



# Comparison of Development Costs: Multi-Family & Single-Family Housing

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**Housing & Revitalization Department  
Policy Development  
& Implementation Division**



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## I. Scope

Detroit City Council requested that the Housing & Revitalization Department (HRD) conduct an “analysis of the cost of more multi-family vs. single-family homes.” This report provides this analysis using available cost data from active housing development projects in Detroit with additional cost estimate data incorporated to fill in data gaps. HRD assessed actual housing development costs across a variety of projects to create financial models for multifamily and single-family development projects to serve as the basis for comparison. HRD then assessed these financial models against current housing finance tools including lending, gap financing, tax credits, and tax abatements. The report concludes with recommendations from HRD based on this analysis.

The Policy & Implementation division in HRD sought to prepare this report with sufficient background, context, and data to provide insight to Detroit City Council as well as other City departments, external stakeholders, and the public. If additional questions remain the department is available to respond to further inquiries.

## II. Background

### **MISSION**

This analysis was informed by the mission of HRD to “soundly and transparently invest funds and deliver services to ensure that housing and neighborhoods are high quality, affordable, and accessible to and for all Detroiters.”

HRD approaches its mission with the understanding that a variety of housing types across different affordability levels and price points are necessary to promote vibrant neighborhoods and quality housing across the city. Multifamily rental properties provide housing opportunities that can satisfy a variety of resident preferences including affordability, access to building amenities, maintenance-free lifestyle, and mobility, among others. Single family homes typically offer more space, yard access, and in the context of homeownership, the opportunity to build wealth and customize your space to suit your preferences. There is also “middle” housing, the in-between housing types such as duplexes, triplexes, quads, townhouses, rowhouses, and small mixed-use buildings that can offer a blend of these features. Due to limited new construction activity in this category, middle housing is not a subject of this analysis.

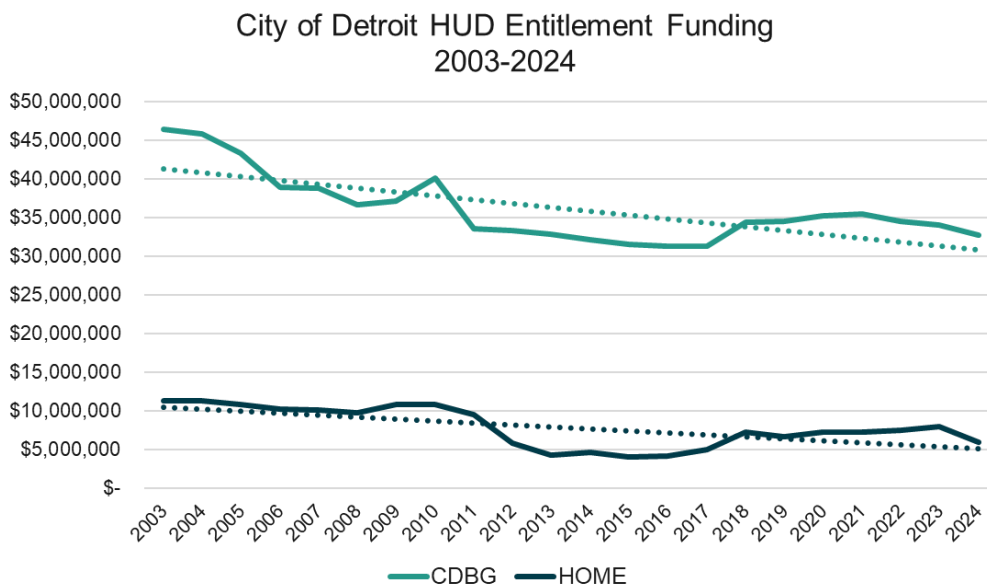
The desire and benefits of a mix of multifamily and mixed-use development, single family stabilization, and commercial activation were common themes across the City of Detroit planning studies and neighborhood framework plans. These community-driven neighborhood plans envisioned Detroit neighborhoods with mixed-use, walkable corridors surrounded by middle-density and single-family areas that afford a variety of options for a diverse range of households.

## HRD INVESTMENTS

A potential use for this analysis is to inform future decision making about how City investments into housing development, specifically the development of subsidized affordable housing, are made across housing types.

The City routinely makes affordable housing gap financing available to affordable housing developers. This includes funding from HUD entitlements including HOME Partnership funds and Community Development Block Grants and local private funds through the Affordable Housing Development and Preservation Fund (commonly known as the Trust Fund). Funding levels vary from year to year based on congressional appropriation of HUD entitlement dollars and proceeds from the sale of City-owned commercial land (of which 40% of proceeds are transferred to the Trust Fund). The annual allocation of affordable housing gap financing from all sources is approximately \$10 million. From 2021-2025, the City has also allocated ARPA funding to support the development of affordable housing, a \$68 million infusion of gap funding.

The availability of HOME and CDBG funds has been on the decline over the past 20 years. This is the result of a combination of declines in Congressional appropriations to these programs and population loss in Detroit over this period, which is factored into HUD's award formulas. The chart below shows the annual awards of HOME and CDBG dollars to the City (solid line) and the long term trendline (dotted line). The City's CDBG award in 2003 was more than \$46.4 million, declining to \$32.7 million in 2024. The City's HOME award in 2003 was \$11.3 million in 2003, declining to \$5.9 million in 2024. These amounts are not adjusted for inflation, so the impact of these funds has declined due to inflationary pressures over this period. As a result, the City has had to focus on leveraging other sources of affordable housing financing, particularly Low Income Housing Tax Credits, in order to increase affordable housing production and preservation.



## **HISTORY OF CITY SUPPORTED PROJECT TYPES**

In previous time periods the City has allocated a significant portion of its affordable housing gap financing dollars to single family infill construction projects. From approximately 2000 through 2008, the City deployed much of its HOME Partnership and CDBG housing dollars to new construction single family homeownership projects. These projects were undertaken primarily by Community Development Organizations (CDOs), including projects completed by organizations such as Bagley Housing, Greater Corktown Development Corp., USNAPBAC, Creekside Community Development Corp., Detroit Catholic Pastoral Alliance, Grandmont Rosedale CDC, and others.

These projects were often comprised of 20-30 units of single-family infill houses, most commonly 3-bedroom units with 1.5-2 bathrooms and built on City-owned land. CDOs received commitments of HOME and CDBG to fill gaps between construction costs and the mortgage amounts low-income buyers could qualify for. As CDOs sold the houses to income qualified buyers, the City converted a portion of its gap financing into second mortgages to secure the affordability terms.

This use of City gap financing for this purpose ended with the mortgage crisis of 2008-2012. During this time, building new for-sale housing was not possible due to severely depressed housing values, a glut of vacant homes on the market, inability for developers to secure financing, and inability for buyers to access mortgage lending. During this period many of the CDOs that sponsored these projects folded or shifted to other activities. Many contractors and tradespersons in the market left the business or relocated to regions of the country where single family construction rebounded more quickly.

As much of the country emerged from the recession and credit crises after 2012, the effects on the housing market and economy in Detroit lingered. This recovery was further constrained by Detroit's bankruptcy during this period.

The Housing & Revitalization Dept. was created as part of the City's restructuring after the bankruptcy in 2016. As capacity to source, support, and invest in affordable housing development and preservation was rebuilt, the focus has been primarily on multifamily housing due to the continued financial challenges with single family infill, the changing cost structure of construction, and the availability of other affordable housing financing tools and incentives for multifamily development.

## **COST TRENDS**

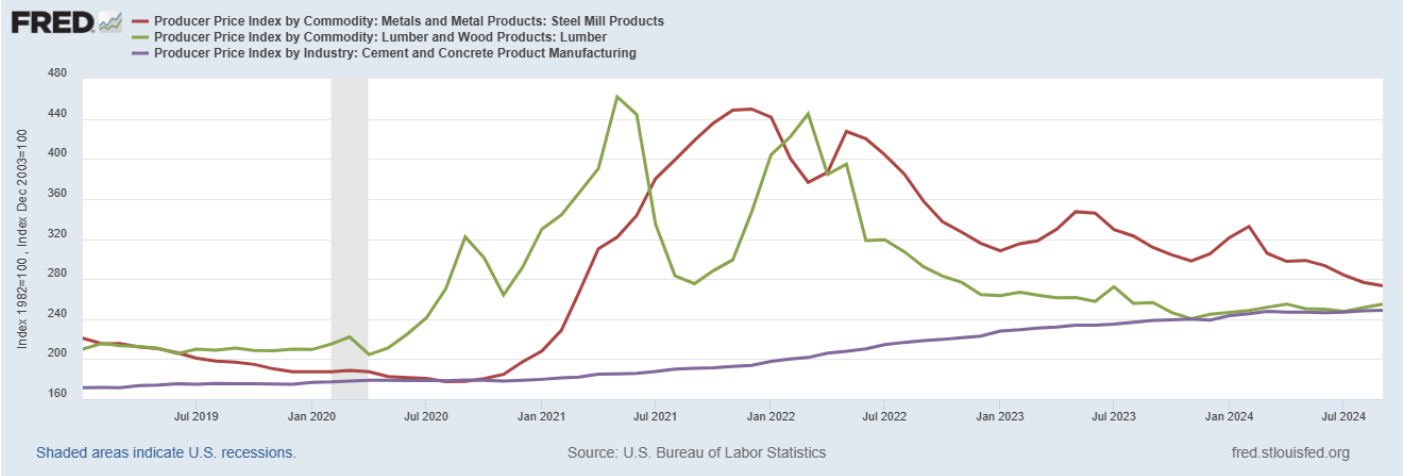
Another market factor that has influenced affordable housing development has been the significant increase in construction costs across all construction methods and materials.

The table below shows the extent of construction material cost increases from February 2020 through September 2024 as pandemic-related supply chain constraints drastically affected prices. The price of steel jumped as high as 240% by December 2021 and remained 146% above

the February 2020 price as of late 2024. Lumber followed a similar price trend, increasing to a high of 215% above February 2020 prices in May of 2021, having since come down to 118% above the February 2020 price. Concrete did not experience a drastic jump in price but has steadily increased over the past four years and was at a recent high of 140% above February 2020 prices as of September 2024.

Material	Post Pandemic High	Sept 2024 Pricing (Relative to Feb 2020)
Steel	+240% Dec 2021	+146%
Lumber	+215% May 2021	+118%
Concrete	+140% Sept 2024	+140%

The chart below shows the volatility of construction material pricing following the start of the pandemic (grey vertical bar) and the continuing price premiums relative to pre-pandemic costs.



### III. Multi-Family Development Cost Analysis

#### METHOD

To analyze the cost of multi-family housing development, HRD drew upon data from multi-family housing development activity currently underway in Detroit. HRD selected four (4) representative multi-family housing developments for which the department has full and detailed cost information. These projects range from 33 units in size to 60 units in size (average = 48) and represent a total of 190 housing units. These projects closed on financing and began construction between December 2022 and January 2025. The projects included a mix of one-bedroom (73) and two-bedroom (117) apartment units. These projects are all ground-up new construction and exclude projects that include significant non-housing uses such as commercial space, space for on-site supportive service delivery, or other physical amenities that substantially add to development costs.

The projects used for this analysis include a range of Area Median Income limits. The 190 units include 33 units at 30% AMI, 44 units at 40% AMI, 11 units at 50% AMI, 68 units at 60% AMI, and 20 market rate units. In addition, there were 13 Project Based Vouchers allocated to these projects. A breakdown of units by AMI and bedroom sizes is as follows:

Affordability Level	1BR Units	2BR Units	Total by Affordability Level
30% AMI	16	17	<b>33</b>
40% AMI	27	17	<b>44</b>
50% AMI	10	15	<b>25</b>
60% AMI	16	52	<b>68</b>
Market Rate	4	16	<b>20</b>
<b>Total by Unit Size:</b>	<b>73</b>	<b>117</b>	<b>Total Units: 190</b>

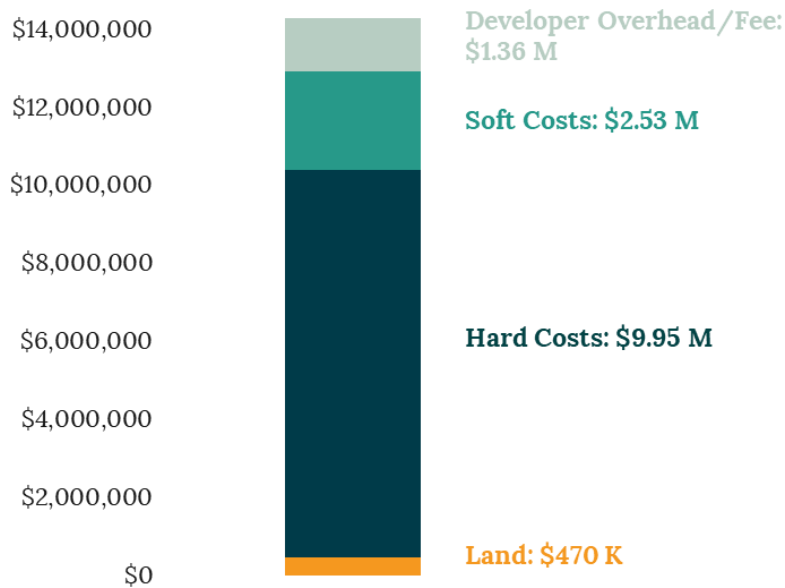
Development costs can vary greatly depending on specific project factors including building scale, value of the land, environmental conditions, quality of existing infrastructure, etc. To smooth out project-specific variables, development costs are presented here as a composite development model that averages the four multifamily projects into a single example project. The result is an example project with the following specifications:

Composite Example Multifamily Project Specifications		
<b>Total Units:</b>	47	
<b>Gross Sq Ft:</b>	35,000	
<b>Unit Configuration:</b>	One BR	18
	Two BR	29
<b>Affordability:</b>	30% AMI	8
	40% AMI	11
	50% AMI	6
	60% AMI	17
	Market Rate	5

**DEVELOPMENT COSTS**

Based on analysis of the development proformas of the projects analyzed, the expected construction cost for the composite 47 unit multifamily project would be approximately \$14,310,000, or \$304,000 per unit on average. The breakdown of development costs by use for this composite project is as follows:

### Example Multifamily Affordable Housing Cost Structure



On a per-unit basis, the average unit cost across all unit sizes in the four subject developments ranged from a low of \$278,000 per unit to a high of \$331,000 per unit. Analyzing the per unit costs based on the unit size mix across the four properties, HRD created unit cost estimates by unit size, as follows:

Unit Size	Est. Average Unit Cost Range
One Bedroom	\$274,000 - \$284,000
Two Bedroom	\$318,000 - \$323,000

### DEVELOPMENT FEASIBILITY

The feasibility of affordable multifamily development relies on the availability and layering of a variety of financing sources, many of which are specific to multifamily affordable housing construction. Financing for multifamily affordable housing development is typically comprised of the following sources:

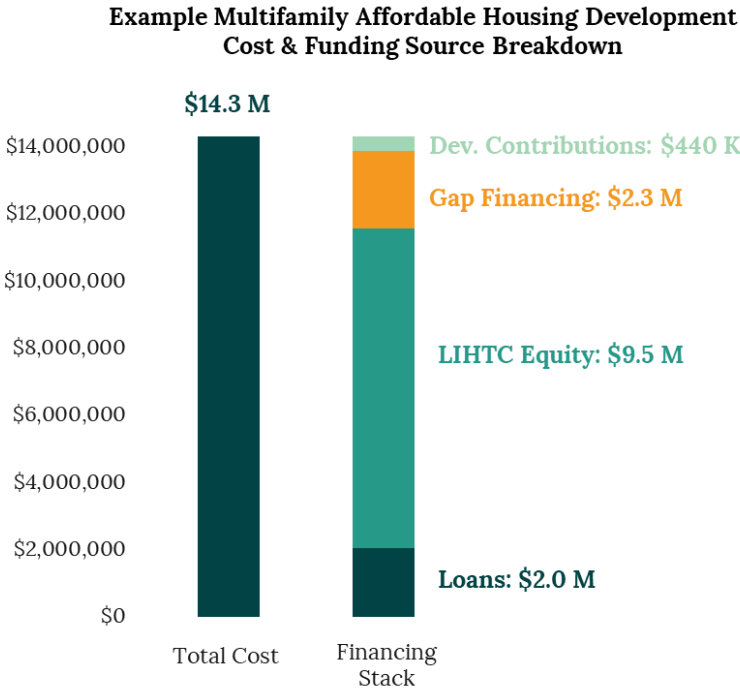
- **Loans-** Developers can borrow funds for development based on expected cash flow of the project. Due to the low rents charged and the necessary operating costs of managing affordable multifamily housing, the ability to borrow funds is limited. Loan sources can include public loan dollars from the Michigan State Housing Development Authority, Community Development Financial Institutions, or private lenders.
- **Low Income Housing Tax Credits (LIHTC)-** LIHTC is the largest source of affordable housing subsidy in the nation. These tax credits are made available at the federal level and allocated to states to award to projects. Once awarded, developers can sell these credits to investors and use the proceeds of the sale of credits to finance affordable housing development. The LIHTC program can only be used for affordable rental housing.

- **Gap Financing-** After LIHTC and loans are secured, affordable housing projects in Detroit typically have a financing gap. Gap financing is primarily made available by the City of Detroit, however there are limited gap financing dollars available through MSHDA and through private contributors such as the Federal Home Loan Bank of Indianapolis. The City typically invests gap financing as long-term, low-interest, cash-flow based loans that secure the affordability terms.
- **Developer Contributions-** To make a project work, developers make contributions in the form of deferred developers fees, sponsor loans and/or sponsor equity.

For the example composite multifamily affordable housing project, to finance the \$14,300,000 cost of the 47-unit project, the estimated allocation of project cost by funding source is:

Source	Amount
Loans	\$ 2,035,000
LIHTC Equity <sup>1</sup>	\$ 9,530,000
Gap Financing	\$ 2,295,000
Developer Contribution	\$ 440,000
<b>Total:</b>	<b>\$14,300,000</b>

Breaking this down on a per unit basis shows how the financing of an individual multifamily housing unit is structured:



<sup>1</sup> Sponsors of LIHTC awards typically sell these tax credits and use the proceeds to fund affordable housing development. The equity figures here reflect the actual equity received at the pricing levels that existed at time of credit sales.

The modeled amount of gap financing needed of \$2,295,000 could include gap financing from the City and other sources, including MSHDA and the Federal Home Loan Bank of Indianapolis. Sources of gap financing are limited and highly competitive. Looking solely at the City's investment of gap funds, the average per-project subsidy on City-financed multifamily projects was \$2,030,000 (or \$43,000/unit).

## IV. Single Family Development Cost Analysis

### **METHOD**

To analyze the cost of single-family housing development, HRD drew upon a very limited sample of development activity underway in Detroit. The limited number of new construction single family development projects required additional data to be incorporated into the modeling. This included development proformas from single family projects still in predevelopment and construction cost modeling software used by HRD to estimate building costs.

For this analysis, HRD is assuming that single family infill homes would be built to be sold rather than held as rental properties. New construction single family rentals is a small segment of the national housing market, representing 9% of all new single-family housing starts in 2024. There have been no measurable new construction single family rentals in Detroit in recent years. In the past, LIHTC was used as a tool in the new construction of single family affordable rental homes, however these projects have experienced major challenges to financial viability. As a result, this is no longer a development model that is pursued.

Projects used in this analysis included a mix of site-built and modular construction. While construction line items vary based on building method (e.g., modular construction may have material and labor cost efficiencies but requires transportation costs to bring the modules to the site), at this time these methods are not significantly different from a total cost perspective.

There are several emerging innovative construction methods that may impact the future economics of housing construction. These include a range of new manufactured housing concepts, 3D printed construction technologies, and other experimental building methods. At this time, there is limited data on the impact of these technologies on construction costs for single family housing at scale in Detroit and are not included in this analysis.

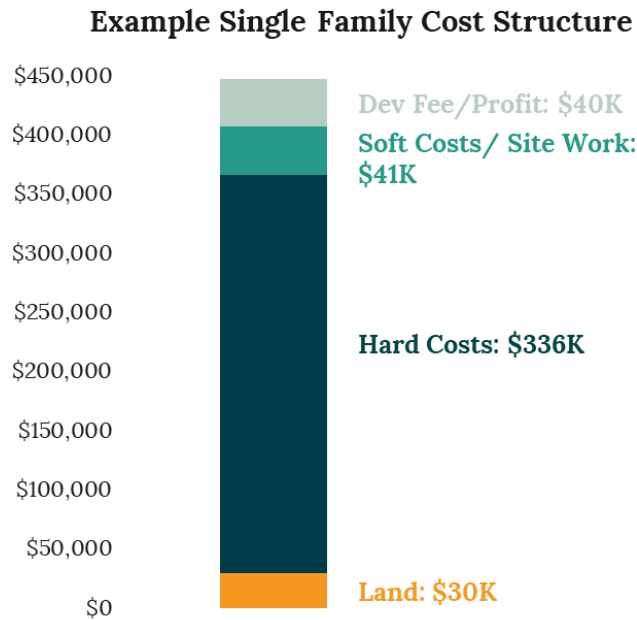
An important caveat to this data is that the costs of single-family housing development vary widely depending on factors such as location/land cost, quality of existing infrastructure, inclusion of a basement, inclusion and size of garage, quality of kitchen and bath finishes, etc. Developers of single-family housing need to weigh costs of location, amenity, and design options against buyer preferences and viable price points.

For purposes of this comparative analysis, an example project was developed as a medium-sized 3 bed/2 bath home built with mid-grade finishes.

Example Single Family Project Specifications		
<b>Sq Ft:</b>	1,420	
<b>House Configuration:</b>	Bedrooms	3
	Baths	2
	Garage	Yes
	Basement	Yes

### DEVELOPMENT COSTS

Based on development cost data collected for this analysis, the expected construction cost for the example single family housing unit is around \$407,000. Factoring a profit/developer fee of 10% brings the total cost to around \$447,700. Again, this could vary significantly based on location specifics including cost of land, environmental conditions, and quality of existing infrastructure. The breakdown of this total cost by is as follows:



The individual developments and cost estimates used to develop this average (excluding developer profit) ranged from a low of \$360,000 for a smaller 2 bedroom, 1 bath home to a high of \$475,000 for a 4 bedroom, 2.5 bath home with higher end finishes, illustrating the variability of single-family construction costs.

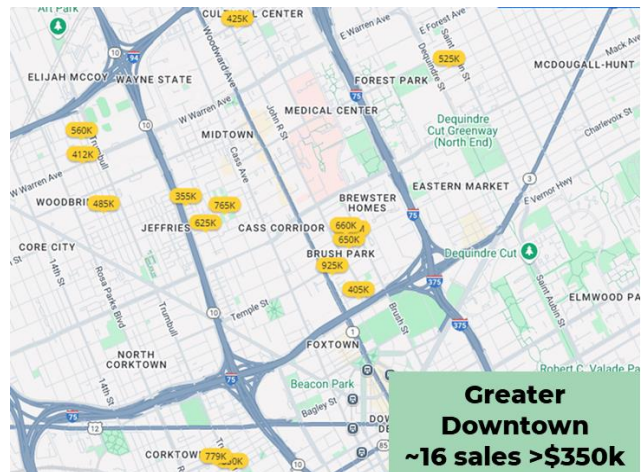
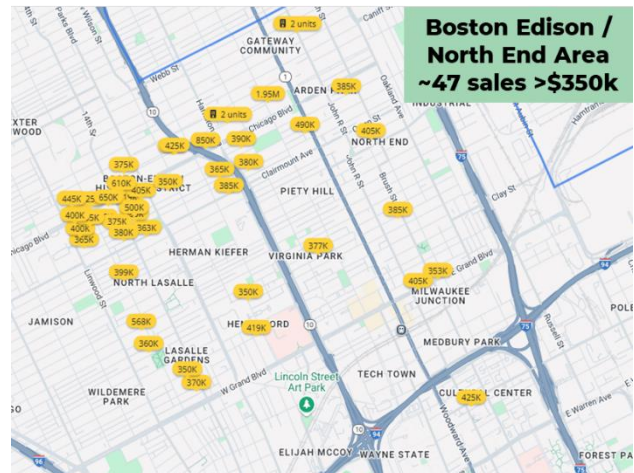
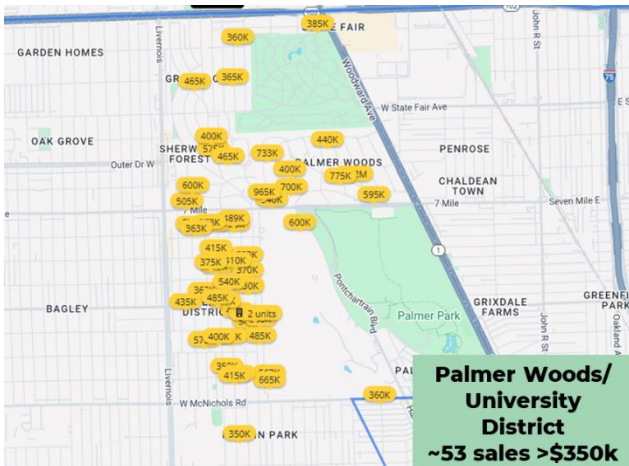
On a per square foot basis, construction costs (hard costs only) of single-family housing are around \$220-225 per square foot for basic features/finishes and in the \$250-280 per square foot range for higher end design and finishes. Smaller homes tend to be on the higher end of the per square foot cost range and larger homes are on the lower end of per square foot cost range. This is due in part to construction line items that are fixed or relatively fixed regardless of unit size (e.g. utility hook ups, HVAC equipment, appliances, etc.).

## DEVELOPMENT FEASIBILITY

The feasibility of development of single family for sale housing must be assessed through the related lenses of appraisal feasibility (how the cost of construction compares to home sales prices in the surrounding neighborhood) and affordability feasibility (whether a homebuyer can afford to purchase the home at or above the development cost).

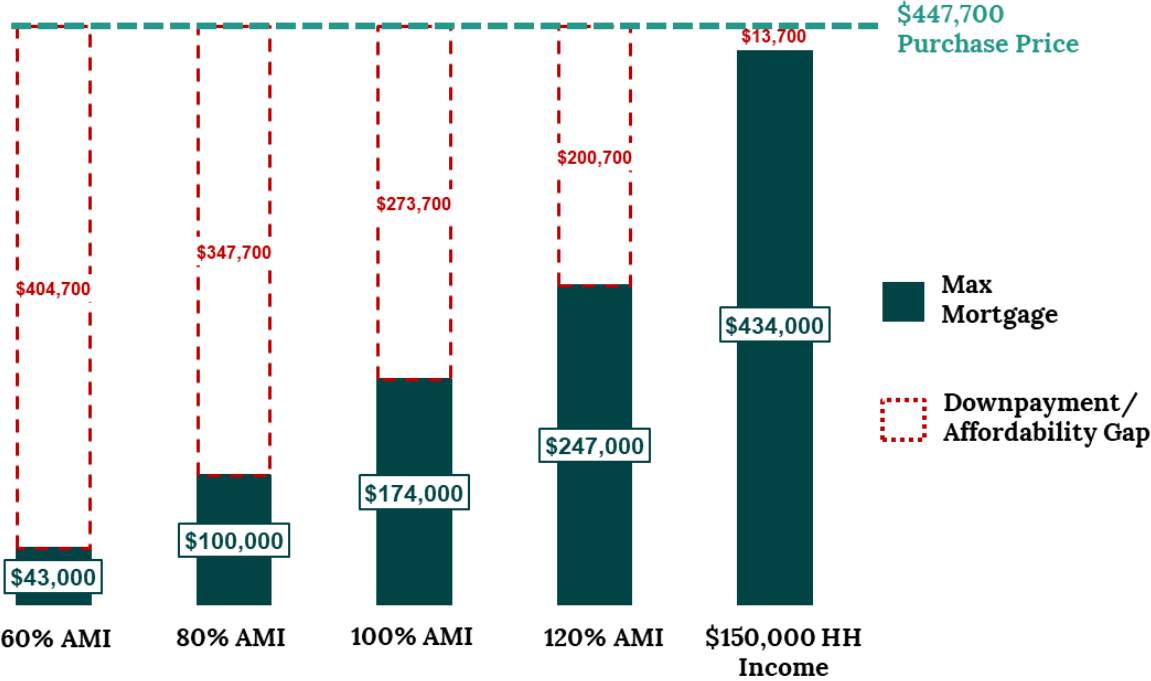
While home values have steadily increased in Detroit since the 2012, the average home sales price in Detroit in 2024 was \$87,500 according to Realcomp MLS data. Home sales are overwhelmingly for existing houses rather than new construction and include those in need of rehabilitation work. This low average home sales price illustrates that making new construction infill housing work in the majority of the city is not possible from an appraisal perspective.

Looking at recent 2024 Zillow data, there are few locations in Detroit that can support home prices above \$350,000. There were approximately 143 single family homes sold for more than \$350,000 in 2024. These are primarily neighborhoods with larger, historic housing stock. While these neighborhoods demonstrate higher sales prices, the large size of these homes means the per square foot price (the primary input into a home appraisal) is typically lower than what is necessary to support appraisal comps for medium sized new construction.



In addition to needing single family housing developments to meet appraisal requirements, they must also be affordable to prospective homebuyers. To assess feasibility from an affordability perspective, an estimate of the maximum mortgage amount possible at different income levels is provided below. This data is calculated based on a four-person household and assumes that a household can pay 30% of total household income toward a monthly housing payment including principle, interest, taxes and insurance (PITI). The property taxes and homeowner insurance payments are estimated based on a \$447,700 sales price. Property taxes are based on the Homestead tax rate of 69.1931 and assumes the home is eligible for and uses the NEZ-H tax rate (estimated here to be a 17.5% reduction in property taxes). Households at 60% AMI are assumed to use the 10% HOPE property tax exemption. Homeowners insurance, a highly variable cost depending on the insurer and coverage levels, is estimated here at \$2,400/year. This analysis assumes a 30-year fixed rate mortgage at 6.8% interest.

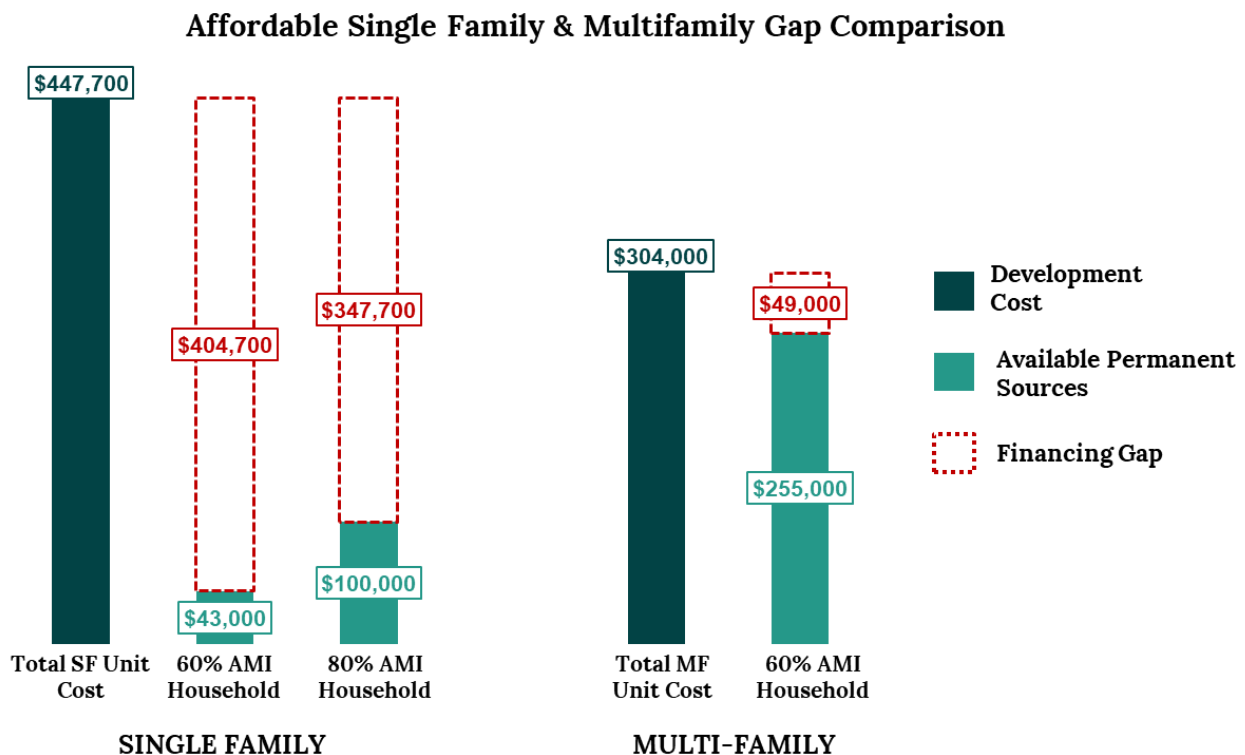
**New Single Family Affordability Gap by Income Level**



The chart above shows that a household needs to have an income of around \$164,000 per year (approximately 170% of Area Median Income) in order to purchase a \$447,700 house. This presumes a 3% downpayment of \$13,700 and a \$434,000 mortgage. Low- and moderate-income homebuyers would require large combinations of downpayments and/or subsidy in order to bridge the gap between mortgage amounts and the new construction purchase price. At this time, there are no homeownership subsidy programs at the federal, state, or local level that are offered at the scale needed to close these financing gaps for a significant number of households. The primary homeownership subsidy tool used recently in Detroit, a \$25,000 Down Payment Assistance Program, is among the most generous homeownership subsidies in the nation but insufficient to make new construction homeownership feasible for low-income households.

## V. Financing Gap Comparison

At current construction costs, the typical multifamily housing unit costs approximately \$145,000 less to construct than the typical single-family house (\$302,000 for a multifamily apartment unit compared to \$447,700 for a single-family home). Permanent financing sources for single family homeownership is limited to the buyer’s mortgage whereas there are a variety of financing sources for multifamily rental, including public affordable housing subsidies. Comparing construction costs and available permanent financing sources for single family homeownership and multifamily affordable rental housing shows significantly larger financing gaps for low-income households in the single-family homeownership units. New construction single family homeownership units have an estimated financing gap of \$347,700 to \$404,700 for a low-income household. This financing gap is seven to eight times larger than a typical financing gap for a multifamily unit priced affordably to a low-income household.



This financing gap for single family homeownership can be reduced—but not completely closed—by reducing size, amenities, and quality of finishes in new construction projects, however these changes subsequently reduce the house’s appraised value and create appraisal challenges.

## VI. Recommended Actions

Given this analysis, HRD recommends the following actions to fulfill its goals for affordable housing, homeownership, and neighborhood revitalization:

- Continue to prioritize financing highly leveraged affordable multifamily housing development to address the need for affordable housing among low-income Detroiters.
- Continue to subsidize affordable homeownership for low- and moderate-income households with Downpayment Assistance to make the market for existing for-sale housing more accessible for Detroit households.
- Make public resources more readily available to assist with development-ready sites for single family infill projects offering affordability.
- Provide support and assistance to developers using innovative construction methods and value engineering methods to reduce the cost of single-family housing construction.
- Convene cross-departmental City working group to identify ways to streamline approvals and other processes to reduce administrative time and costs of infill housing.
- Advocate at the state and federal levels for affordable housing subsidy programs tailored to single family for-sale housing units such as the [Neighborhood Homes Tax Credit](#).
- Repeat this analysis on a regular basis to monitor cost trends of multi-family and single family housing developments.