Vanguard Community Development Corporation

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Planning Practicum
Urban and Regional Planning Program
Michigan State University
Practicum

Michigan State University Urban and Regional Planning Program

• Graduating Seniors and Graduate Students

Community Development Projects

• Vanguard CDC
• Scott Alan Davis
Overview

• Vanguard CDC
• Our Tasks
• Methodology
• Northend Community Profile
• Small Business Incubator
• Small Business Data
• Case Studies
• Data Analysis
• Recommendations
Vanguard Community Development Corporation

Founded in 1994 by Reverend Edgar L. Vann, Jr.

- Vanguard Community Development Corporation is the non-profit outreach arm of Second Ebenezer Church

Mission

“To facilitate the revitalization of the physical, social, and economic fabric of the Northend Neighborhood”

Services

Facilitating new business investment, in-fill housing development, and providing activities to enhance the quality of life for adults and youth in the Northend neighborhood
Vanguard CDC Location
Vanguard CDC Location

Source: Google Earth
Our Tasks

• Identify target businesses for Milwaukee Junction Small Business Center
• Propose a sustainable financial structure
• Identify small business incubator best practices
What is an Incubator?

- A business support process that accelerates the successful development of new entrepreneurs
- Incubator graduates create jobs, revitalize neighborhoods, and commercialize new technologies
- Business incubators reduce the risk of small business failures

Source: http://www.natbi.org/about.html
Advantages to Small Business

Benefits
• Below Market Rent
• Flexibility to Expand
• Shared Office Amenities
• Networking Opportunities

Services
• Business Planning
• Links to Financial Resources
• Business Licensing
• Business Marketing
• Legal Advice
Milwaukee Junction Small Business Center

- Single story
- 6,850 square feet
- 12 parking spaces in rear

Source: Vanguard Practicum
Milwaukee Junction Small Business Center

- Interior is open
- Awaiting renovation

Source: Vanguard Practicum
Business Center Location
Surrounding Attractions

Source: Google Images
Methodology

Qualitative & Quantitative

• Strengths, Weaknesses, Opportunities, Threats (SWOT) Analysis
• U.S. Census, and Environmental Systems Research Institute (ESRI)
• Northend Community Meeting and Survey
• Literature
• Interviews

Roni Weaver, Executive Director, Jackson Industrial Incubator

Interviews

Sister Cathy DeSantis, Detroit Catholic Pastoral Alliance, former Executive Director of the McAnoy Business Center
Mike Hindenach, Executive Director, Albion Industrial Incubator
Lauren Kruer-Driscoll, Hastings Economic Development Corporation Community Development Specialist, Hastings Industrial Incubator
Roger Hamlin, Michigan State University
Lawrence Molnar, University of Michigan
Northend Community Profile

- 1990-2000 Census Data
- Northend Census Tracts
  - 5112, 5115, 5116, 5117, 5181
- Comparables
  - City of Detroit
  - Wayne County

Source: DataPlace
Population Change

Northend Population Change

Northend Location

Population

1990 2000

Northend:

Population Change

-25%

Source: 1990 & 2000 Census

Detroit: -7%

Wayne County: -2%
Age Distribution

Northend Neighborhood
- 9-17yrs: 12%
- 18-49yrs: 28%
- 50-69yrs: 17%
- 70 and older: 17%

Detroit
- 9-17yrs: 9%
- 18-49yrs: 31%
- 50-69yrs: 17%
- 70 and older: 9%

Wayne County
- 9-17yrs: 9%
- 18-49yrs: 46%
- 50-69yrs: 17%
- 70 and older: 28%

Source: 2000 Census
Income

Median Household Income Increased
Northend Neighborhood: +81%
Detroit : +31%
Wayne County : +46%

Source: 1990-2000 Census
## S.W.O.T.

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Decreasing population</td>
</tr>
<tr>
<td>Easy access to highways</td>
<td>Perception of crime</td>
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<thead>
<tr>
<th><strong>Opportunities</strong></th>
<th><strong>Threats</strong></th>
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<tbody>
<tr>
<td>Prices below market rate</td>
<td>Inaccurate pricing</td>
</tr>
<tr>
<td>Proximity to cultural,</td>
<td>Proximity to New Center and Downtown</td>
</tr>
<tr>
<td>educational, and business institutions</td>
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Community Meeting
February 16, 2006

Purpose
• Community Input
• Inform the community of plans

Method
• Surveys
• Group discussion
• Interactive questions

Survey Participants
• 16
• Current Business Owners
• Potential Business Owners

Survey Response
• Identified community attitudes about small businesses
  • Services desired
  • Problems and threats
  • Reasons for locating in Northend
  • Need for Vanguard leadership
Small Business Data

- Identify Small Business Opportunities
  - Business trends
  - Contracting opportunities
- Local and Regional Office Market
  - Lease Rates
  - Revenue Calculations

Source: Vanguard Practicum
From 1998 to 2003 this zip code lost:

- 5,361 employees, representing $252 million in annual payroll; averaging $47,000 per employee.
- It also lost a total of 36 establishments, a substantial portion of which had 10 or more employees.
48202 Zip Code Data

From 1998 – 2003:

• Total number of establishment with 1 to 4 employees stayed constant at 208.

• Notable Increases in establishments with 1 to 4 employees:
  - Professional, scientific, & technical services: 82%
  - Construction: 50%
  - Real estate, rental, & leasing: 30%

• Notable decreases in establishments with 1 to 4 employees:
  - Wholesale trade: -50%
  - Educational services: -50%
  - Administrative, support, waste management, & remediation: -50%

• Industry descriptions with twenty or more 1 to 4 employee establishments:
  - Retail trade, Professional scientific & technical services, Health care & social assistance, Accommodation & food services
Wayne County
Non-Employer Statistics

11 out of 16 categories experienced growth from 1998 to 2003

Top five industry descriptions by number of establishments in 2003
1. Other services: 15,372
2. Health care and social assistance: 13,289
3. Professional, scientific, and technical services: 9,545
4. Real estate, rental, and leasing: 8,933
5. Construction: 7,881

Declining industry descriptions by percent change
1. Forestry, Fishing, Hunting, & Agriculture Support –35%
2. Wholesale Trade –10%
3. Finance and Insurance –8%
4. Professional and Scientific –3%
5. Manufacturing -2%
General Business Climate
ESRI Data

At an one-mile radius:
Total Businesses: 774
Total Employees: 28,409
Total Population: 10,600
*Daytime to Nighttime Ratio: 2.68*

At a two-mile radius:
Total Businesses: 2,514
Total Employees: 92,826
Total Population: 74,330
*Daytime to Nighttime Ratio: 1.25*

At a five-mile radius:
Total Businesses: 12,219
Total Employees: 248,040
Total Population: 450,296
*Daytime to Nighttime Ratio: 0.55*
Shift-Share Analysis

Effective tool to elicit industries with relative strength in local and regional markets

Compare Detroit to Consolidated Metropolitan Statistical Area (CMSA)

Utilized readily available U.S. Census Bureau Economic Census Data

• Number of businesses per 3- and 4-digit NAICS industrial classification
• 1997 and 2002 data available
• 19 out of 212 NAICS codes reclassified, majority of these codes stem from Information Technology sector
# Shift-Share Analysis

<table>
<thead>
<tr>
<th></th>
<th>ABOVE AVERAGE LOCAL LEVEL GROWTH</th>
<th>BELOW AVERAGE LOCAL LEVEL GROWTH</th>
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<tbody>
<tr>
<td><strong>ABOVE AVERAGE</strong></td>
<td><strong>TIER I</strong></td>
<td><strong>TIER II</strong></td>
</tr>
<tr>
<td><strong>REFERENCE ECONOMY</strong></td>
<td>Accounting, Management &amp; Scientific Consultants</td>
<td>Scientific research &amp; development services</td>
</tr>
<tr>
<td><strong>GROWTH</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>BELOW AVERAGE</strong></td>
<td><strong>TIER IV</strong></td>
<td><strong>TIER III</strong></td>
</tr>
<tr>
<td><strong>REFERENCE ECONOMY</strong></td>
<td>Office administrative services</td>
<td>Plastics &amp; Rubber Products mfg</td>
</tr>
<tr>
<td><strong>GROWTH</strong></td>
<td></td>
<td></td>
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</tbody>
</table>
DLEG Forecast

- Detroit CMSA Employment Forecast 2002 to 2012
- Identifies Growth Industries
Small Business Data Findings

• Overall these industries performed well
  – Professional, Scientific, Technical
  – Real Estate
  – Information

• Overall the only category that declined consistently was Manufacturing
### Identification of Businesses

<table>
<thead>
<tr>
<th>Services</th>
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<tbody>
<tr>
<td>Architectural &amp; Design Services</td>
<td>Accounting, Tax Preparation, Bookkeeping, &amp; Payroll services</td>
</tr>
<tr>
<td>Accounting, Tax Preparation,</td>
<td>Management, Scientific, &amp; Technical Consulting</td>
</tr>
<tr>
<td>Bookkeeping, &amp; Payroll services</td>
<td></td>
</tr>
<tr>
<td>Advertising &amp; Related Services</td>
<td>Office Administrative Services</td>
</tr>
<tr>
<td>Building Inspection</td>
<td></td>
</tr>
<tr>
<td>Business Support Services</td>
<td>Offices of Lawyers</td>
</tr>
<tr>
<td>Computer Systems Design</td>
<td></td>
</tr>
<tr>
<td>Document Preparation Services</td>
<td>Promoters of Performing Arts, Sports, &amp; Similar Events</td>
</tr>
<tr>
<td>Engineering</td>
<td></td>
</tr>
<tr>
<td>Janitorial Services</td>
<td>Property Managers</td>
</tr>
<tr>
<td>Landscaping</td>
<td></td>
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<tr>
<td></td>
<td>Real Estate Brokers</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Specialized Design Services</td>
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<tr>
<td></td>
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<tr>
<td></td>
<td>Translation &amp; Interpretation Services</td>
</tr>
</tbody>
</table>
Assessed several factors

- Potential revenue, likely expenses, and market conditions

Conservative estimates used

- Building size: 6,850 sq. ft.
- Leasable space per proposed floor plan: ~2,900 sq. ft.
- Vacancy rate: 20%
- Lease rate: $15 per sq. ft. per year
- Operating expenses (estimated by MSU Team & Consultant)
Revenue Calculations

Factors Considered

Northend real estate market

• High vacancy rates

• Below-average lease rates

High client expectations

• Recuperate investment within five years

• At a minimum, break even
• Revenue from rent will cover personnel costs at 5,417 leasable square feet, taking into account vacancy rates.

• Proposed floor plan has 2,900 leasable square feet, revenue from rent will only pay for slightly over half of personnel costs
Case Studies

Literature Review

• NBIA’s “Industry Best Practices” guidelines
• Erlewine and Gerl’s Ten Keys to Successful Incubation

Characteristics Identified

• Services provided
• Type of incubator/ number of tenants
• Selection guidelines or criteria
• Resources
• Financial resources
• Outcomes
Selection Process

1. Broad Michigan Incubator Search & Developed Incubator Matrix
2. Access to info
3. # of Responses
4. Eliminated Incubators
5. Reduced to 8
6. Applied to Matrix
7. 4 Incubators
8. Applied to Matrix
9. Reduced to 8
10. Applied to Matrix
11. 4 Incubators

Selected Incubators:
- IdeaWorks, LLC
- Finlandia Center for Global Design & Business
- Southwest Michigan Innovation Center
- Central Michigan Research Corporation
- Jackson Industrial Incubator
- Hastings Industrial Incubator
- Albion Industrial Incubator
- McAnoy Business Center
## Business Incubator Matrix

<table>
<thead>
<tr>
<th>Services</th>
<th>Albion Industrial Incubator</th>
<th>Hastings Industrial Incubator</th>
<th>Jackson Industrial Incubator</th>
<th>McAnoy Business Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting, human resource training, access to business finance</td>
<td></td>
<td>Space</td>
<td>Space, general business counseling and services</td>
<td>Conference Room, business plan assistance, computer, internet access, other business technical support</td>
</tr>
<tr>
<td>Number of tenants</td>
<td>4</td>
<td>6</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Selection criteria</td>
<td>No application; active recruitment process</td>
<td>No formal selection criteria</td>
<td>No formal selection criteria</td>
<td>Yes; application process</td>
</tr>
<tr>
<td>Size of facility</td>
<td>21,000 square feet; 18,000 leased</td>
<td>44,600 square feet</td>
<td>54,000 square feet; 37% unleasable</td>
<td>3,200 square feet</td>
</tr>
<tr>
<td>Sources of finance</td>
<td>Albion Industrial Incubator</td>
<td>Hastings Industrial Incubator</td>
<td>Jackson Industrial Incubator</td>
<td>McAnoy Business Center</td>
</tr>
<tr>
<td>--------------------</td>
<td>-----------------------------</td>
<td>-------------------------------</td>
<td>-------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Grants, rent, TIF, BRA, EDC</td>
<td>Rent, subsidies</td>
<td>City Block grant funds; rent; subsidies</td>
<td>Grants, Empowerment zone funds, Hudson-Weber, Black United Fund, banks</td>
<td></td>
</tr>
<tr>
<td><strong>Lease rates</strong></td>
<td>Office: $10 per square foot; Manuf. $3.50 per square foot; caged workspace $10 per square foot</td>
<td>$3.50 per square foot + utilities</td>
<td>$3.00 per square foot (does not include utilities)</td>
<td>$2 below market rate per square foot</td>
</tr>
<tr>
<td>Staff</td>
<td>Part-time manager</td>
<td>Part-time manager</td>
<td>Full-time manager</td>
<td>Full-time manager</td>
</tr>
<tr>
<td>Operating costs</td>
<td>$37,200 for 2005</td>
<td>Not available</td>
<td>$30,000 per year</td>
<td>$47,000 per year</td>
</tr>
<tr>
<td>Measurable outcomes</td>
<td>Does not track graduates; other forms of measurement</td>
<td>Informal</td>
<td>Informal</td>
<td>9 graduates</td>
</tr>
</tbody>
</table>
Case Studies

Key Findings

- Formal and informal variations of tenant selection
- Measurable outcomes varied; tangible and non-tangible
- Adaptive and flexible based on environment and location
- Sustainability was key; minimum emphasis on subsidizing
- Physical structure is key
- Strong internal and external organizational emphasis
  - Internal: Qualified manager and staff
  - External: Boards and advisory groups
Disconnect Between Theory and Practice

• Literature
  – Active and involved Board of Directors
  – Measurable outcomes of performance and frequent self-evaluations
  – Strict tenant selection policy
  – Contradictions surrounding reliance upon grants

• Case Studies
  – Managers acting autonomously
  – Haphazard or non-existent tracking of former tenants
  – “Take what you can get” for tenants
  – Reliant upon significant third-party financial support
Overall Analysis

• Flexibility and adaptability are key
  – Operational and management structure
  – Leases
  – Floor plan
  – Latest market trends and research
Recommendations

• Target Businesses
  – Focus on local and regional marketing resources in industries showing high potential of growth
    • Professional, Scientific, and Technical Services
    • Real Estate, Rentals, and Leasing
    • Information
  – Compatible with business center environment
    • Accounting, design services, architects, etc.
  – Conduct continuous market research
    • Current small business trends
    • Potential for contracting services
Recommendations

- **Best Practices**
  - Manager with broad knowledge of small business entrepreneurship, current incubation practices
  - Access to educational and professional services and network resources for tenants
  - Establish guidelines for business entry and exit
  - Track tenants after leaving the incubator
  - Evaluate the progress of the incubator itself
Recommendations

• Financial Considerations
  – Develop an incubator financial structure that is independent of grants for continued operation
    • Maximize the amount of floor space that it may lease
    • Consider partnerships to reduce the cost of operating expenses
    • Seek further support for renovation expenses via other funding opportunities.
    • Consider options that can increase the physical size of the facility in order to create an economy of scale that can support operating costs
Thank You

Vanguard CDC
Scott Alan Davis
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Hastings
Lauren Kruer-Driscoll

Jackson
Roni Weaver
McAnoy
Sister Cathey De Santis
Professor Roger Hamlin
Professor Lawrence Molnar
Professor Rex LaMore
Professor Zenia Kotval
Questions?