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Thank you, Dean Kelbaugh and good afternoon ladies and gentlemen.

I must admit that when I was a student here at the University of Michigan I never faced an assignment this daunting. The dean has asked me to review the history of development in Detroit and comment on current initiatives to revitalize our city. All in about 30 minutes . . . leaving plenty of time for questions and answers.

And to make things even more challenging, I have to address these issues in front of a truly distinguished ULI audience, representing the best and the brightest of our region's commercial real estate community.

In fact, as I look out at the professionals gathered in this room today, I'm reminded of a story.

A very wealthy businessman here in Detroit discovered that he was suffering from a rare brain disorder. His doctors at the Detroit Medical Center gave him just a few months to live.

Not satisfied with the diagnosis, he searched the Internet for anything he could find on his ailment. Sure enough, he discovered the website of a controversial Swedish doctor specializing in experimental brain-matter transplants.

Desperate, the Detroiter got right on a plane to Stockholm.

He met with the doctor, and after a few days of examinations and lab tests it was determined that a transplant might work.

The Doctor explained that the procedure would be very expensive. The cost of live brain matter was astronomical. But, there were ways to hold down the costs.

For example, brain tissue from architects was less expensive than tissue from engineers. Attorney brain matter was less than matter from an urban planner.

The businessman assured the doctor that price was no object. He wanted only the most expensive brain matter in his head.

Hearing that, the doctor opened the door of a gigantic freezer and pointed to a jar marked, "REAL ESTATE DEVELOPER." This, he explained, contained the most expensive brain matter on earth.

The Detroiter was shocked. "You mean to tell me that a developer is that much smarter than an attorney, architect, engineer or urban planner?"

"Not at all," explained the doctor. **"It's just so much harder to find any usable brain tissue in the head of a developer!"**

So, with the highest regard for all of your intelligence, I'm going to do my best in the short time we have today to touch on the major development factors and forces that got us to where we are today. And I'm going to give you my best read on the impressive activity that so many of you are involved in downtown and throughout the region.

Let's start, as they say, at the beginning. The very beginning.

By all accounts, prehistoric glacial activity formed the Great Lakes and the topography of Southeast Michigan. Now, I wasn't there at the time to witness this . . . but my good friend Max Fisher was. So, I'm pretty confident that's how it happened.

Seriously . . . it's important to recognize the influence of land formations and geography on development. The area in and around Detroit has many significant characteristics that have shaped our destiny.

The Great Lakes hold 25-percent of the planet's fresh water. Detroit's strategic location along the "straits" connecting these bodies of water brought the fur traders in the 18th century . . . helped deliver the raw materials for the automobile industry in the 20th century . . . and will hopefully attract residents and commerce in the 21st century.

The Detroit River has also created a boundary and barrier, defining the course of the city's growth. Development from the earliest days of human habitation has pushed out from the river over a 180-degree, not 360-degree, radius.

Think about that the next time you're stuck in traffic on I-75 or the Lodge.

The course of our regional development and the patterns of our road systems would have been very different if communities had been able to spring up all around Detroit.

This land that stretches out from the river - - rock formations to the south and water-bearing clay soil to the northeast - - is very flat, with little variance in elevation. That's good and bad.

Good because it's easy to build roads, extend infrastructure and get around fast. Today, depending on the traffic, you can travel by car from one side of the city to the other in less than 30 minutes.

On the other hand, this ease of travel and development encourages what today we call "sprawl." That's the bad news. Geographic and economic forces have been at work for centuries to discourage density of development in our city.

It's not just "middle-aged spread," it's ***historic*** spread.

So I don't turn this into a geography lesson . . . let's look at some of the major events and decisions that played out over the centuries.

Water Works Park, on East Jefferson near Cadillac Boulevard, began pumping water in **1878**. This was, and still is, one of the most impressive public works projects in the world. With the help of a network of additional pump stations and intake points, Detroit's water - - still some of the purest in the world and one of our region's greatest economic and political assets - - became cheap and accessible to communities throughout the region.

New towns and developments enthusiastically tapped into the water mains. Providing this essential infrastructure was great for the Water Works, which had seemingly limitless capacity. But at the same time, it encouraged growth out from the city.

It's not that these young communities didn't have other ways to get water. The Rouge River Watershed, which encompasses about 438 square miles of Wayne, Washtenaw and Oakland counties, includes more than 400 lakes! But the city water system was clean, cheap, dependable and available.

Water alone would not have been enough to spawn the dramatic growth of the Detroit suburbs. After all, those beautiful lakes are miles away and a full day's journey on horseback from downtown.

Obviously, the automobile made a big difference.

In the early 1900s, Detroit was the automotive industry's equivalent to today's Silicon Valley. Young Detroit inventors and entrepreneurs like Henry Ford and Ransom Olds needed smooth roadways to sell their early models.

In **1909**, the one-mile stretch of **Woodward Avenue** between 6 Mile and 7 Mile became the world's first road paved with concrete. Concrete paving was cheaper and quicker to put down than cobblestone or brick, and much smoother. Again, from the point of view of Detroit, this was good and bad.

Good because this breakthrough helped fuel the growth of the automobile industry all across the world.

Bad because the trip - - even at low speeds - - to those new communities tapping into Detroit's water supply could now be made in hours, even minutes, regardless of weather. You could live in the suburbs and work in the city without depending upon public transportation.

But who lived in Detroit in the early 1900s when all this was taking shape?

Thanks to **Henry Ford**, hundreds of thousands of workers and their families arrived from all over the world seeking the extraordinary **salary of $5.00 per day**. The board of directors of the Ford Motor Company announced this wildly generous pay policy on
January 5, 1914.

Just how extraordinary was this wage at the time?

The Wall Street Journal accused Henry Ford of "economic blunders if not crimes." Even I haven't earned such ire from the *Journal*, which went on to declare Ford's pay decision, "the most foolish thing ever attempted in the industrial world."

Of course now we know that the policy in many ways ushered in the age of the American middle class. Workers became *customers*. They were able to own their own cars, buy their own homes, and pay taxes to municipalities building public schools that could send generations on to college and success.

Thousands of these Ford workers were African Americans who migrated from the South to start a new life with their families. Historian Douglas Brinkley, in his recent book examining the first 100 years of the Ford Motor Company, writes, "**Word of the $5 Day spread throughout the South, where fifty years after the Emancipation Proclamation most African Americans were still treated as third-class citizens. The name Ford became synonymous with northern opportunity.**"

Thanks to this migration and the competitive wages, our city - - while not always a perfect place to live for African Americans - - developed a strong African-American middle class.

By 1925, Detroit boasted the highest per-capita income and the highest percentage of home ownership in the world.

But again, depending on your point of view, this wage-driven revolution had unintended consequences.

Traditional business institutions like banks and insurance companies - - dependent in the days before computers upon large workforces of people - - could not compete for labor against Ford Motor Company's wages. These essential white-collar institutions, along with the massive office buildings required to house their employees, did NOT flourish here.

Cleveland, Chicago, Pittsburgh and other cities - - less dominated by the auto industry - - developed more balanced economies. These competitive industrial centers also developed more dense downtown business districts with banks and insurance companies clustered within walking distance.

The manufacturing plants of Detroit were not clustered in the same way. The river and the rail lines brought iron ore from Lake Superior and the coal from Lake Erie to massive industrial campuses built along or within a short distance of the Detroit River.

And workers had the income to afford their own homes near the plants, resulting in low-density housing patterns throughout the region.

Ford's 1,000-acre River Rouge plant, located three miles inland from the Detroit River, helped establish the character of Detroit development.

The magazine *Vanity Fair* in 1928 called it "the most significant public monument in America." I don't think Dominic Dunne was writing for the publication at the time, but even he would have been impressed.

This self-contained industrial complex included a foundry, glass plant, tire plant, assembly building, cement plant, power house, pressed steel building, 14 miles of roadway and 92 miles of railway track. At its peak of production, the Rouge plant employed 75,000 people.

Legendary architect Albert Kahn, who assisted Henry Ford in developing the modern assembly line, contributed a great deal to the physical character of Detroit. With the innovation of the production line, Kahn's Rouge plant was the world's first single-level, horizontal manufacturing building. It replaced the vertical factory model - - like Ford's Highland Park plant - - that relied on gravity to ease production.

Another reason for Detroit to spread out.

Horizontal buildings, larger in square footage than Manhattan's skyscrapers, dominated our landscape.

Of course, we had skyscrapers of our own. Albert Kahn was commissioned to design the **Fisher Building**, which opened in **1928** across Grand Boulevard from General Motors Headquarters. At that time, the GM structure was the largest office building in the world.

But why weren't the Fisher and GM buildings built downtown? Because Detroit's planners envisioned - - and encouraged - - a three-mile corridor of growth along Woodward Avenue, from the River to what became known as the "New Center Area."

The theory was that development would spread along this corridor . . . and to be fair, neighborhoods of cultural, medical and academic institutions DID spring up.

But Detroit, like most cities, was originally designed as a "walking" city, modeled on a street grid similar to those of Washington D.C. and Paris. Walking cities function best when commercial, residential and service uses are all within a walking distance of 20 minutes or less.

Even our largest cities, like Chicago and New York, are really clusters of *districts* arranged in this manner with meaningful interconnections.

Expecting the pattern of development in Detroit to extend three miles up Woodward, with few banks and insurance companies demanding office space, was unrealistic. But the planners never gave up on the idea.

Planners, like developers, can be very stubborn.

I'm reminded of the story about the two developers from Detroit who every year around this time traveled to the UP for a week of deer hunting. They owned a cabin on a secluded lake accessible only by seaplane.

As they were unloading their gear onto the dock from the plane, the pilot reminded them that he would return in one week, and could not handle any additional weight. In other words, if they bagged a deer, they could not fly it out with them.

The developers said they understood, and headed for their cabin.

One week later, the pilot returned. As he was approaching the dock, he saw the two developers proudly standing astride two 12-point bucks.

Again, he explained that his plane could not possibly clear the tall pine trees surrounding the lake with that kind of weight on board. It took more than an hour of negotiation, but with handsome financial incentives, the developers convinced the pilot to strap one of the bucks to the wings.

Sure enough, just as the plane was clearing the tree line, one of the pontoons caught a branch, and the plane went crashing to the ground.

The impact and the explosion threw the developers into the woods, knocking them unconscious.

Hours later, as the developers regained consciousness, one turned to the other in a daze and asked,
"Where the hell are we?"

His partner looked around and said,
"About 100 yards farther than last year!"

Unfortunately, we don't always learn from our mistakes.

Well, back to our history lesson.

The heightened demand for industrial products during World Wars I and II added great momentum to Detroit's patterns of development.

During the war years we were among the most prosperous and fastest-growing cities in the world. With peace, Detroit helped fuel the nation's prosperity and answered America's call for mobility. Along with the baby boom came an auto boom, and Detroit benefited economically as much as any city in the nation.

In this frenzied environment of growth, it was almost heresy to discuss such things as "mass transit." Detroit and Detroiters were spreading out, and that was the way we wanted it to be.

There is an old saying in my sector of the real estate business that too many people tend to forget:
"Retail development **follows** residential development."

Other early developers of suburban malls and I are often blamed or given credit for the "suburbanization" of America. I've never wanted to accept that mantel, and it's important to understand the history.

Northland Mall opened in Southfield in **1954**. The center was NOT built to encourage residential growth; it was built to give retailers a location closer to the population that had **already** moved out to the suburbs.

Some credit Northland with being one of our nation's first regional shopping malls. But that distinction, whether true or not, is not what makes it so important to our discussion today.

What made the 1954 opening of Northland so pivotal to development patterns in Southeast Michigan was the size of the center's Hudson's store.

Now, it's understandable that Hudson's, the region's dominant retailer, would make the decision to build its second store beyond the city limits. Essentially all major department store operators were beginning to build branch stores in the suburbs by this time.

What was unusual, however, was Hudson's decision to build such large stores - - a 600,000-square-foot store at Northland . . . and in 1957 a 400,000-square-foot store at Eastland in Harper Woods. These were not "branch" stores, which typically were between 150,000 and 200,000 square feet.

Why is this important?

Because the massive Hudson's stores built in Detroit's suburbs destroyed the regional competitive opportunity for the chain's historic flagship store downtown. Every line of merchandise was available in depth in the more convenient suburban stores.

Another reason to "go downtown" was gone.

Would smaller Hudson's "branch" stores have prolonged the life of Hudson's downtown? That's impossible to say. But Hudson's suburban strategy certainly hastened this landmark's demise and forever changed the retail landscape in Detroit.

To this day, the regionally competitive retail destinations in our market are in the suburbs, where people live.

Here's another one of those old truisms: "**People shop where they live.**" And throughout the second half of the 20th century, people - - in increasing numbers - - moved out of the city into the suburbs.

Why?

For all the reasons of geography, economics and personal taste that we have been discussing. And because of the growing racial tension that exploded in 1967.

The tragic **riots of 1967,** and the festering social problems they reflected, influenced the course of Detroit's development as much as any street patterns, business decisions, or geography.

Consider these facts:

Detroit's population peaked in 1953 at around two million.

By 1970, it had declined by a half million people.

The 2000 census found only 950,000 people living in Detroit - - a decline in 50 years of one million people.

Who left the city? The city's middle class . . .
both white and black.

I can think of only one comparable example in history of such rapid urban population decline on this massive scale.

Vienna, Austria at the beginning of the 20th century had much in common with Detroit. This bustling European city - - the capital of the Austro-Hungarian Empire - - was a center of arts, education, government and finance. And like Detroit at its peak, it was home to more than two million people.

But the 20th century was not kind to Vienna. The Habsburg Empire fell with the outbreak of World War I, and the city's diplomatic infrastructure disappeared overnight. During World War II, Vienna was occupied by Nazi Germany. And during the Cold War, the Iron Curtain loomed just 50 miles east of the city.

By 1950, after all these shocks, the city's population had fallen to just over one million, a decline of 50 percent.

What's interesting is how Vienna is dealing the challenges of traumatic change. While large sections of the city, where beautiful homes once stood, are vacant and waiting for redevelopment, Vienna's historic strengths - - the opera, unique restaurants and museums - - are among the finest in the world. City leaders are strengthening the aspects of the city that remain internationally attractive and competitive. Tourists continue to visit, trade is flourishing and people are slowly but surely moving back to the city. Population has climbed to over 1.5 million people.

Some of the most attractive housing in Vienna is being built along the Danube River.

A great river is another resource we have in common with Vienna.

If Detroit is going to be able to attract residents downtown, it must look to the riverfront for regionally competitive housing. In **1982**, I was involved in the development of the **Riverfront Apartments** - - which at the time was the first market-rate housing built in the city in 25 years.

I'm delighted to report that the Riverfront Apartments have demonstrated the viability of residential development along our city's Danube and encouraged the creation of several successful riverfront projects.

I like to think that this effort - - which cost Max Fisher and me a bundle - - also laid some of the groundwork for the exciting River Walk initiative spearheaded by General Motors, the Kresge Foundation and the City. The suburbs don't have a comparable amenity, and it is absolutely essential that we reclaim the riverfront from its industrial past.

And speaking of **General Motors**, I must single out the corporation's decision in 2000 to adopt the **Renaissance Center** as its **world headquarters.** This was one of the most positive events in the history of Detroit. Their presence and commitment to downtown has already paid extraordinary dividends.

Unfortunately, even General Motors can't move the Renaissance Center off the river a few blocks - - where it should have been built in the first place. But they have torn down the infamous berm, revitalized the project's retail offerings, and injected magnificent new life into our city.

My friend **Peter Karmanos** also deserves accolades for bringing his energy and enterprise downtown . . . the **Illitch family** has re-energized our sports and entertainment offerings . . . and the **Fords** have brought the Lions back home in a beautiful new world-class facility, which will host the 2006 Super Bowl.

And there are other heroes, many in this room today.

Developers like **Cullen DuBose**, who has built very attractive affordable townhouses in the city's Cultural Area . . . Committed corporate and civic leaders like **Matt Cullen, Tony Early, Dave Bing** and **Butch Hollowell** . . . And young developers like **Eric Larson, Joel Landrey, Peter Cummings, Bernie Gliberman, Tony Ferlito,** and **Andy and David Farbman** - - that's right, Burt, you're not considered "young" anymore.

And our downtown is enjoying renewed vitality thanks to market-driven projects like the **Atlas Restaurant** on Woodward, **Small Plates** and the **Detroit Beer Company** on Broadway, and **Café de Troit** next to the Compuware building.

These developers, investors and independent business owners understand that we can't change history. But we can move forward understanding the reality of our past and the promise of our future.

I had the opportunity a few weeks ago to spend a morning with planner **Kate Beebe** at her Greater Downtown Partnership office. She's got a great view of Campus Martius Park and some equally vivid ideas about our city's redevelopment agenda.

I was delighted to learn more about the Partnership's emphasis on housing, Mayor Kilpatrick's commitment to improve public education - - by the way, Renaissance High was named one of the best urban high schools in America by U.S. News and World Report - - and a general willingness to embrace new paradigms.

We will fail, however, if we continue to measure Detroit's success only in terms of its size.

We don't have to be one of the 10-largest cities in America to be one of the best cities in America . . . We don't have to duplicate the offerings of a suburban mall downtown . . . And we don't have to preserve the city's archaic street grid and restricted residential lot patterns designed a century ago to accommodate two million people.

I'm very pleased with the increasing understanding that the Detroit metropolitan area **is a market of over five million people** blessed with a variety of occupational and lifestyle choices.

Ann Arbor, Novi, Southfield, Dearborn, Troy, AND Detroit are in a very real sense "edge-cities" comprising a 21st-century metropolis as attractive, diverse and competitive as any in the nation.

Will Detroit and its downtown play a special role in this region?

Of course.

Southfield will never host a Super Bowl . . . there is no place in Troy to study a historic Diego Rivera mural . . . there will be only one Hard Rock Café in the region . . . and if you want to watch a beautiful sunset along the Detroit River from the comfort of the Riverfront Apartments, you have to live downtown.

Like any great city, Detroit's past is full of triumphs and tragedies. We will no doubt continue to struggle with change and opportunity. But from my vantage point, I see plenty of greatness still ahead of us. Many of you in this room will affect that change and make the most of the opportunities.

Future generations of Detroiters are counting on you.

Thank you.

I'll take your questions . . .