

# **Detroit: Transforming From the Core**

**Multifamily Summer Report 2016**

**Rent Growth Picks Up Speed**

**Professional, Business Services Lead Job Gains**

**Transaction Volume Marks Cycle Peak**



## Market Analysis

Summer 2016

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## Motor City Shifts Gears

Detroit's multifamily market is gaining momentum. Young workers are attracted to the city's downtown by an improving job market. In turn, rents are starting to grow and the development pipeline is refilling, with more than 8,000 units on the way. Even so, the metro must overcome its blighted neighborhoods and address an affordable housing shortage.

The auto industry, still the area's main economic driver, continues to thrive, sending a ripple effect through the economy. Auto sales have cooled slightly from 2015's record levels, but are on pace to top 17 million in 2016. Financier Dan Gilbert and the Ilitch family are leading downtown redevelopment. Projects that aim to attract activity include the QLINE railway project and Little Caesars Arena, which is scheduled to open in 2017. The revival of the Paradise Valley entertainment district is also underway, with total investments exceeding \$52 million.

Multifamily fundamentals reflect the improving climate. Transaction volume in 2015 reached \$535 million, a post-recession high. Nearly 1,800 housing units are scheduled for completion in 2016, a 600% increase compared to 2015. Rents are on the upswing due to strong demand, especially in core submarkets, which have become attractive to both multifamily and commercial developers. Rents jumped 6.3% year over year through July, but we expect that a cooler second half will lower that increase to 3.4% for the full year.

## Recent Detroit Transactions

Riverfront Towers



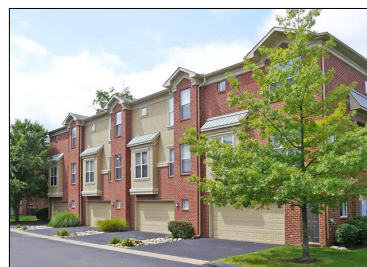
City: Detroit  
Buyer: Image Capital  
Purchase Price: \$80 MM  
Price per Unit: \$143,502

Fairlane East



City: Dearborn, Mich.  
Buyer: Monarch Group  
Purchase Price: \$33 MM  
Price per Unit: \$136,612

Fairlane Town Center



City: Dearborn, Mich.  
Buyer: Abacus Capital Group  
Purchase Price: \$33 MM  
Price per Unit: \$163,125

The Loop on Greenfield

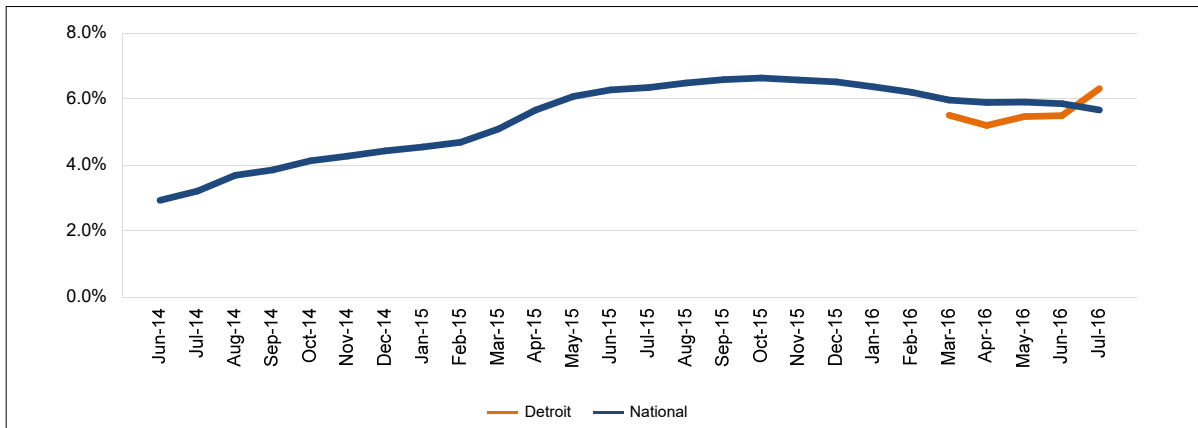


City: Oak Park, Mich.  
Buyer: Investors Equity Group  
Purchase Price: \$29 MM  
Price per Unit: \$39,650

## Rent Trends

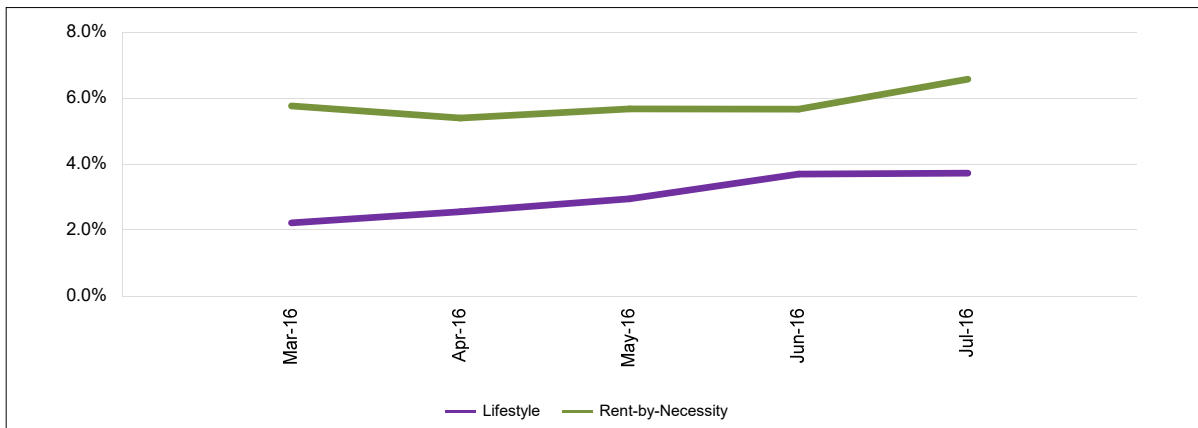
- Rents in Detroit rose 6.3% year-over-year through July, exceeding the national average of 5.7%. The growth comes from high demand, particularly in core submarkets preferred by Millennials. Slow delivery of new units has also kept demand inflated.
- Gains were led by the working-class Rent-by-Necessity segment, which saw rents rise by 7.0% in the 12 months ending in July. The supply of affordable housing is not being addressed. Although private investors such as JP Morgan Chase have supported the preservation of existing low-income units, new developments targeting this section of the population are still scarce in Detroit.
- Rents for high-end Lifestyle properties increased by less than 4% over the past year, but this might change once major revitalization projects and blight removal programs end. The goal is to revive downtrodden neighborhoods and increase the value of residential properties.
- Submarkets that lead in rent growth are in the northwest and southwest, areas that have become popular for tech and innovative businesses. The biggest rent growth was in Southfield (19.3%), followed by Farmington Hills\West Bloomfield (17.8%), Detroit – New Center (8.3%) and Belleville (6.6%).

### Detroit vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

### Detroit Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

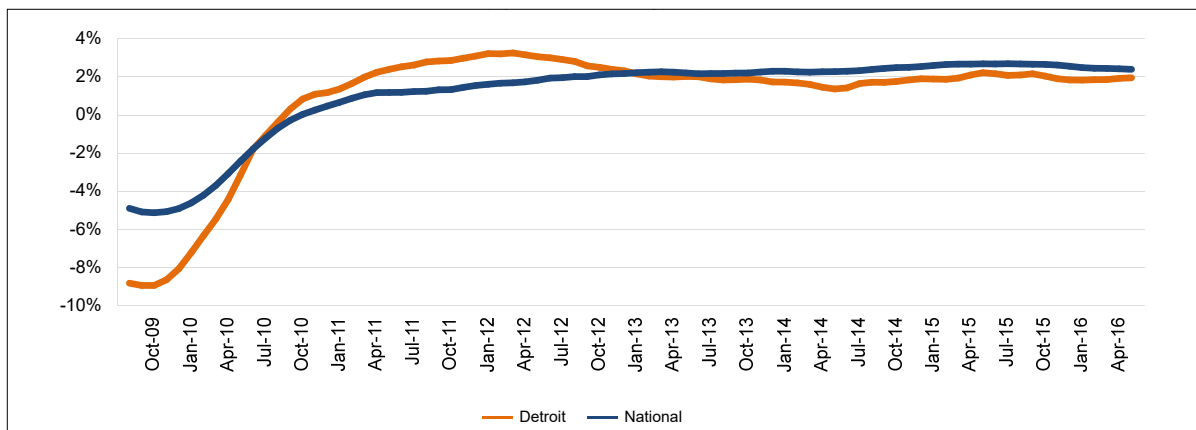


Source: YardiMatrix

## Economic Snapshot

- Detroit added 39,100 jobs over the past year ending in May, equating to a 2.0% growth rate. The national average was slightly higher at 2.4%. Although growth has moderated since the huge bump in 2011-12, the employment picture is generally looking up due to an influx of investment in the city's Downtown and Midtown areas, such as the QLINE rail system.
- Gains were led by professional and business services (12,900), a segment that represents more than 20% of the total employment base in metro Detroit. Education and health services (6,400), leisure and hospitality (6,000) and financial activities (5,800) also maintained high growth.
- Jobs in trade, transportation and utilities ranks second with an 18.3% share of the labor force and 2,000 employees were added in the last year. Manufacturing is likely to pick up after Tremec Corp. and Flex-N-Gate announced the opening of new production facilities worth more than \$150 million. The new Little Caesars Arena complex is just one of the high-profile developments that aims to become an economic accelerator for Detroit's Woodward corridor.
- The Fitzgerald Revitalization Project (transforming 100 vacant buildings and 257 lots) and the Paradise Valley district revival boost construction. The city's budget struggles are reflected in the loss of 3,800 government jobs.

### Detroit vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Detroit Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	405	20.4%	12,900	3.3%
65	Education and Health Services	309	15.5%	6,400	2.1%
70	Leisure and Hospitality	200	10.1%	6,000	3.1%
55	Financial Activities	113	5.7%	5,800	5.4%
30	Manufacturing	241	12.1%	2,300	1.0%
15	Mining, Logging, and Construction	69	3.5%	2,200	3.3%
40	Trade, Transportation, and Utilities	363	18.3%	2,000	0.6%
80	Other Services	77	3.9%	1,200	1.6%
50	Information	28	1.4%	300	1.1%
90	Government	183	9.2%	-3,800	-2.0%

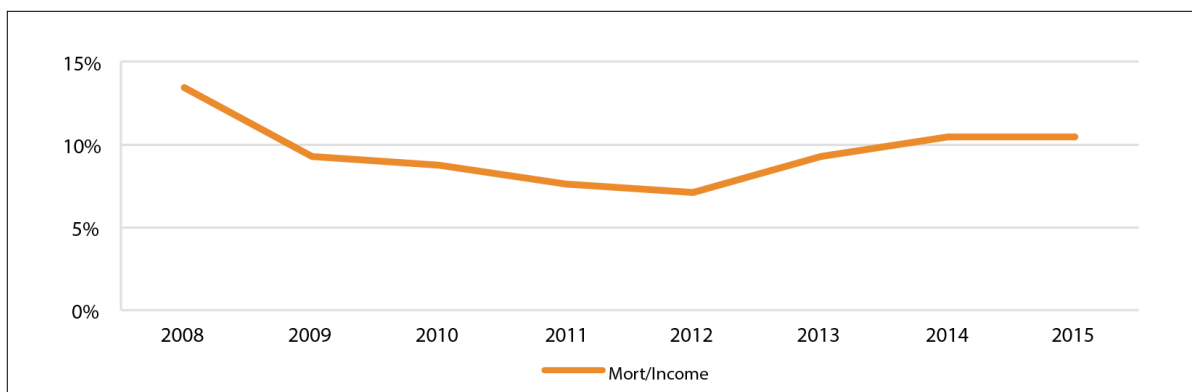
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

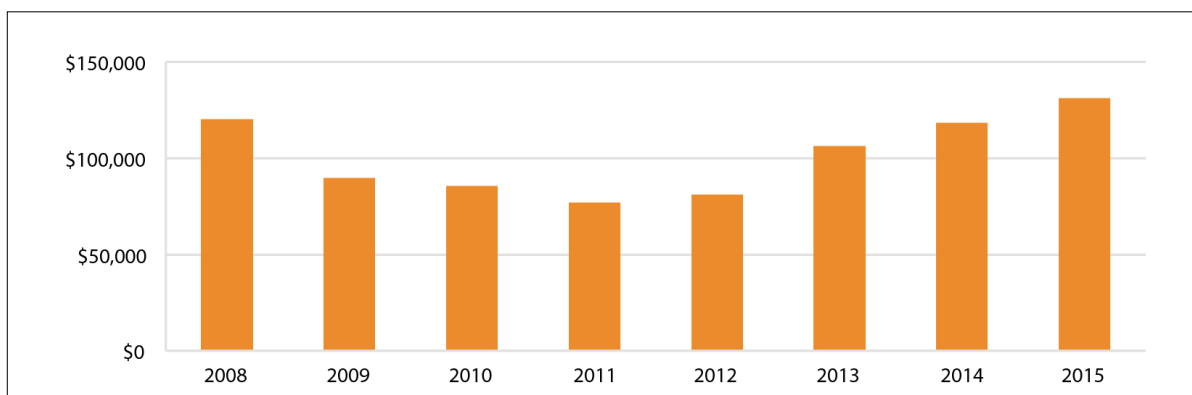
- Home prices in Detroit increased to \$131,091 in 2015, up 70% from the trough in 2011. Prices are expected to rise even further, but at a more tempered pace, as new developments are expected to come online in 2016. The average wage in Detroit has not shifted dramatically in recent years but is now on the upswing.
- Homeownership is still more affordable than renting, with only 10% of the average salary being spent on a mortgage, while renting takes up 19% of the average paycheck. The average rent grew to \$870 at the end of 2015, as new supply has yet to hit the market.

### Detroit Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Detroit Median Home Price



Source: Moody's Analytics

### Population

- Detroit's population has remained relatively constant in recent years. From 2011 to 2015, Detroit added roughly 15,000 residents.

### Detroit vs. National Population

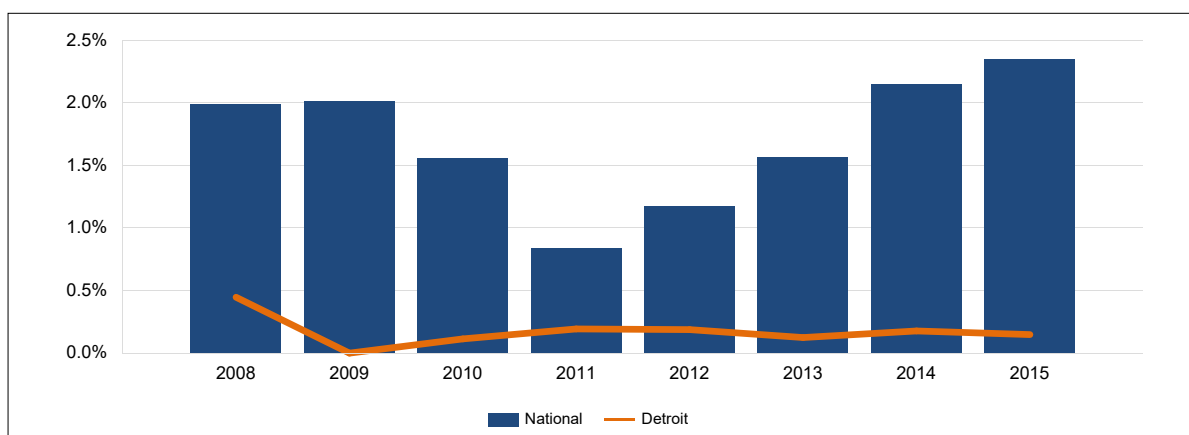
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Detroit-Warren-Dearborn, MI Metropolitan Statistical Area	4,287,427	4,294,049	4,297,081	4,301,480	4,302,043

Sources: U.S. Census, Moody's Analytics

## Supply

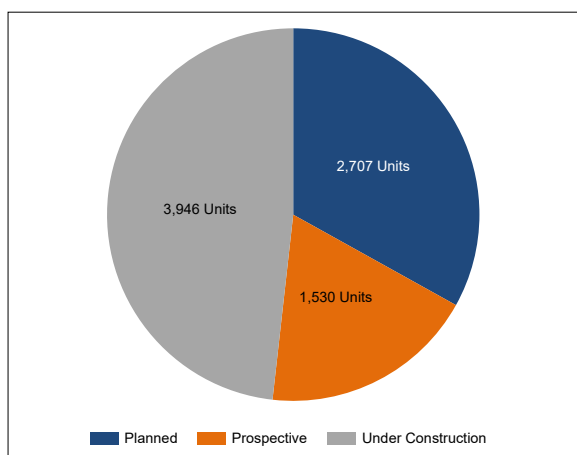
- Detroit's development pipeline is practically non-existent, with 305 units completed in the last year, equal to only 0.2% of the total stock. 2015 numbers were below the levels of 2014, when 363 units were delivered. Supply growth in the metro is considerably lower than the national rate of 2.4%.
- The supply situation is likely to improve substantially as a result of growing demand. More than 8,000 units are in various stages of development, with roughly 1,800 expected to be delivered in 2016.
- Developers have turned their attention to Downtown Detroit, as a response to Millennials looking to be closer to their jobs and within close proximity of sports and entertainment venues. District Detroit and the luxury high-rise planned for the site of the former Hudson store are two of the major projects on tap.
- Some 1,700 units are under construction in Downtown and Midtown Detroit, with Clinton Township (613 units), Washington/Richmond (324 units) and Auburn Hills (199 units) among the most sought after submarkets. Montclair at Partridge Creek in Clinton Township is the biggest residential development currently under construction, with 613 units to be delivered in early fall 2018.

**Detroit vs. National Completions as a Percentage of Total Stock (as of July 2016)**



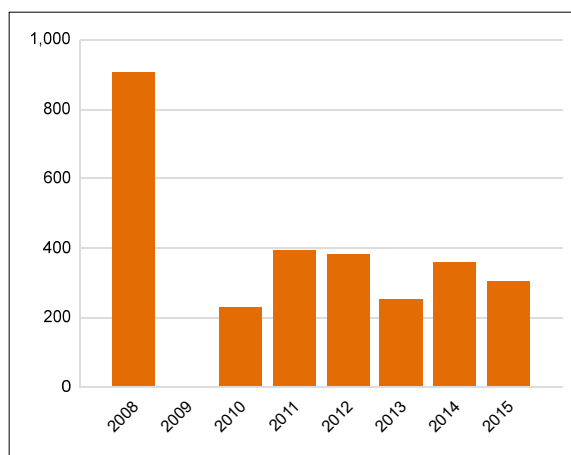
Source: YardiMatrix

**Development Pipeline (as of July 2016)**



Source: YardiMatrix

**Detroit Completions (as of July 2016)**

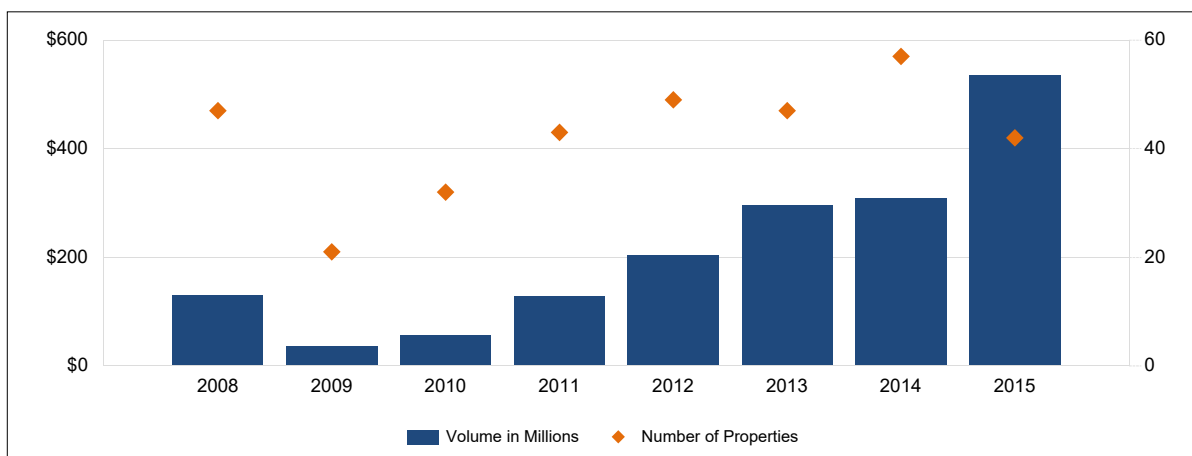


Source: YardiMatrix

## Transactions

- Detroit's economic growth has produced a surge in investor demand. Transaction volume in 2015 was \$535 million, a post-recession high. Deal flow is expected to continue to grow, as investors see potential for value-add opportunities.
- One reason that growth potential is high is that property values are so low relative to the rest of the country. Even though the average price per unit has doubled since the trough in 2012, it was still only \$55,124 in 2015, less than half the national average of \$117,256.
- Investors are focusing on Downtown Detroit. Image Capital purchased the luxury high-rise apartment community Riverfront Towers in the city center for \$79.5 million, the most valuable transaction of the year. Dearborn and Southfield maintain their top spots as most attractive submarkets for investors.

### Detroit Sales Volume and Number of Properties Sold (as of July 2016)



Source: YardiMatrix

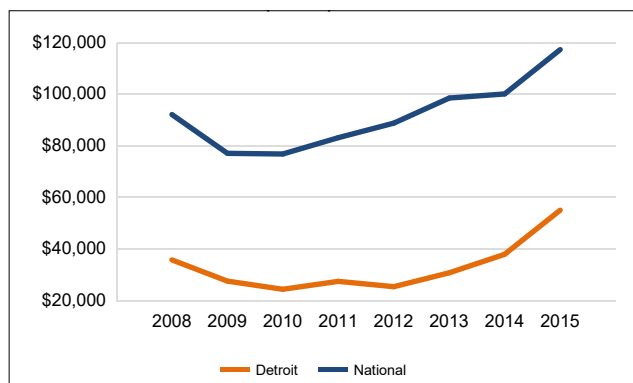
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Detroit Downtown	80
Dearborn	66
Southfield	52
Royal Oak\Oak Park	29
Westland	16
Livonia\Redford	10
Woodhaven\Brownstown	8
Canton\Plymouth	8

Source: YardiMatrix

<sup>1</sup> From August 2015 to July 2016

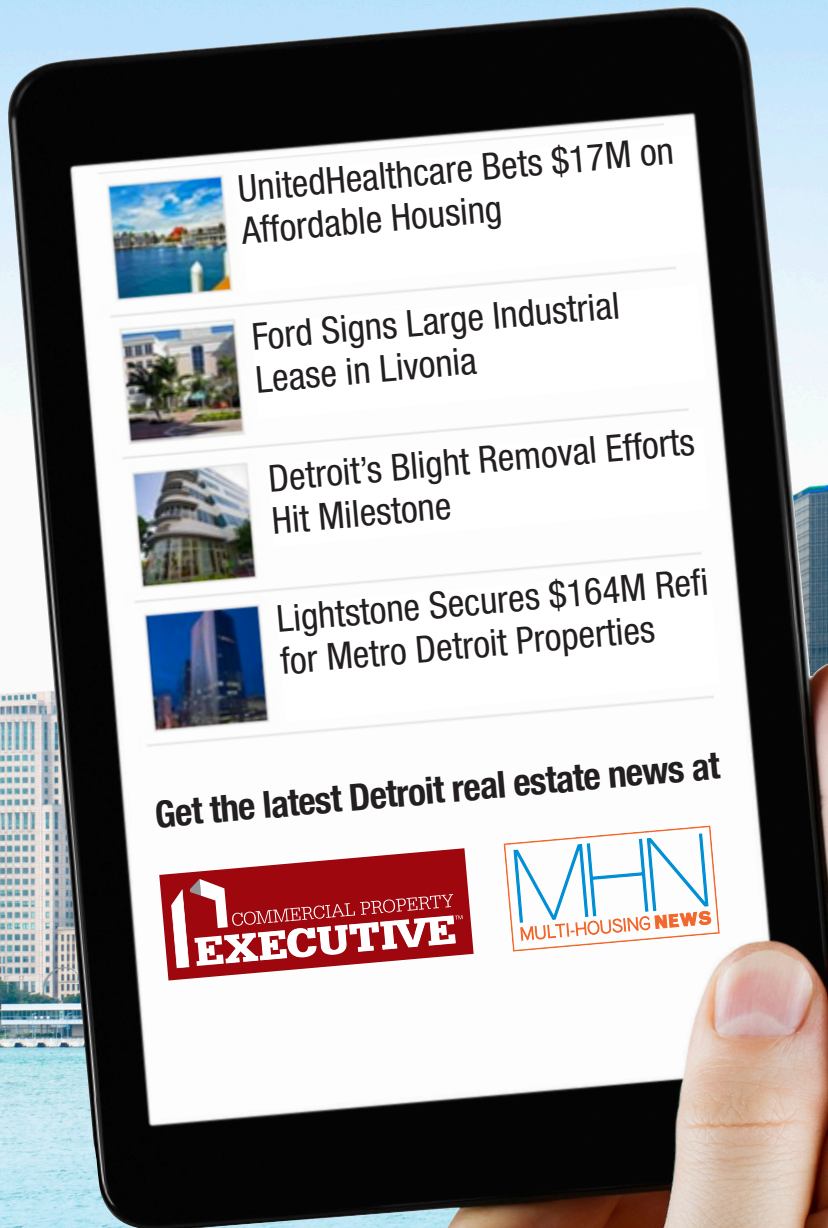
### Detroit vs. National Sales Price per Unit



Source: YardiMatrix

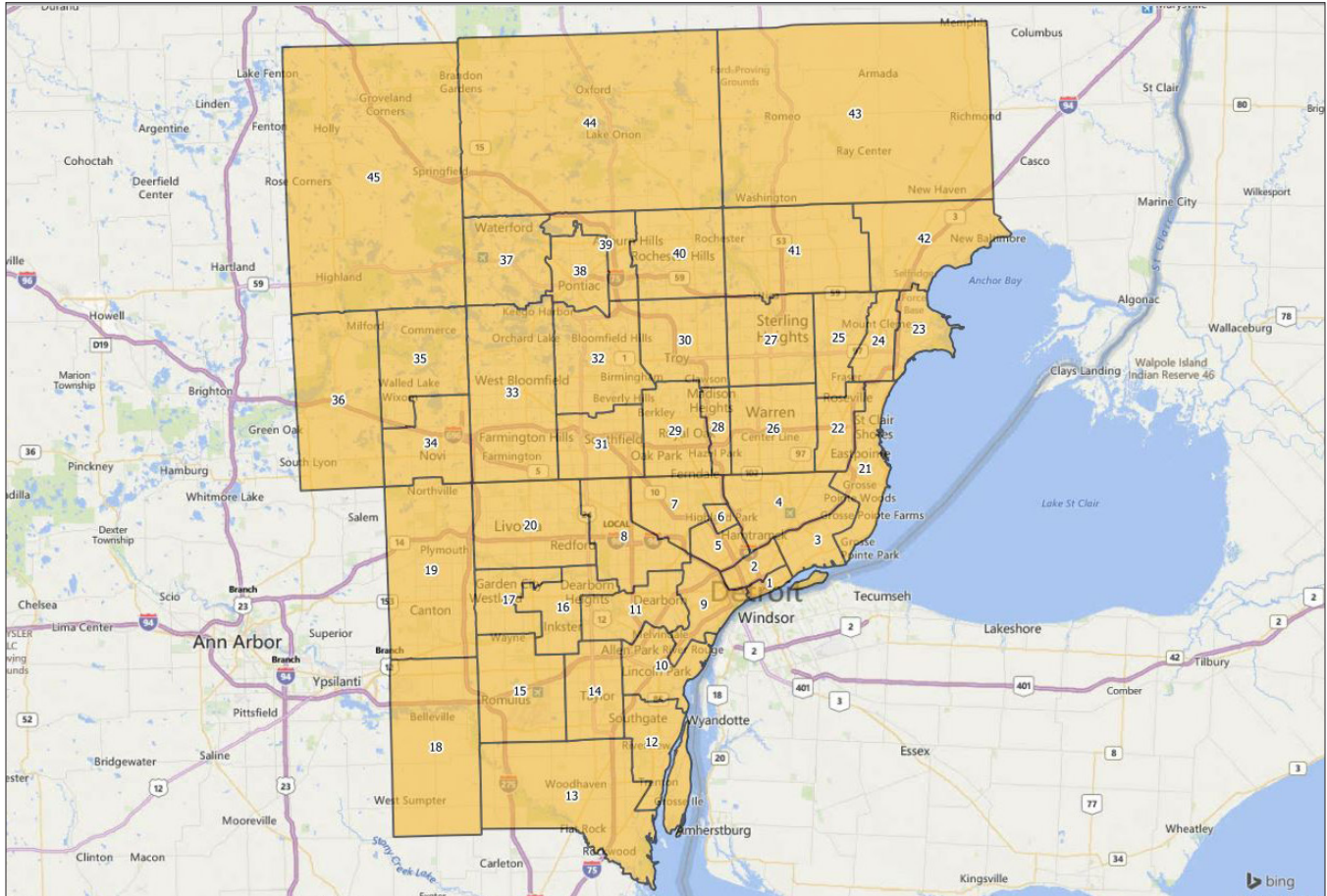


# Read All About It!





## Detroit Submarkets



Area #	Submarket
1	Detroit - Downtown
2	Detroit - Midtown
3	Detroit - East
4	Detroit - Northeast
5	Detroit - New Center
6	Highland Park
7	Detroit - North
8	Detroit - West
9	Detroit - South
10	Lincoln Park/Melvindale
11	Dearborn
12	Southgate/Riverview
13	Woodhaven/Brownstown
14	Taylor
15	Wayne/Romulus
16	Dearborn Heights/Inkster
17	Westland
18	Belleville
19	Canton/Plymouth
20	Livonia/Redford
21	St. Claire Shores/Grosse Pointe
22	Roseville
23	Harrison Township

Area #	Submarket
24	Clinton Township - East
25	Clinton Township - West
26	Warren
27	Sterling Heights
28	Madison Heights
29	Royal Oak/Oak Park
30	Troy
31	Southfield
32	Bloomfield Hills/Birmingham
33	Farmington Hills/West Bloomfield
34	Novi
35	Wixom/Walled Lake
36	South Lyon/Milford
37	Waterford
38	Pontiac
39	Auburn Hills
40	Rochester Hills
41	Shelby Township
42	Chesterfield/New Baltimore
43	Washington/Richmond
44	Clarkston/Orion
45	Holly/White Lake

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## Definitions

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter by Necessity households** span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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