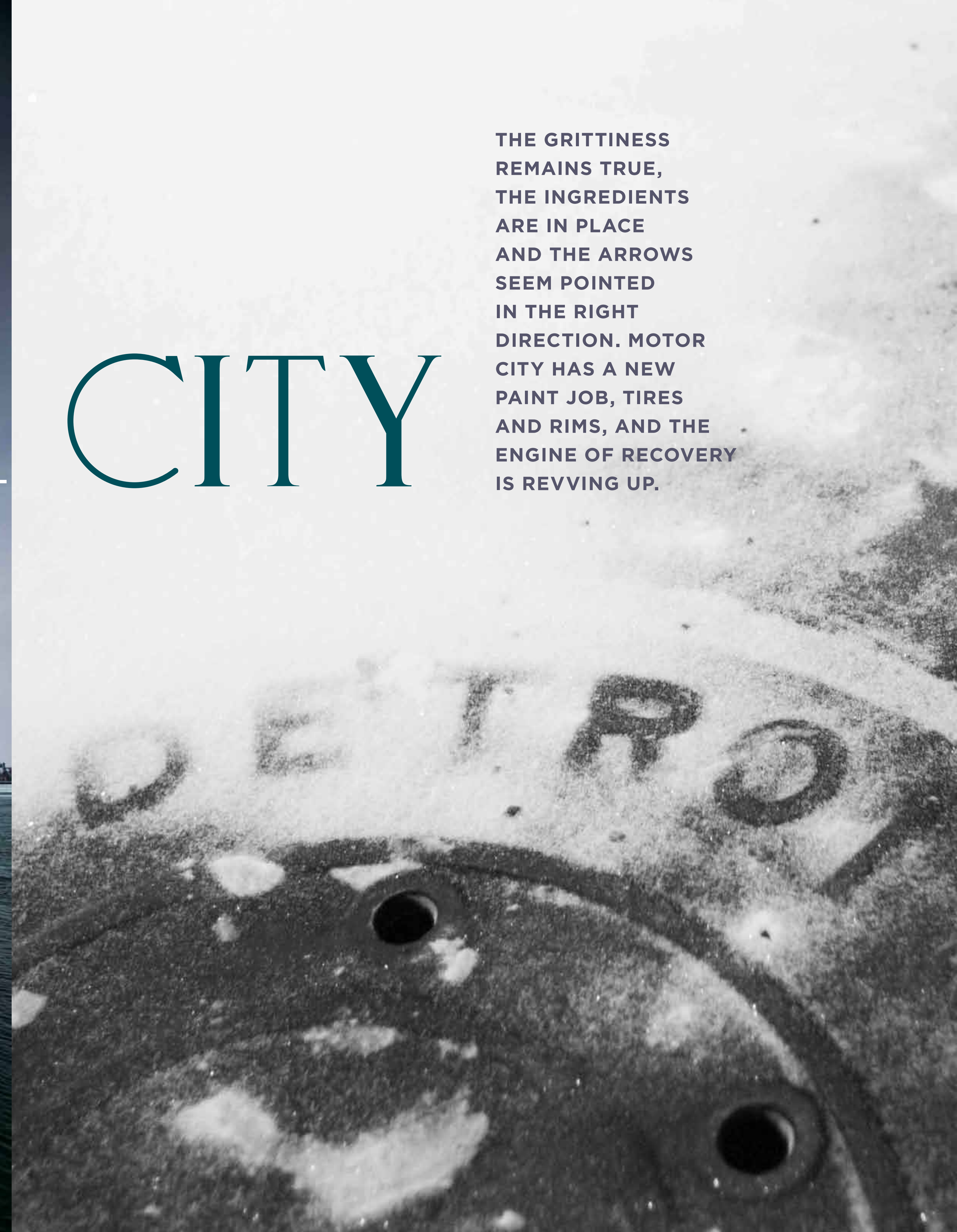
STORY BY DORON LEVIN

COMEBACK CITY

"A CITY LYING IN WAIT" PORTFOLIO BY MATTHEW GUSH



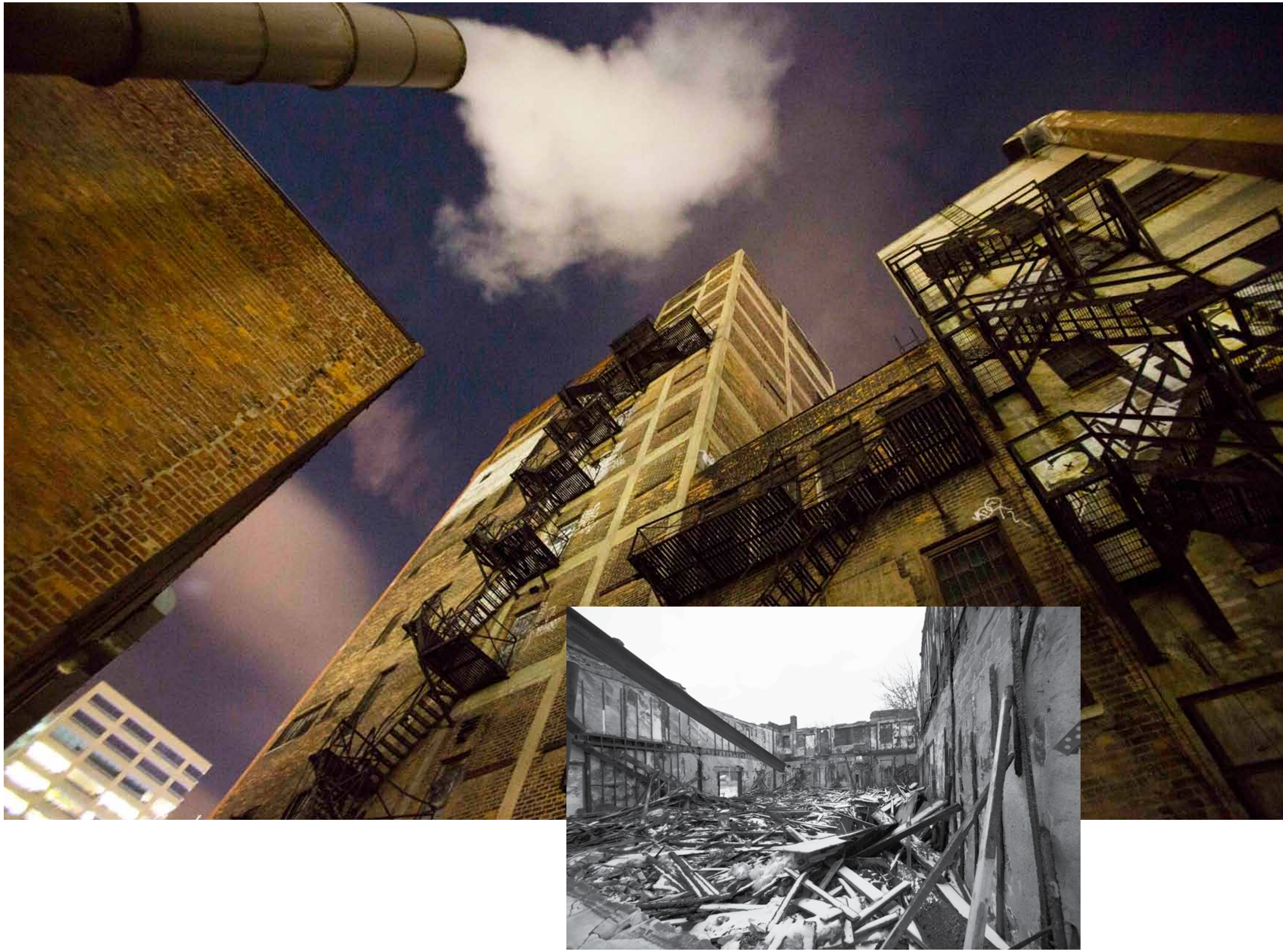
THE GRITTINESS REMAINS TRUE, THE INGREDIENTS ARE IN PLACE AND THE ARROWS SEEM POINTED IN THE RIGHT DIRECTION. MOTOR CITY HAS A NEW PAINT JOB, TIRES AND RIMS, AND THE ENGINE OF RECOVERY IS REVVING UP.

Detroit's factories spit out millions of cars and trucks. They manufactured the tanks, artillery and bombers that secured an Allied victory in World War II. Those feats enshrined Motown as one of the richest and proudest cities on Earth.

Motown's tumble from glory took a few decades and was just as memorable. Deindustrialization, depopulation, blight, crime and a ghastly fraying of the social fabric fueled the unraveling. The world watched with a mixture of incomprehension, sympathy and disgust.

Now, engulfed in the granddaddy of all municipal bankruptcies, Detroit is pivoting from bust to boom once more. A groundswell of economic activity is spreading from the city's center to the neighborhoods, fueled by an influx of young, educated, tech-savvy workers. Once-worthless buildings are being snapped up and renovated. Developers, attracted by land and structures recently thought to be worthless, are announcing building projects and investments weekly.

The recovery begins at a handful of factories.



"We've seen attempts at renewal before, supported by public money. What's different this time is that private capital is rushing in to the city. They're coming on their own dime," said Doug Rothwell, chief executive officer of Business Leaders for Michigan, a CEO forum representing the state's biggest companies. "We've never seen this much momentum in our lifetimes. Now, the change is systemic."

In March 2013, when negotiations broke down between Mayor Dave Bing, the City Council and public employee unions to cut costs and avoid insolvency, Michigan Gov. Rick Snyder exercised his authority to override elected officials and install an emergency manager. The criminal convictions of former Mayor Kwame Kilpatrick and other public officials for offenses tied to municipal corruption lent weight to the rationale for a state takeover.

Gov. Snyder appointed Kevyn Orr, a Washington D.C.-based bankruptcy attorney, as the man in charge. Four months later, Orr petitioned for Chapter 9 under the federal bankruptcy code while directing an overhaul of the city's dysfunctional and cash-starved operations. A mayor newly elected in November, Mike Duggan, and a new City Council are poised to resume governance once agreement is reached on resolution of Detroit's $18 billion of debt. Orr said an agreement with creditors and pension funds is possible before his 18-month term expires next September.

As breathtaking as the city's deterioration has been, likewise has been the determination and grit of those in the vanguard of the city's rebound. Nonprofits and foundations for years have been investing in projects to stimulate renewal. Lately, reinforcements are joining them from the private sector, betting their capital that the city is a deeply undervalued asset, a market that has bottomed, a suddenly ripe opportunity.

The human commitment to Detroit cuts across demographic, geographic and ethnic lines. Austin Black II, 32, was born in the city, raised in nearby suburbs and educated at Cornell University. He decided to return to his birthplace "because I saw this as a place where I could make a difference. Young people heard all the stories about Detroit. We were brought up in the suburbs; we've traveled extensively and have a strong desire to live differently than in the manner we were brought up."

After an internship in commercial real estate, Black started out on his own as a broker of residential properties. Today, six agents work at his firm, City Living Detroit.

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Austin Black II (left) Detroit Real Estate Agent

"In my business, the residential real estate sector, we are getting a whole new message about Detroit from people buying homes, and it's a positive one," Black said. Blight remains pervasive, to be sure, with perhaps as many as 80,000 structures that must be torn down and countless empty lots that must be cleared of debris. Yet, once-grand neighborhoods, where homes sell for a fraction of what they once fetched, are getting fresh consideration from buyers, including families with young children.

The downtown's roughly nine square miles – of the city's 138 square miles – had been for years a warren of buildings, many empty, and its littered streets mostly deserted. Offices, apartments and hotel rooms gathered dust. Today, practically all housing that can be refurbished has been leased. Apartments and condos new to the market are leased as soon as they're painted.

The New Cadillac Square Apartments, built as a hotel in 1927 and converted to apartments in 1966, was 80 percent occupied two years ago. Now it's virtually full, said Chris Schim, the rental agent. Rent for a one-bedroom has risen to $850 a month from $625 in that period. Most of the influx has been young professionals and students, many former suburbanites hungry for an urban setting.

"They don't want to drive, they don't like cars, they don't want to commute," said Schim. "They want to walk to work. They like riding bikes and going places after work on foot."

The Motor City has been, as its name suggests, a place where life and livelihoods revolve around the car. But starting in the 1980's, the Detroit-based auto industry's contraction clobbered southeast Michigan, idling tens of thousands of adults, limiting employment

opportunities and increasing the poverty rolls. As tax revenue and services shriveled, city residents by the hundreds of thousands moved to the suburbs or left Michigan altogether. From a peak of over 1.8 million in the early 1950's, population fell to the current 680,000 – a third of the total in the last decade.

Looking for better prospects, young Michiganders in their 20's moved to New York, Chicago and Los Angeles to pursue jobs after college – often never to return. Snyder and governors before him fretted publicly about the devastating impact on the state from brain drain and the loss of human capital.

While it won't be clear until the next census whether the flight of longtime city residents has slowed, stopped or reversed, signs clearly indicate that a new variety

"We have great neighbors, they love what we're doing. Just because residents leave, doesn't mean the place has to look ugly."

Mike Score (below) of Hantz Farms

of newcomer is arriving. A typical example is Alex Kaufman, 22, a graphic designer from Los Altos, Calif. After graduation from the University of Michigan, she moved downtown to take a job in her profession. Her parents initially were troubled.

"What they knew about Detroit, they read or they saw on TV," she said. "They called me every night to make sure I was O.K."

Kaufman, who lives alone in a $1,155-a-month apartment, said she doesn't regret switching from her original post-college plan to move to New York. She expects to earn $44,000 this year, which she says "is more than enough," given what she sees as "a lower cost of living."

"I came to Detroit not expecting to make a commitment," she said. "What's most important about the place are the people who are here. No one came to make money big and fast; they came because they're invested, committed. There's a real allure to being part of the mission, a real solidarity. Detroit is bigger than the sum of its parts."

Kwaku Osei, 24, graduated from Virginia Commonwealth University in 2011 with a degree in marketing and accepted a job from Deloitte Consulting. He found consulting to be "good experience but unfulfilling." A native of Alexandria, Va., he left Deloitte to join Venture for America, a program patterned on Teach for America, that matches budding entrepreneurs with private companies.

Osei is employed by Rock Ventures, the umbrella organization for companies started by Dan Gilbert, who is best known for starting Quicken Loans and for buying the Cleveland Cavaliers National Basketball Association team and other sports teams. Osei earns $36,000 to $38,000, "plus stock options." One of his jobs is assisting the chairperson of an anti-blight coalition. He's also helping to build a system called "the brain" that will track the variety of Gilbert's activities and initiatives "to make sure that we're not duplicating efforts among our 21,000 team members."

"I'm playing a small part in what is the biggest opportunity in the United States right now," he said. "I hope to ramp up and play a bigger role soon."

John Rakolta Jr., chief executive officer of Walbridge, an international construction firm based in Detroit, said, "The neighborhoods, which make up the vast majority of the city, are lagging behind" the downtown's resurgence. "I think the neighborhoods are now turning the corner by electing a mayor who is going to put a big emphasis on services.

"The neighborhoods deserve much better police and fire protection than they've been getting, better schools and lighting," he said. "For decades the city was run for the sake of employing as many people as possible, not delivering the best possible services."

Federal and state subsidies to improve services and stimulate economic activity have been massive and continuous, though untold millions of dollars remain unspent and often are returned to government due to disorganization, miscommunication and poor management.

Public money was spent in 2000 on the construction of Comerica Park baseball stadium, in 2002 for the Ford Field football stadium and in 2003 for the Compuware Building office structure in a renovated Campus Martius public square. The pace of development took a quantum leap in August 2010 when Gilbert, moved his Quicken Loans mortgage and associated businesses into the Compuware Building, vowing to play a central role in the city's rebound. Today Quicken and its associated companies employ 12,500 people in buildings downtown.

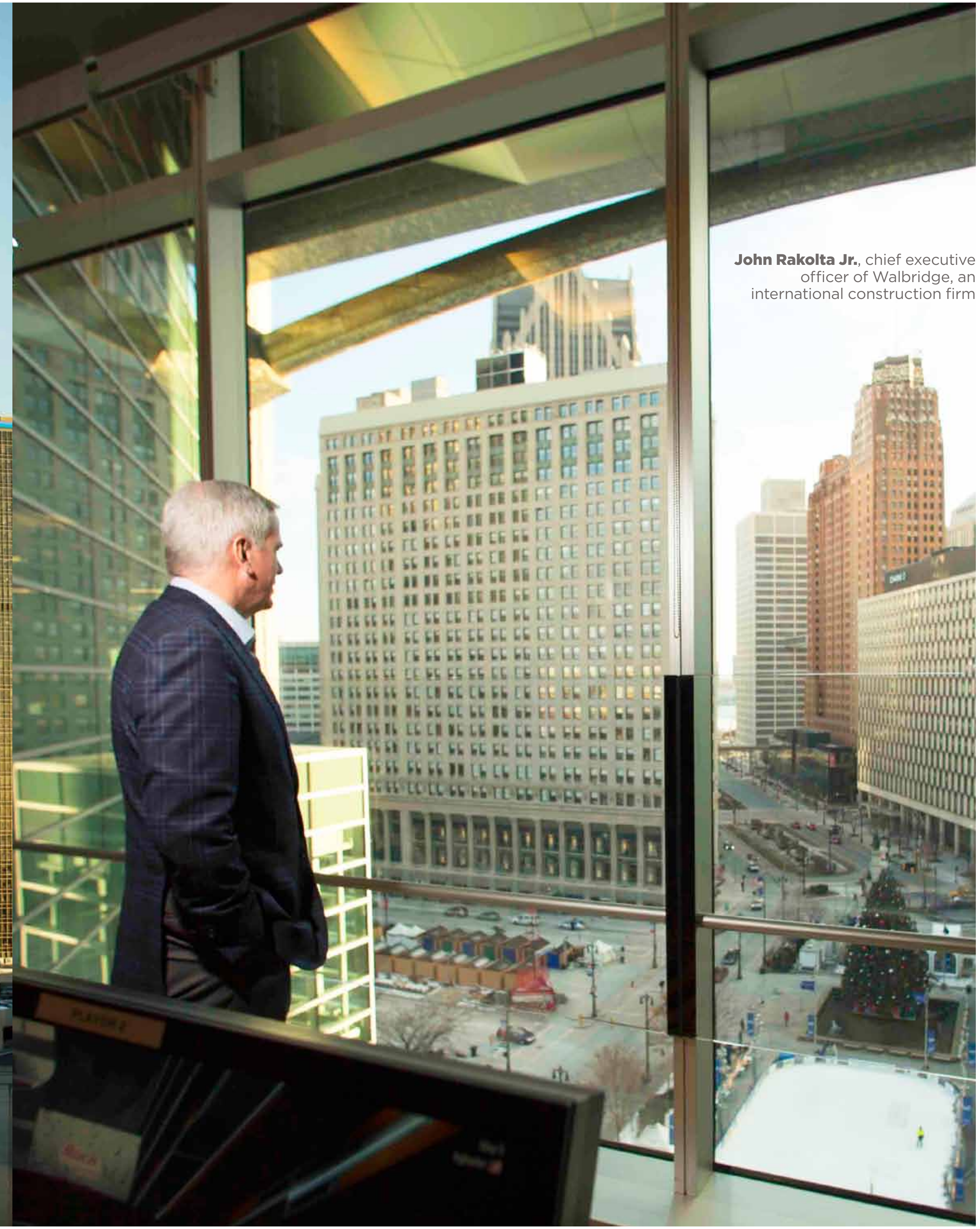
"I've spent the first 50 years of my life building Quicken and my other businesses – and I intend to spend the next 50 fixing Detroit," Gilbert has said on several occasions.

Recognizing that a youthful cohort working at Quicken Loans and associated companies prefer a lifestyle that eschews commuting and parking, Gilbert and other business leaders and foundations have championed the construction of a 3-mile light-rail system that will connect the midtown and university districts to downtown. The M1 project, as it's called, has been financed by corporations, foundations and governments. It is scheduled to break ground within months.

Gilbert also has underwritten scores of start-up companies, sponsored classes to train budding entrepreneurs, sprinkled donations on civic organizations and hired a private security force that conspicuously patrols downtown's business district on bicycle to enhance public safety.

Gilbert, who grew up in suburbs surrounding Detroit and still lives in one, has been the most active buyer of downtown real estate, acquiring 40 buildings – including the Greektown Casino – and spending $1.3 billion on their purchase and refurbishment.

In mid-October, a Chinese company outbid him for the partially occupied 38-story David Stott Building, an Art Deco masterpiece, and the empty Albert Kahn-designed Detroit Free Press Building. Shanghai-based Dongdu International Group paid $9.4 million for the skyscraper and $4.2 million for the 13-story former newspaper headquarters.



John Rakolta Jr., chief executive officer of Walbridge, an international construction firm

According to a manager for the group that sold the buildings to Dongdu, the Chinese company -- which owns other North American properties -- was "astounded" at being able to buy a U.S. skyscraper for less than $10 million.

"All of us are very excited and optimistic at the convergence of all this commercial activity and the bankruptcy, which may sound odd. But bankruptcy gives the city a chance to restructure, a clean slate and a clean balance sheet," said Matt Cullen, chief executive officer of Rock Ventures LLC, which coordinates the activities of Quicken Loans with Gilbert's portfolio of companies.

Orr, the city's emergency manager, said, "Bankruptcy will relieve us of grievous debt service. It will establish us as a creditworthy municipality for the first time in decades. That's what any lender or underwriter wants to see."

If creditors and the court accept Orr's "plan of adjustment," Detroit could find itself in arguably better financial shape than many U.S. cities, counties and states that are likewise facing enormous debts, unfunded pension liabilities and insufficient cash to support police, fire, schools and other services.

The sheer number of lots that have reverted to city ownership due to taxpayers vacating their properties – perhaps as many as 40,000 – has led one Detroit partisan to propose a remedy for widespread abandonment of residential neighborhoods: urban agriculture. John Hantz, owner of a Southfield, Mich.-based financial services company with 600 employees and 35,000 clients, started Hantz Farms in 2008.

Hantz Farms faced opposition from community groups, including some that grow crops, on the ground that Hantz wants his enterprise to be run for a profit. A few city officials disparaged the urban farming concept as insulting, an atavistic throwback to the plantations of the rural South.

After city officials stalled his entreaties to buy 1,700 mostly overgrown lots near his home on the east side of the city, a pact finally was signed in late October by the emergency manager and, later, the governor. Under the agreement, Hantz will pay $550,000 for the land; he'll be permitted to cultivate up to 15,000 hardwood trees and be obligated to tear down up to 100 abandoned homes in a two-year period. His land will return to the tax rolls, generating about $2.5 million in revenue for the city.

"We are buying a liability to the city, not an asset," said Mike Score, who runs Hantz Farms, which decided to clean up the lots, even though the sale hasn't been completed. "We have great neighbors, they love what we're doing. Just because residents leave, doesn't mean the place has to look ugly."

Clearing and mowing lots and returning them to the tax rolls, Hantz theorizes, will boost property values, making homes in the neighborhood more desirable and giving owners an incentive to stay and, perhaps, to invest in their property. Score scoffs at accusations from opponents that Hantz is a speculator.

"John's lives in Detroit because he likes it here," said Score. "His decision to live here has shaped his decision to put resources into the community for himself and on behalf of his neighbors. We'll recover our costs over time."

The racial polarization that fueled a wariness of white public officials is subsiding. Duggan, 55, the newly elected mayor, is a white lawyer and politician who moved to the city in 2012 so he could qualify to run. A former prosecutor, he switched careers in 2004 to accept the job of chief executive officer of the Detroit Medical Center and led its financial turnaround. Despite an elec-

torate that is 83 percent black, Duggan overcame legal challenges to his candidacy, made it onto the ballot with write-in votes and defeated a well-liked black sheriff by a healthy margin in the runoff.

Duggan's role under the emergency manager – they were law school classmates at the University of Michigan – will be part improvisation, part balancing act. Duggan opposed the state's emergency manager law during his election campaign. Officially, he has no authority until Orr's tenure expires next September. But Orr has said his chemistry with Duggan is "good," so an ad hoc partnership to run the city together could happen.

Orr, who grew up in Miami and remembers watching the 1980 riot in Liberty City from his office on West Flagler Street, said "I've seen a comeback in Miami, and that same change and same opportunity can happen here."

But risks remain. Orr said his financial plan is based on $1 billion of revenue annually, assuming the city's population stops its decline. "Only about half the people in the city are paying taxes," he said. "We can't raise taxes, because we're at the limit of our taxing authority."

Recovering from economic failure could give Detroit the chance to create a healthier, more youthful social framework, with less racial tension and acrimony. New faces and investors, especially among the young, won't have to carry the baggage of history.

"With its first white mayor since the early 1970's and a diverse city council, we could be a story of cultural diversity as well as comeback," Orr said. "Outmoded concepts of race and their limitations will be thrown out the window."

Score, the manager of Hantz Farms, agrees that Detroit's economic prospects are looking up. He bristles, however, at the label of "comeback city," insisting that Detroit has always been great, its difficulties exaggerated by the mass media.

During five years of acquiring and cleaning up east side lots, "I've never been threatened once," he said. "The neighbors bring water. They smile, they give us a lot of affirmation. It's insulting to think we need anyone to root for us; we are who we always were."

The grittiness remains true, the ingredients are in place and the arrows seem pointed in the right direction. Motor City has a new paint job, tires and rims, and the engine of recovery is revving up.

A certain future
Renderings captions tk here showing the various city programs in progress or now being planned.

THE RETURN OF SHINOLA

In Detroit's case, the transition may take place overnight because of individuals like Tom Kartsotis, founder in 1984 of Fossil Inc., a trendy watch and accessory company in Richardson, Texas. Fossil is now a publicly traded company with a $6.7- billion market capitalization, run by his brother, Kosta.

Tom Kartsotis, who left Fossil in 2000, was searching for the platform from which to launch his next big fashion merchandise hit. He selected Detroit in 2102 and purchased the name Shinola, once famous as a shoe polish brand, and in popular argot as "you don't know (expletive) from Shinola."

The company's products consist of locally assembled watches and bicycles, as well as leather goods, including journals. The style is retro, perhaps an homage to a Packard or a Studebaker.

Shinola leased a 30,000-square-foot space at the College for Creative Studies in the Art Deco Argonaut Building that once had housed a General Motors design studio. A study to find what value, if any, customers might attach to merchandise made in the city showed the name Detroit conferred premium status.

The watches sell for as little as $500 and up to $3,000 at swank stores like Barney's, Saks, Neiman Marcus, Bloomingdales and Nordstrom. Shinola also operates a shop in New York's Tribeca neighborhood and one on a quiet street between Detroit's downtown and the midtown university district.

The early buzz for Shinola and its products has been quite positive, resulting in demand that its 100 workers have been struggling to meet.

The company's promotional material alludes to Detroit's onetime pre-eminence in manufacturing, its fall from grace and the energy of its revival. It's almost as if by the purchase of a watch or bicycle, the buyer is being recruited as an active participant in the city's budding turnaround.