](#) and AEI Housing Center, [www.AEI.org/housing](http://www.AEI.org/housing).

## How to overcome the appraisal gap

---

### Status Quo:

- Cost to build with profit: \$ 300,000
- Price market will sell: \$ 250,000
- Appraisal gap: **\$ 50,000**
- Result: No profit = no construction

### How a tax abatement can help:

- 1) Potential buyer knows that he's saving on property taxes for say 10 years. The Net Present Value of the abatement gets capitalized into the sale price.
- 2) The appraiser makes a positive adjustment to comps that lack abatements.

**If the tax abatement is sufficient to close the appraisal gap and there is demand for homes, the construction proceeds.**

## Advantages of a Tax Abatement Program

---

**A well-designed tax abatement program can bend economic feasibility to incent private infill development on vacant lots, especially smaller builders.**

**Its advantages include:**

- Does not require any immediate government expenditures and the forgone revenue is temporary.
  - The appropriate comparison is not how much in abated taxes on improvements the city did not collect over the abatement period, but rather the taxes it would have collected without abatement.
  - The revenue potential on improvements to a vacant lot that never get built, is zero, so abating 100% of the improvement cost (Philadelphia) or 50% of total taxes (NEZ-NR) costs nothing.
- Expires after a fixed period (say 10 or 15 years), after which the city collects the full tax amount, bolstered by property value increases from the city's renewal.
- Does not inflate costs and can't be corrupted.
- Rules are simple; unleashes a swarm of small builders, developers, subcontractors, lenders, and workers.
- Bottoms-up rather than top-down.
- The abatement policy effectively incentivizes new development by raising the prices that builders can command for new construction, rather than primarily benefiting the buyers of these homes.

## Why Abatements Succeed Where Other Tools Fall Short

---

- **Direct subsidies:**
  - They often don't scale. Require upfront taxpayer money and lead to political allocation.
- **LIHTC and other tax credit programs:**
  - These are complex programs, and only accessible to specialized developers with consultants.
  - Slow and unpredictable with multi-layer capital stacks and competitive allocations.
  - Ill suited to "missing teeth" infill where LIHTC deal size/complexity is a mismatch.
- **Rezoning-only strategies:**
  - Zoning reform is necessary, but not sufficient where the appraisal gap is binding.
  - Abatements address the feasibility, not just the legal permission to build. Both are needed.
- **Mandates (inclusionary zoning, affordability set-asides):**
  - Mandates reduce feasibility, esp. in weak markets, and suppress production.
- **Rehab programs:**
  - They inflate costs and often lead to corruption.
- **Land Value Tax (LVT):**
  - While LVT can discourage speculative holding in high-demand cities, it cannot generate investment where land values are already depressed.

# What is Detroit's Neighborhood Enterprise Zone (NEZ) - New Construction (NC) Program

---

## **15-Year, 50% Property Tax Abatement**

- Applies to newly built single-family homes, duplexes, townhomes, and certain condos
- Applies to primary owner-occupants

## **Reduces Taxable Value of Improvements by 50%**

- Land remains fully taxable
- Abatement applies for 15 years

## **Geographically Limited by State Law**

- NEZ districts may cover **no more than 15% of the city's land area per 1992 state law**
- Designated areas must be approved locally and certified by the State Tax Commission (STC)

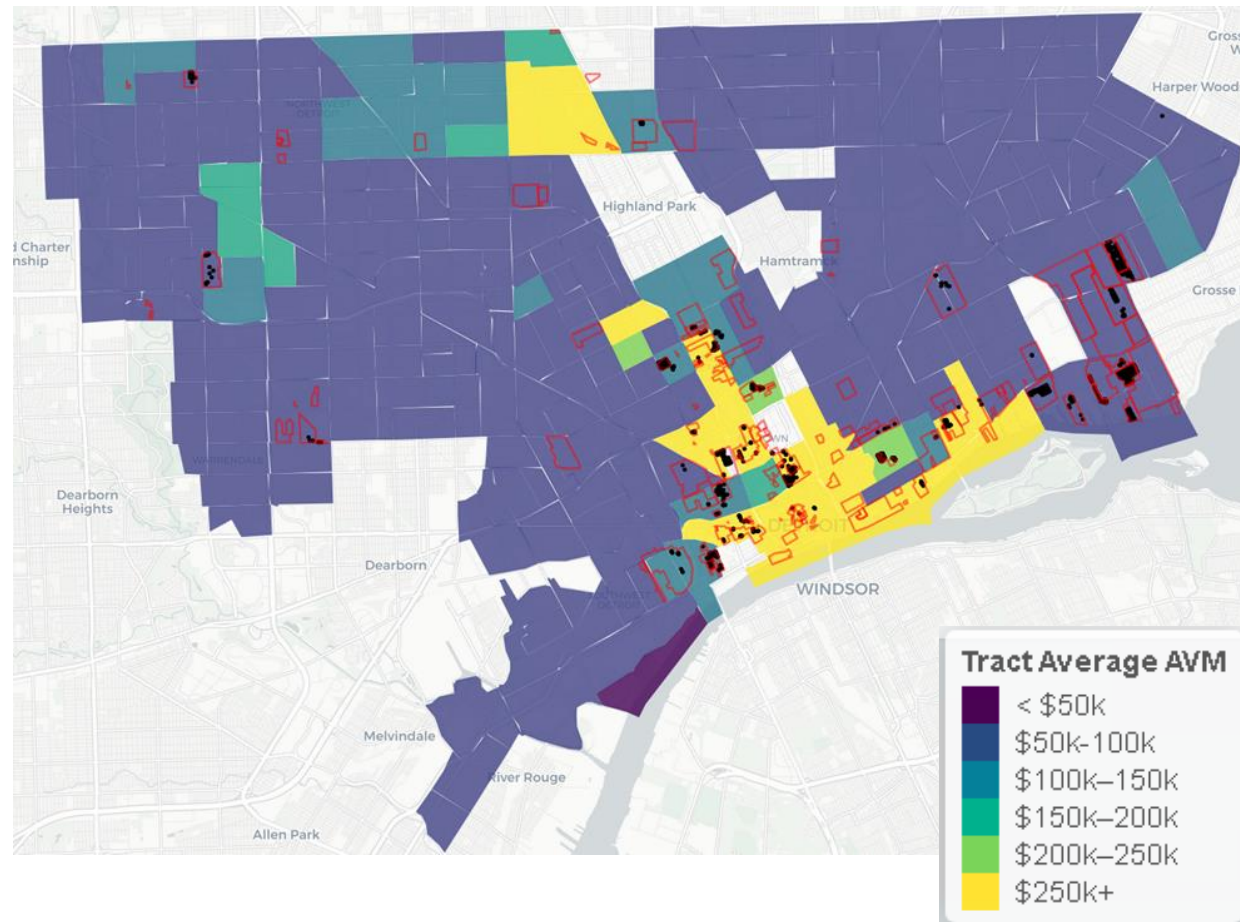
## **Administrative Process Appears to Be Straightforward**

- Application filed with the city
- Reviewed by Michigan Treasury
- Certificate issued by the STC
- Benefit begins only after STC approval

## Proof of concept: The NEZ-NC program is a pre-requisite for new construction in Detroit

- Our analysis of Redfin data found that of about 300 single-family homes built in Detroit since 2019 & sold over the last 5 years, nearly all (97%) were constructed in NEZ-NR areas.\*
  - The most popular new construction development type is townhome-style condos selling for about \$400,000-500,000.
- When plotting all SF NEZ homes (black dots) from 1993 to 2025, we find that development was concentrated primarily in higher-value submarkets (yellow and blue areas) such as Downtown, Midtown, and neighborhoods adjacent to Grosse Pointe.
  - We have not determined why some NEZ-NR zones had no development, but it appears likely that an appraisal gap persists despite the abatement.
- While NEZ appears to be a pre-condition for development, it is not the only one.

**NEZ Zones (red outlines) and SF Construction that used NEZ (black dots): by Today's Value (AVM) of Homes (Built 1900-1990)**



\* NEZ-NC properties must be located inside an NEZ district (Detroit's NEZ-NR district boundaries). NEZ-NR stands for New & Rehab. For more details on the data and methodology, see appendix.

Source: City of Detroit, State of Michigan, Redfin, and AEI Housing Center, [www.AEI.org/housing](http://www.AEI.org/housing).

## NEZ-NC is necessary — but not sufficient

---

Most new single-family construction occurs inside NEZ zones

### Abatement size has limits

- 15-year, 50% abatement  $\approx$  \$50–55k NPV
- Closes gap where comps  $\approx$  \$300k
- Insufficient where comps  $\approx$  \$100k

### Geographic constraint

- State law caps NEZ coverage at 15% of city land
- Result is a top-down, government-driven selection process, rather than a market-driven one.
- Detroit wastes a lot of its NEZ areas on areas that are not yet ready for development.

### Takeaway:

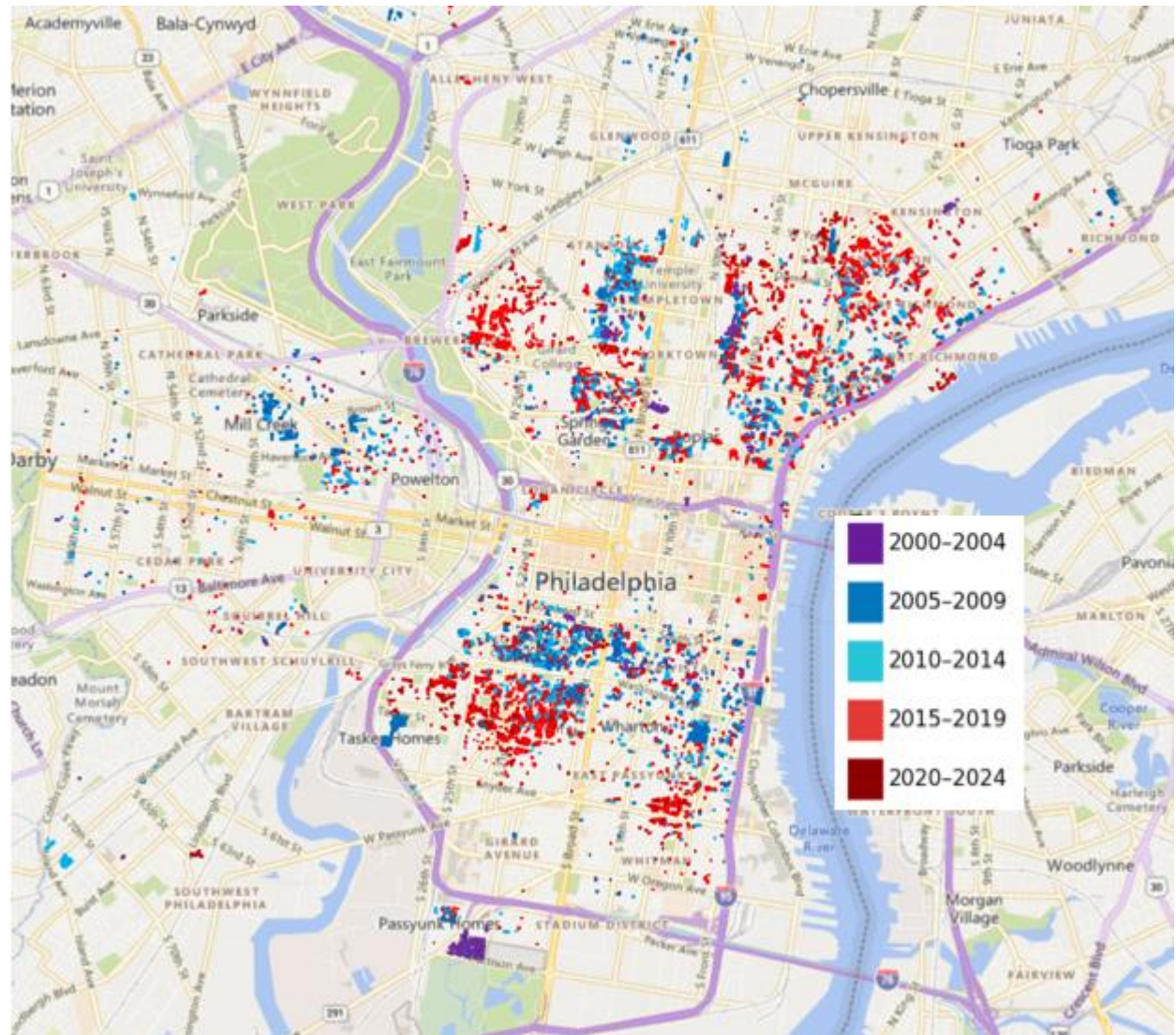
- NEZ supports development in stronger submarkets, but cannot drive citywide renewal. Tweaking the program would gradually achieve this (next slide).

## Tax abatement is necessary — but market principles still apply: Philadelphia’s experience

Philadelphia’s 2000 residential property tax abatement exempted improvement values on newly constructed or substantially renovated properties. **Although vacant parcels were widespread, redevelopment moved outward from the center—where land values were highest.**

- Beginning in the early 2000s, Philadelphia’s residential redevelopment spread outward from City Hall in a block-by-block pattern, as builders filled the “missing teeth” in existing rows of townhomes.
- The initial wave of renewal occurred roughly 0.5–2 miles north and south of City Hall and 1–3 miles to the west, southeast, and northeast—areas with the city’s highest, though still depressed, land values.
- These relatively stronger submarkets, bolstered by the 10-year tax abatement, offered sufficient profit potential to support new construction and became the launching point for broader neighborhood reinvestment.

Map: New Single-Family Home Construction by Period Built



For more on Philadelphia’s experience with its tax abatement, see:

[The Philadelphia Story: The Impact of the 2000 Tax Abatement Program on Philadelphia’s Revival](#)

Source: AEI Housing Center, [www.AEI.org/housing](http://www.AEI.org/housing).

## Development follows market principles: Houston's experience

Houston's 1998 and 2013 lot size reforms substantially increased the city's housing stock. The minimum lot size was reduced from 5,000 to 1,400 square feet, making smaller, more affordable infill development feasible.

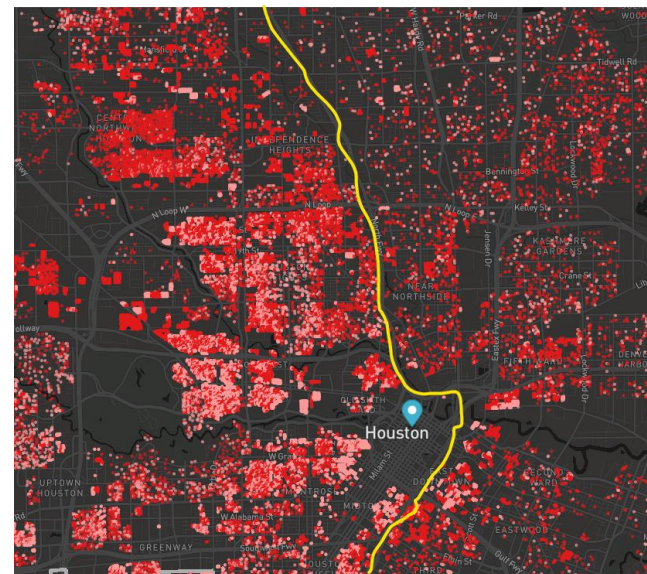
Residential construction initially accelerated west of the yellow line, where market conditions were stronger, and later spread east.

**Property values remain lower and vacant lots more prevalent east of the yellow line (see appendix), reinforcing a broader point: whether through tax abatements or regulatory reform, development follows underlying market strength.**

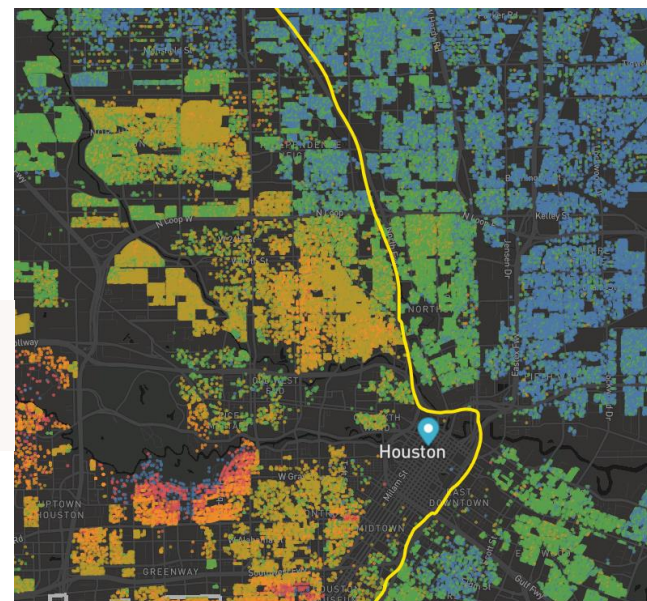
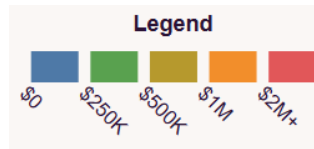
**The key lesson is structural. Philadelphia and Houston show that when policymakers set clear rules and let the market work—rather than micromanage projects—development follows demand. These reforms cannot be gamed; they simply accelerate investment where market strength already exists. If sustained, this pattern allows more areas to benefit over time as values and comparables rise.**

Map:  
**New Single-Family Home Construction by Period Built**

Legend:  
Pink = 2000-2010  
Red = 2010+



Map:  
**Home Values of Single-Family Homes (built before 1990)**



Note: Similar maps for the entire country, can be accessed here: [https://heat.aeihousingcenter.org/toolkit/year\\_built\\_map](https://heat.aeihousingcenter.org/toolkit/year_built_map).

Source: AEI Housing Center, [www.AEI.org/housing](http://www.AEI.org/housing).

## How to Improve the NEZ-NC Within the Program's State Limitations

---

**Takeaway:** Detroit needs a market-following abatement strategy that can scale beyond today's strongest submarkets.

### **First, retarget NEZ toward highest land-value areas**

- Focus where economic feasibility is strongest (see the Philadelphia and Houston experiences above).
- A key lesson from Philadelphia's tax abatement program is that development evolved from the areas with the highest land values, typically closer to downtown (see appendix).

### **Then, let development move outward ("inside-out")**

- Detroit should first target higher land value areas and once they have redeveloped, renewal will start moving outwards from there.
- This would speed up land value increases and spillovers to surrounding areas, creating a virtuous cycle and also generate wealth for existing homeowners.

### **Pair with structural reforms**

- By-right zoning
- Keep it short and simple rules
- Allow smaller lot sizes
- Enable faster permitting and lower costs

*In an ideal framework, Detroit would expand the tax abatement to the entire city. This would remove geographic politics, although development would still follow market demand.*

## Lessons for other cities

## The Sweet Spot for Tax Abatement: Struggling Cities with Thriving Suburbs

---



City (or parts of it) is **struggling** & suburbs are **thriving**

A well-designed tax abatement can pull demand inward with little subsidy wasted on projects that would happen anyway.

City is **thriving** & suburbs are **thriving**

Abatement would be misused on projects that would happen anyway.

City is **struggling** & Suburbs are **struggling**

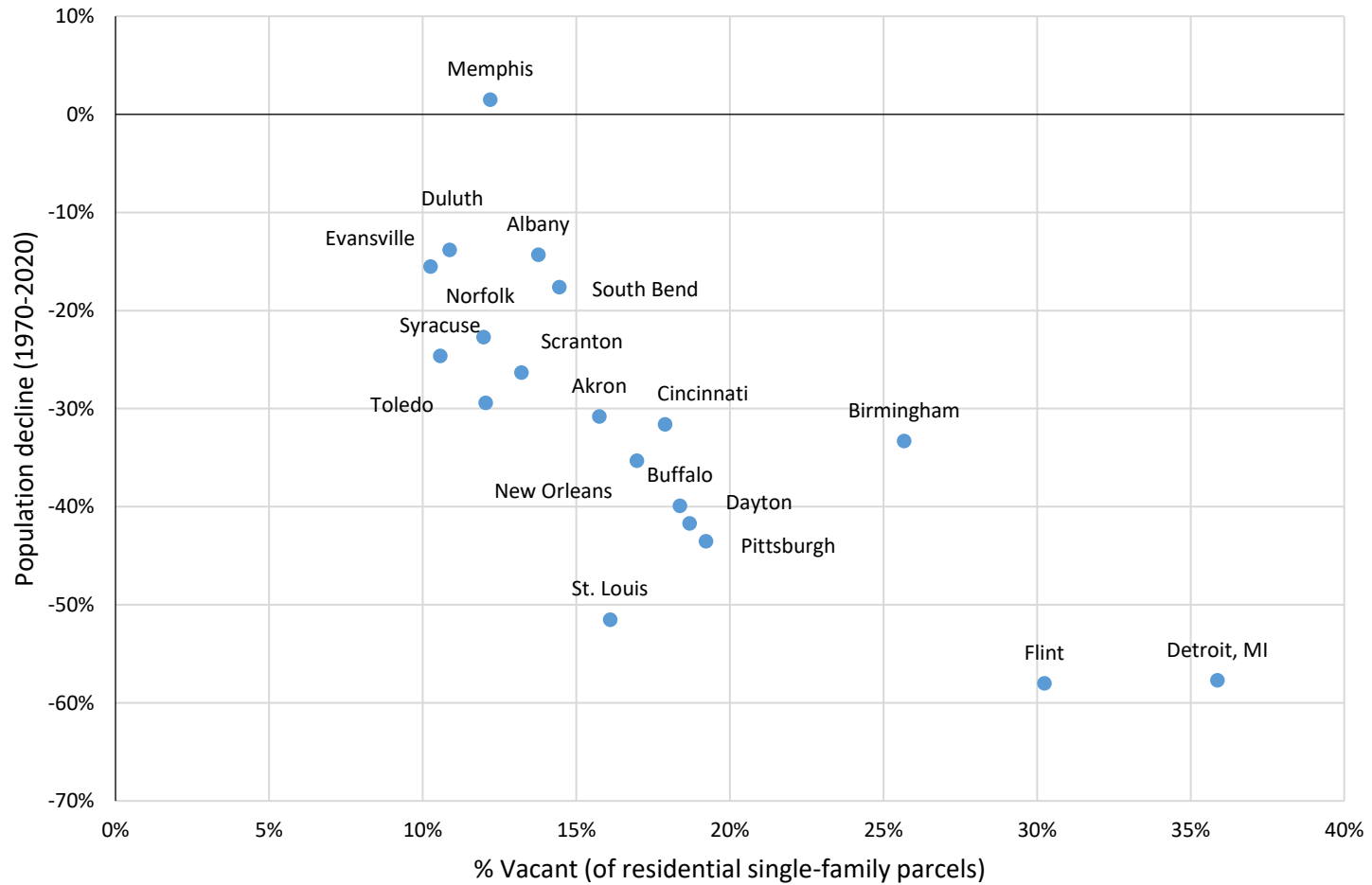
Too little demand; abatement alone won't trigger new construction.

City is **thriving** & Suburbs are **struggling**

Abatement would be misused on projects that would happen anyway.

## Other cities with similar challenges as Detroit

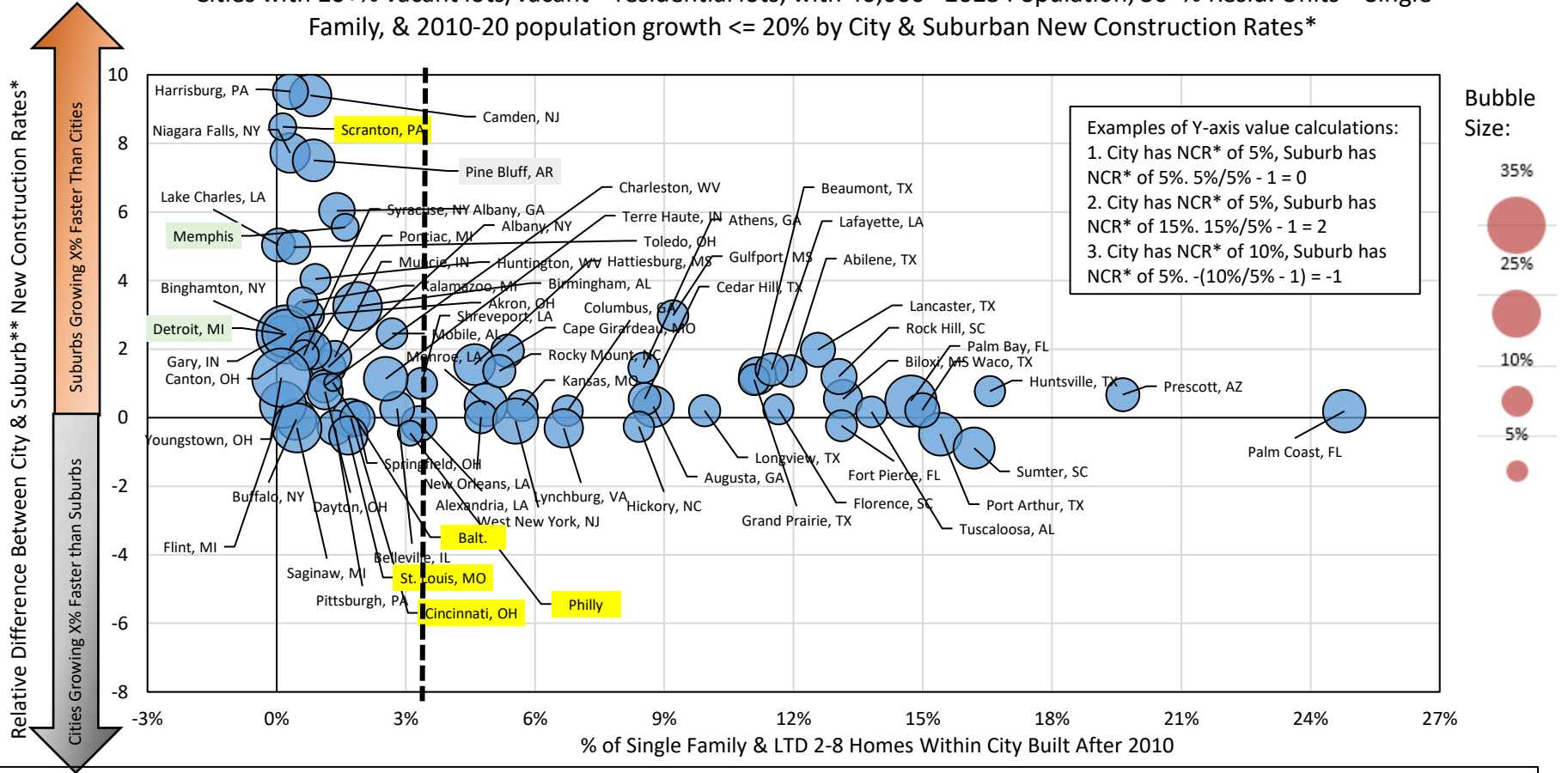
- Cities with long-term population declines or stagnating growth.
- Often high property tax rates or high construction costs make construction infeasible.



# In the Laboratory: Identifying cities with a high vacant lot % that might benefit from tax abatement

- Cities with long-term population declines or stagnating growth.
- Often high property tax rates or high construction costs make construction infeasible.

Cities with 10+% vacant lots/vacant + residential lots, with 40,000+ 2023 Population, 30+% Resid. Units = Single Family, & 2010-20 population growth <= 20% by City & Suburban New Construction Rates\*

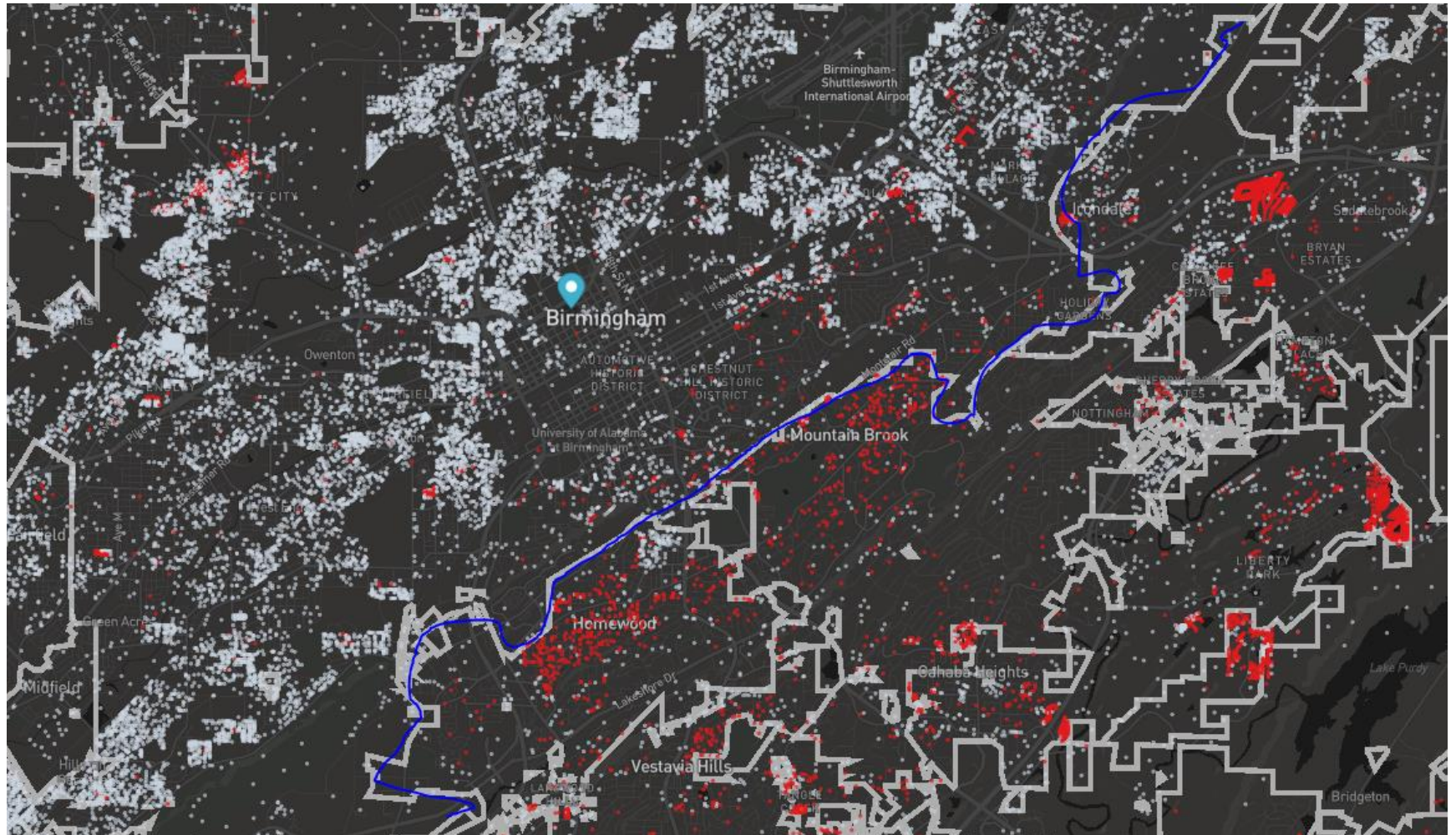


\* New Construction Rate is share of Single Family & LTD 2-8 Homes Built After 2010.  
 \*\* Suburbs refer to area within 2 miles of city boundary, with the suburban New Construction Rate is derived from these homes.  
 Y Axis is larger of the 2 New Construction Rates divided by smaller of NCR's. If the City's NCR is larger, we make the ratio negative (see box to right)  
 Vertical, dotted line shows average x axis value of all cities on chart: 4%. Average x-axis value for cities with 2023 population 250,000+, regardless of vacancy rate or 2010-2020 population growth, is 9%  
 Other included cities: Philadelphia (7%), Memphis (8.2%), Baltimore (3.6%), and Scranton (8%) have less than 10% vacant/vacant+residential lots.

## Another example of a struggling city with well to-do suburbs

Example: Birmingham, AL & adjacent areas

Map of Vacant Parcels (white) & Single-Family Detached Homes Built since 2010 (red)



Note: The map for the entire country, can be accessed here: [https://heat.aehousingcenter.org/toolkit/year\\_built\\_map](https://heat.aehousingcenter.org/toolkit/year_built_map).

Source: AEI Housing Center, [www.AEI.org/housing](http://www.AEI.org/housing).

## The formula for successful community revitalization

---

In cities that are struggling, while the suburbs are thriving, the following formula can help overcome the appraisal gap:

1. **Large enough property tax abatement for:**
  - office/retail to residential/mixed use conversions
  - vacant lot to residential construction
2. **By-right zoning**, which does not require approval from zoning boards or city or county councils,
3. **Allow smaller lots in more areas** particularly around walkable and amenity-rich areas.
4. **Short and simple land use rules**, fast permitting, and less expensive building standards (KISS principle).

Implementing these policies would unleash American ingenuity and enterprise by allowing builders of all sizes to build abundant market-rate housing over time thereby increasing the housing stock and providing affordable housing options.

**Make it feasible and they will build!**

## How NOT to implement

---

Several cities have various forms of tax abatement programs that violate the KISS principle:

Location	Summary
<a href="#">Cleveland</a>	<ul style="list-style-type: none"><li>• projects must meet Cleveland Green Building Standards</li></ul>
<a href="#">Baltimore</a>	<ul style="list-style-type: none"><li>• Must include 20 or more units;</li><li>• Various affordability requirements</li></ul>
<a href="#">Chicago</a>	<ul style="list-style-type: none"><li>• Must include 7 or more units;</li><li>• Affordability level of 60% of Area Median Income (AMI).</li></ul>
<a href="#">Portland</a>	<ul style="list-style-type: none"><li>• Sale price cap is \$455,000 &amp; income limit of 100% AMI.</li><li>• No more than 500 HOLTE applicants approved per year with exceptions for affordable housing.</li></ul>
<a href="#">St. Louis</a>	<ul style="list-style-type: none"><li>• Must obtain support from a member of the Board of Aldermen.</li></ul>
<a href="#">Detroit</a>	<ul style="list-style-type: none"><li>• Property must be in one of the NEZ Districts (10-15% of city).</li></ul>
<a href="#">NYC</a>	<ul style="list-style-type: none"><li>• Must include 6 or more units;</li><li>• Various affordability requirements</li></ul>
<a href="#">Washington DC</a>	<ul style="list-style-type: none"><li>• At least 1/3 of units must be affordable to and rented by households earning 80% or less of the Median Family Income.</li><li>• None may be rented to households earning more than 100% of the MFI.</li></ul>

Source: AEI Housing Center, [www.AEI.org/housing](http://www.AEI.org/housing).

## Facts and fiction of any well-designed tax abatement program (using our Philadelphia study)

---

- **Developers make outsized profits**
  - Our research has shown that profit margins are normal.
  - These programs provide new opportunities for small-scale builders, many are minorities.
- **Displacement of long-time residents, especially those of color**
  - There cannot be any displacement on homes built on vacant lots.
  - Data show no more rapid turnover of residents.
  - The recovery in older home values created an ~\$22 billion of additional wealth for all homeowners, ~\$10 billion of for minority homeowners.
  - Homestead and other homeowner exemptions reduced property tax rates in Philadelphia, particularly for low-value homes
- **Takes money from city services and schools**
  - Renewal led to substantial increases in other taxes and reduced costs
  - Property tax revenue grew substantially because of its housing renewal
- **New homes are not affordable / Subsidy for the rich**
  - Can't build new at low price points (see new cars)
  - New homes are relatively affordable on a per bedroom basis
  - Enable homeownership opportunities and wealth building, esp. for families
- **Development has left certain areas behind**
  - Development follows economic principles. Many left behind places were next in line.
  - Top-down planning in Philadelphia has not worked.

# Appendix

# Comparing Philadelphia and Detroit

Among other industrial cities, Detroit is often lauded for its [turnaround](#). However, it has had much less development, and less broadly-based development, than Philadelphia.

The maps show new residential structures built from 2000 onward in:

- Philadelphia (top map) and
- Detroit (bottom map).

Size legend:

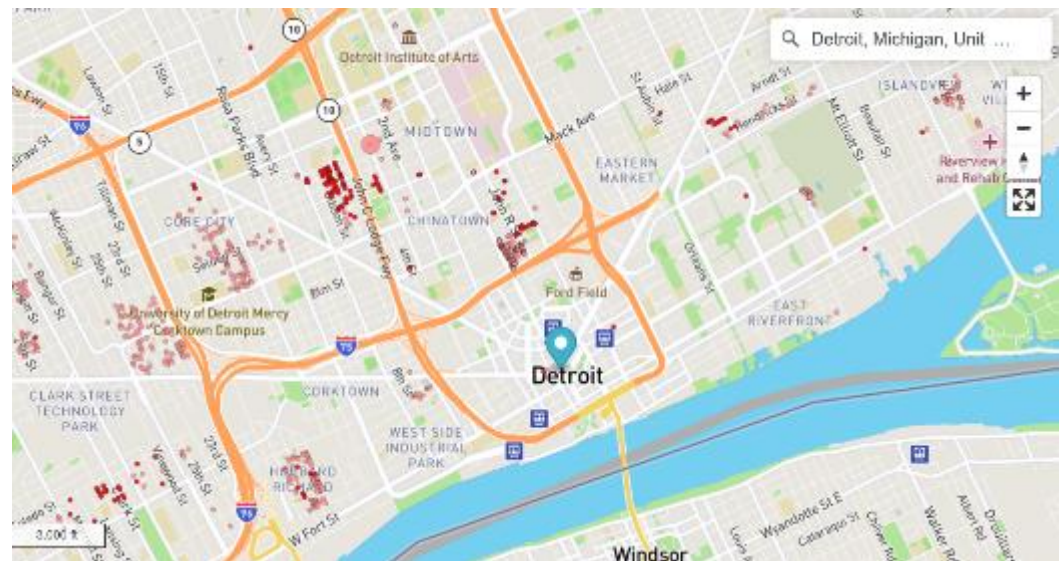
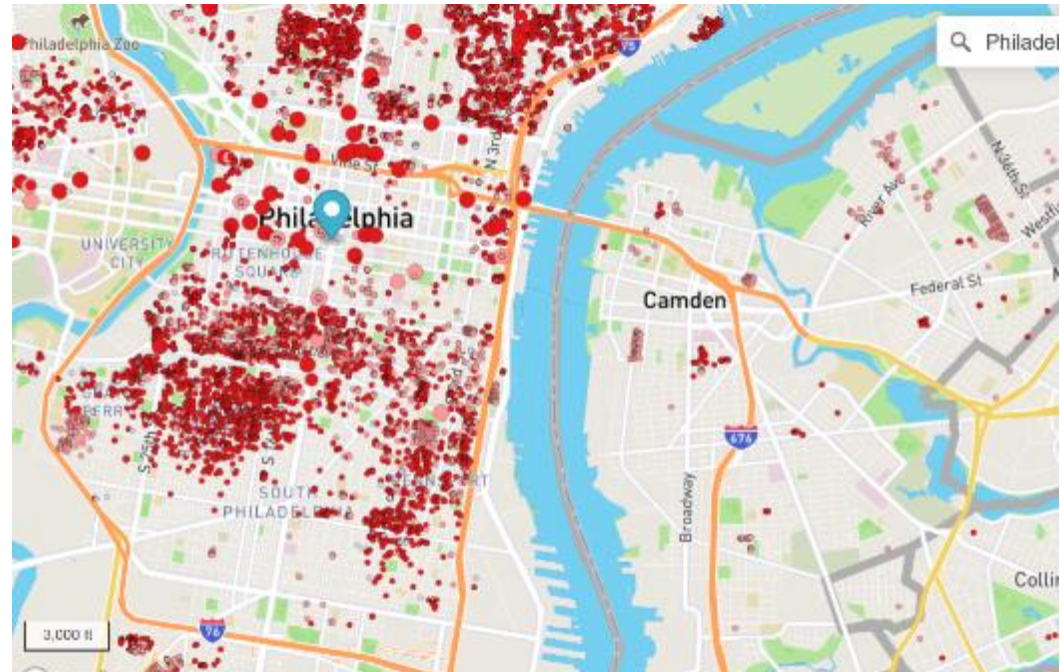
- Small dots are single-family,
- larger dots are apartments.

Color legend:

- Pink: built 2000-2009
- Red: built 2010-2022

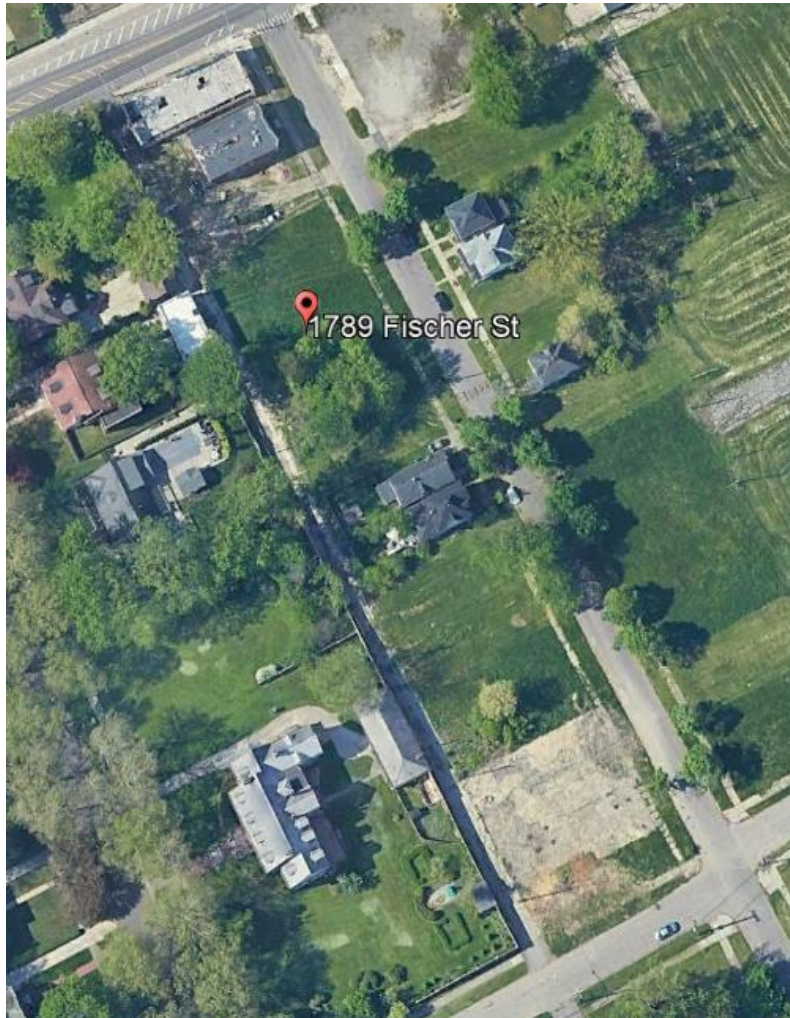
Maps for other industrial cities are available at:

[https://heat.aeihousingcenter.org/toolkit/year\\_built\\_map](https://heat.aeihousingcenter.org/toolkit/year_built_map)

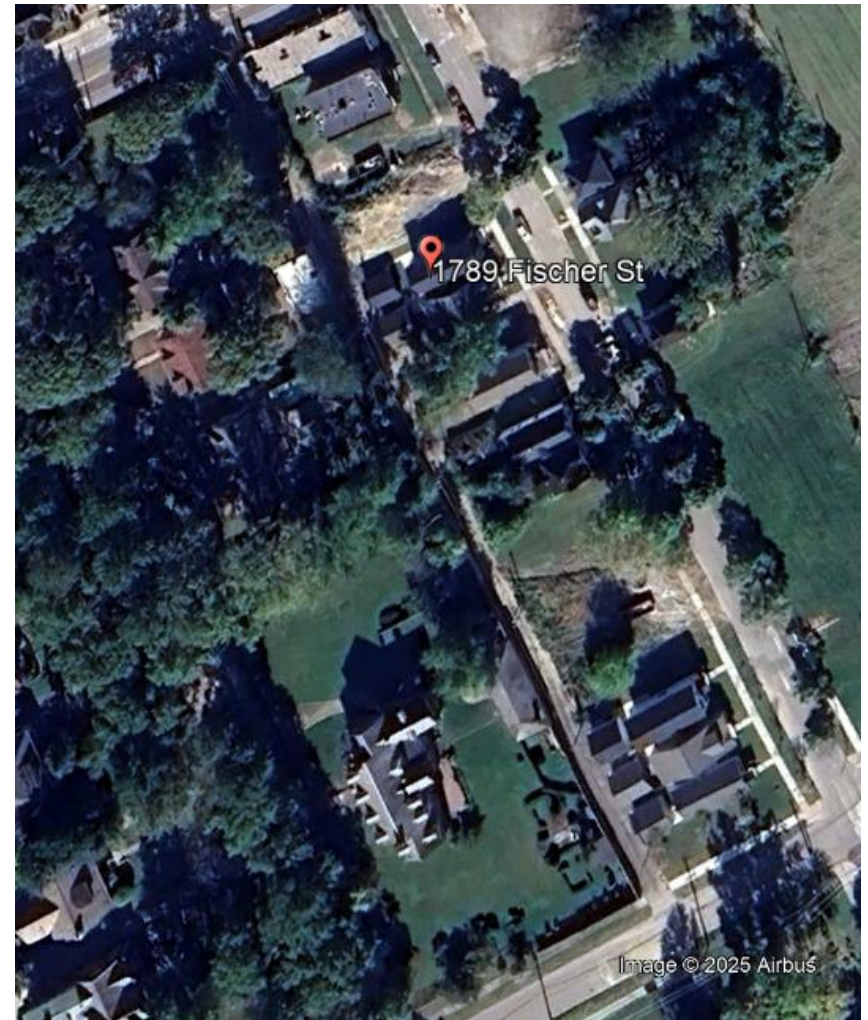


## Example: Recent development in Detroit's NEZ areas

As seen in May 2023



As seen in October 2024



Source: Google and AEI Housing Center, [www.AEI.org/housing](http://www.AEI.org/housing).

## The NEZ is relatively easy to transfer

Under the Neighborhood Enterprise Zone New Construction (NEZ-NC) program in Detroit, the tax abatement is tied to the property, not the original owner.

When an NEZ-NC home sells, the abatement transfers to the new owner:


- This is being advertised in the Listing (see right)
- The NEZ-NC tax abatement remains in effect for the remainder of the 15-year term and transfers to the new owner, provided:
  - The new owner occupies the property as their primary residence.
  - The new owner meets the eligibility criteria for the NEZ program, including applying for the Principal Residence Exemption (PRE).
- The new owner must notify the City of Detroit Assessor's Office to update records and maintain the abatement.

### About this home


The Charlevoix. This spacious brand new three-bedroom/two-and-one-half-bathroom home is full of midcentury design details and sets a new gold standard for the modern, urban lifestyle. The open-concept kitchen features tall modern slab-style cabinets with stunning burnt orange backsplash, a massive built-in island with breakfast bar, modern fixtures, brand-new high-end appliances, and plenty of storage. The large living room, centered around a striking gas fireplace with a midcentury mantle and surround, connects the large open kitchen and dining area. The first floor also includes a bright bonus room in the front of the house that is perfect for a home office, guest bedroom or den, generous closets throughout and a half bath. Upstairs, overlooking Indian Village, a generous primary suite with two walk-in closets and an en-suite bath with luxurious fixtures and tile. Down the hall are two spacious bedrooms that share a hall bath and an upstairs laundry room (a truly prized amenity for those who know). It gets even better: in addition to all the above, the home comes with a brand-new finished basement with high ceilings and a bright feel, with the option to add another bath, a two-car garage off the alley and a nice backyard patio. This is your very own brand-new home, not a renovation or a condo. There is no HOA and no board to deal with. It has been built using modern methods and materials in the best location in Detroit, and has been approved for the significant NEZ new construction tax abatement.

Show less ^

 Single-family

 2 garage spaces

 Built in 2024

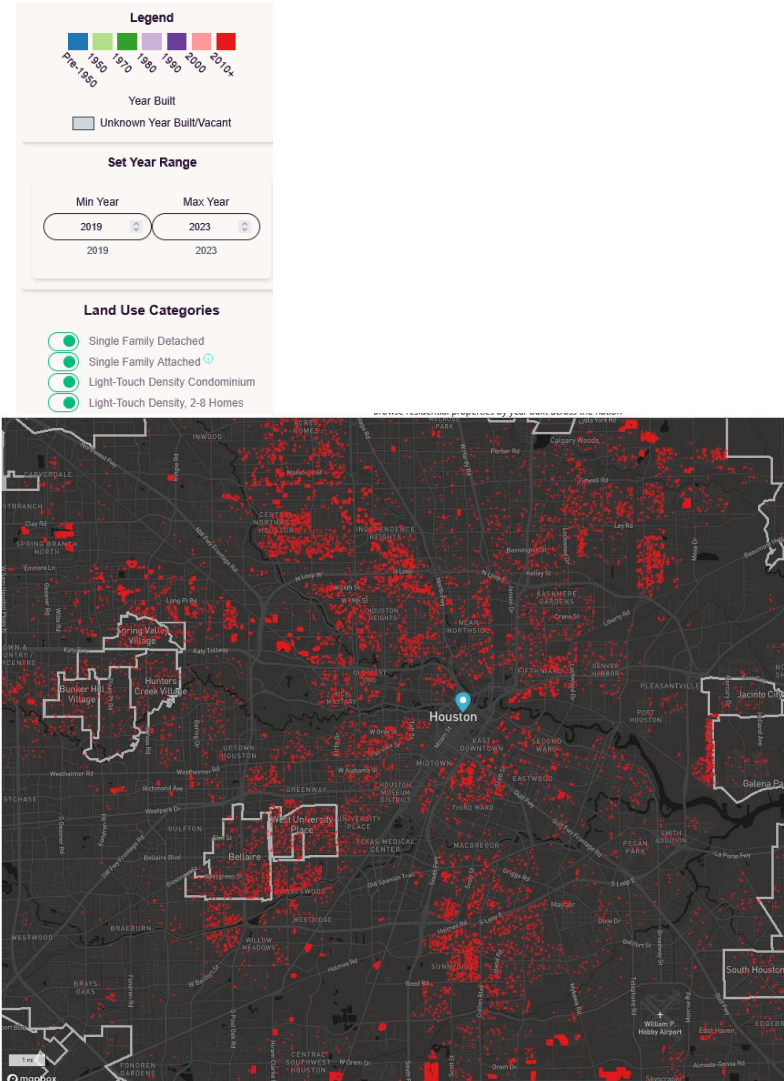
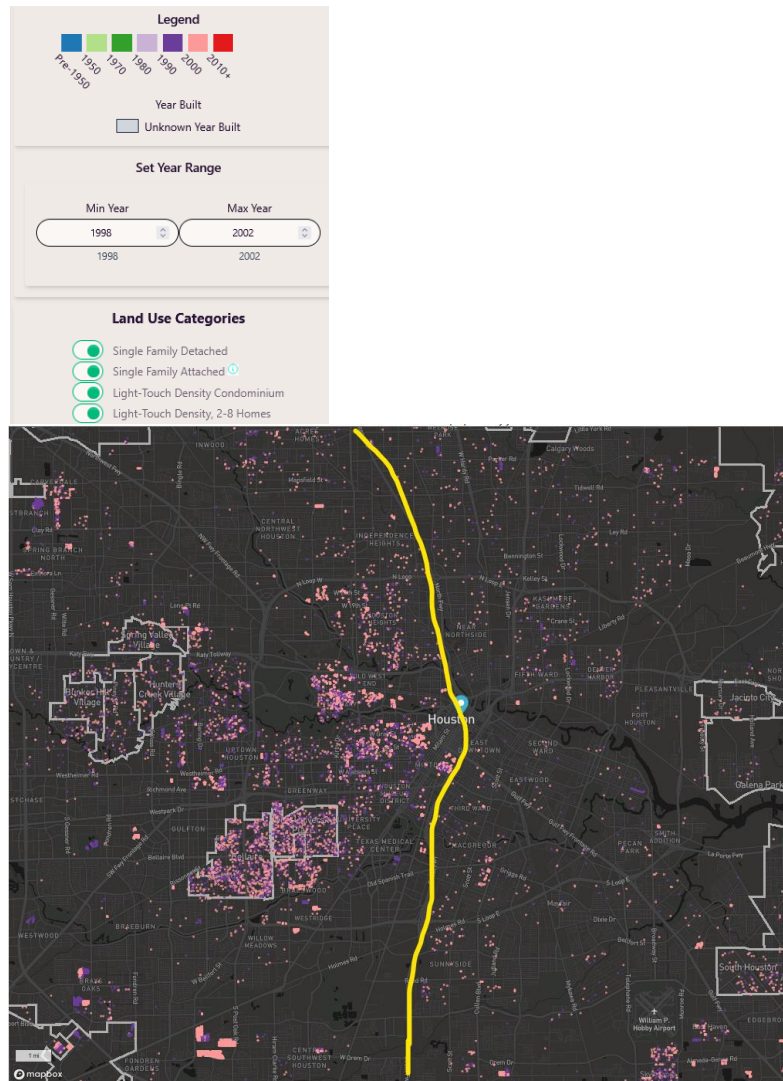
 Has A/C

For the full listing, see:

<https://www.redfin.com/MI/Detroit/1789-Fischer-St-48214/home/145156031>

# Houston: Reduced Lot Size Reform in 1998 & 2013 Added Tremendously to Housing Stock

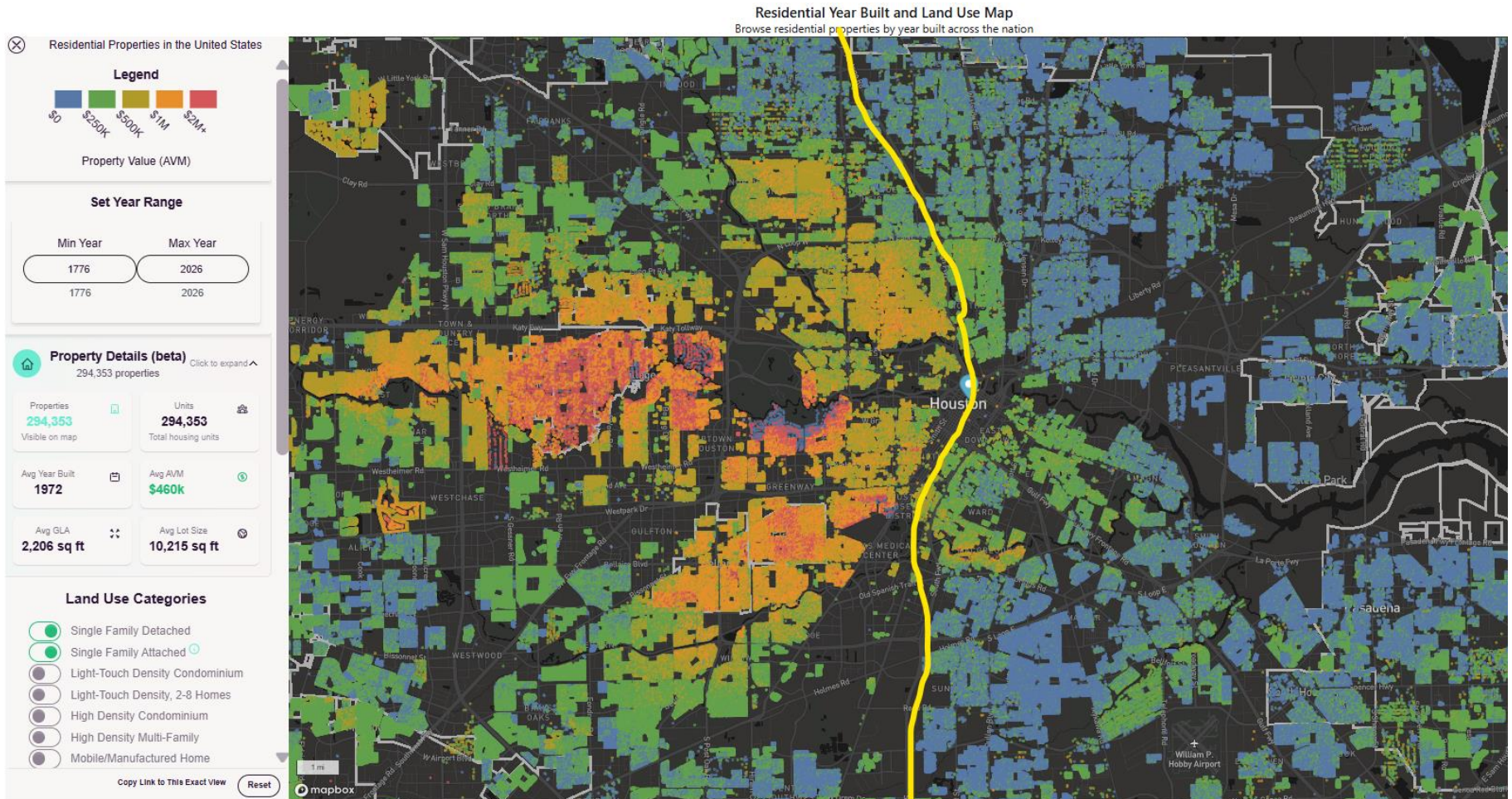
Lot size reduced from 5,000 to 1,400 sq. ft.: increased residential development began west of the yellow line (left map: over 1998-2002) and then spread east (right map: over 2019-2023). As the next slide shows, residential property values are much lower and vacant lots more prevalent east of the yellow line.



\* City limits shown by the thin white line. There are villages surrounded by Houston city that did not implement its small lot size change.

[https://heat.aeihousingcenter.org/toolkit/luv\\_map](https://heat.aeihousingcenter.org/toolkit/luv_map)

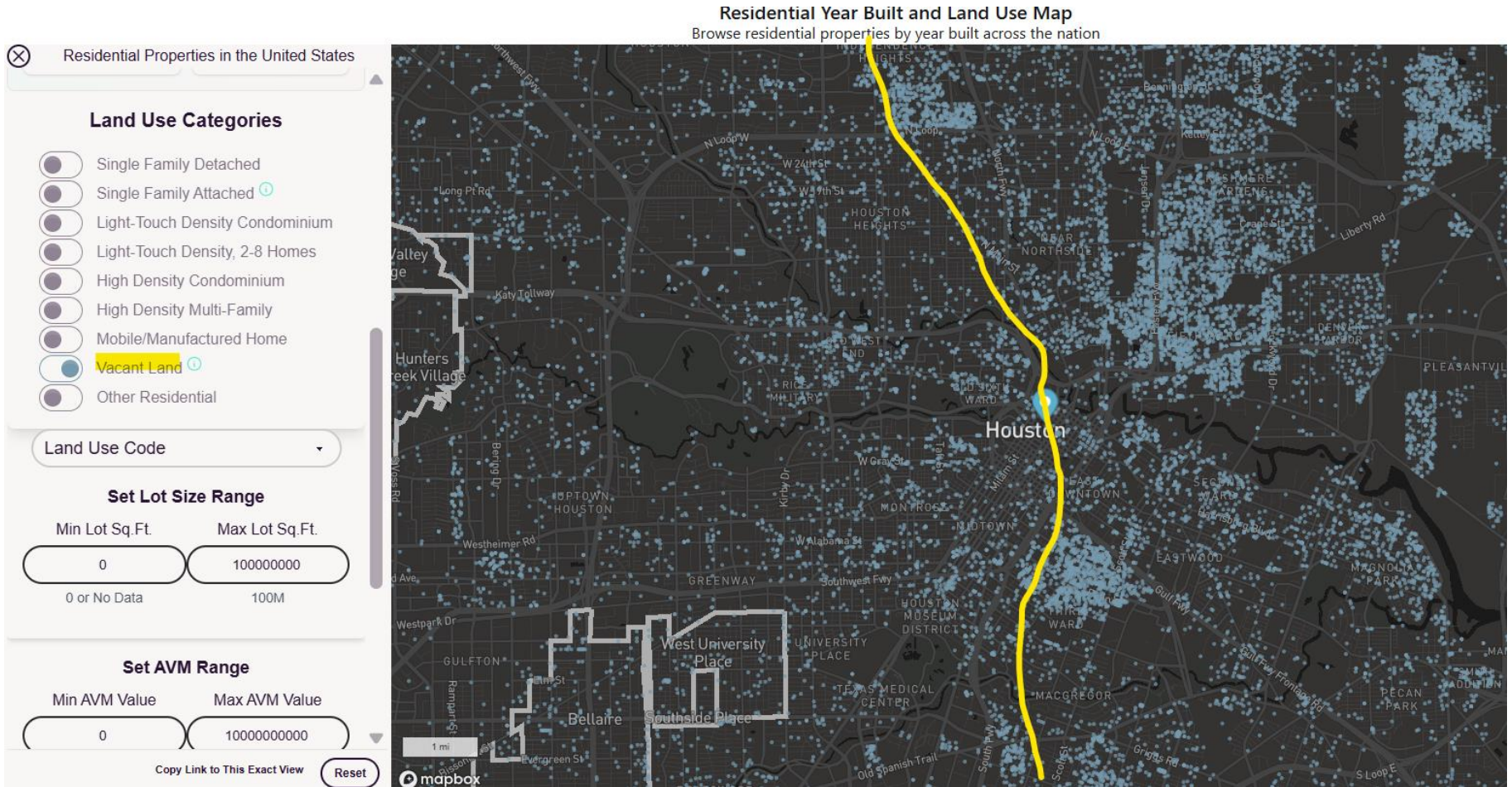
# Houston: Today, residential property values are much lower east of the yellow line



\* City limits shown by the thin white line. There are villages surrounded by Houston city that did not implement its small lot size change.

[https://heat.aeihousingcenter.org/toolkit/luv\\_map](https://heat.aeihousingcenter.org/toolkit/luv_map)

# Houston: Today, vacant lots much more prevalent east of the yellow line, indicative of substantial room for continued renewal.



\* City limits shown by the thin white line. There are villages surrounded by Houston city that did not implement its small lot size change.

[https://heat.aeihousingcenter.org/toolkit/luv\\_map](https://heat.aeihousingcenter.org/toolkit/luv_map)

## Data & Methodology

---

Data on Detroit’s Neighborhood Enterprise Zone (NEZ) property tax abatement program come from multiple sources. Spatial boundaries for NEZ districts are obtained from City of Detroit shapefiles, which define the areas eligible for the program under Michigan Public Act 147 of 1992.

Property-level data on NEZ recipients from 1993 through 2020 were obtained from the City of Detroit Open Data Portal, which lists all parcels that received the abatement along with the corresponding property type, address, and abatement term. Data for 2021–2025 were acquired through a Freedom of Information Act (FOIA) request to the Michigan Department of Treasury. We restrict our analysis to over 1,800 new construction properties and geocode all eligible addresses using Geocodio, which provides high-accuracy coordinate matching for integration with parcel-level and neighborhood data.

For the analysis using Redfin data (accessed July 1, 2025), we downloaded sales from the past five years for homes built since 2019 and flagged listings that referenced “NEZ” in the description (N=297). Because listings do not consistently disclose abatements, 105 observations did not mention NEZ; this should not be interpreted as lack of eligibility or receipt. Among these 105, at most eight appear to fall outside current NEZ-NR district boundaries. We also observed anecdotal cases where properties outside mapped boundaries nonetheless received abatements pursuant to City Council resolution.

See <https://data.detroitmi.gov/datasets/detroitmi::nez-nr-districts/about>.

For the data, see <https://www.michigan.gov/taxes/property/reports/neighborhood-enterprise-zone-pa-147-of-1992/neighborhood-enterprise-zone-reports> and for the program details: [https://detroitmi.gov/Portals/0/docs/finance/Assessment/NEZ\\_FAQ\\_info.pdf](https://detroitmi.gov/Portals/0/docs/finance/Assessment/NEZ_FAQ_info.pdf).