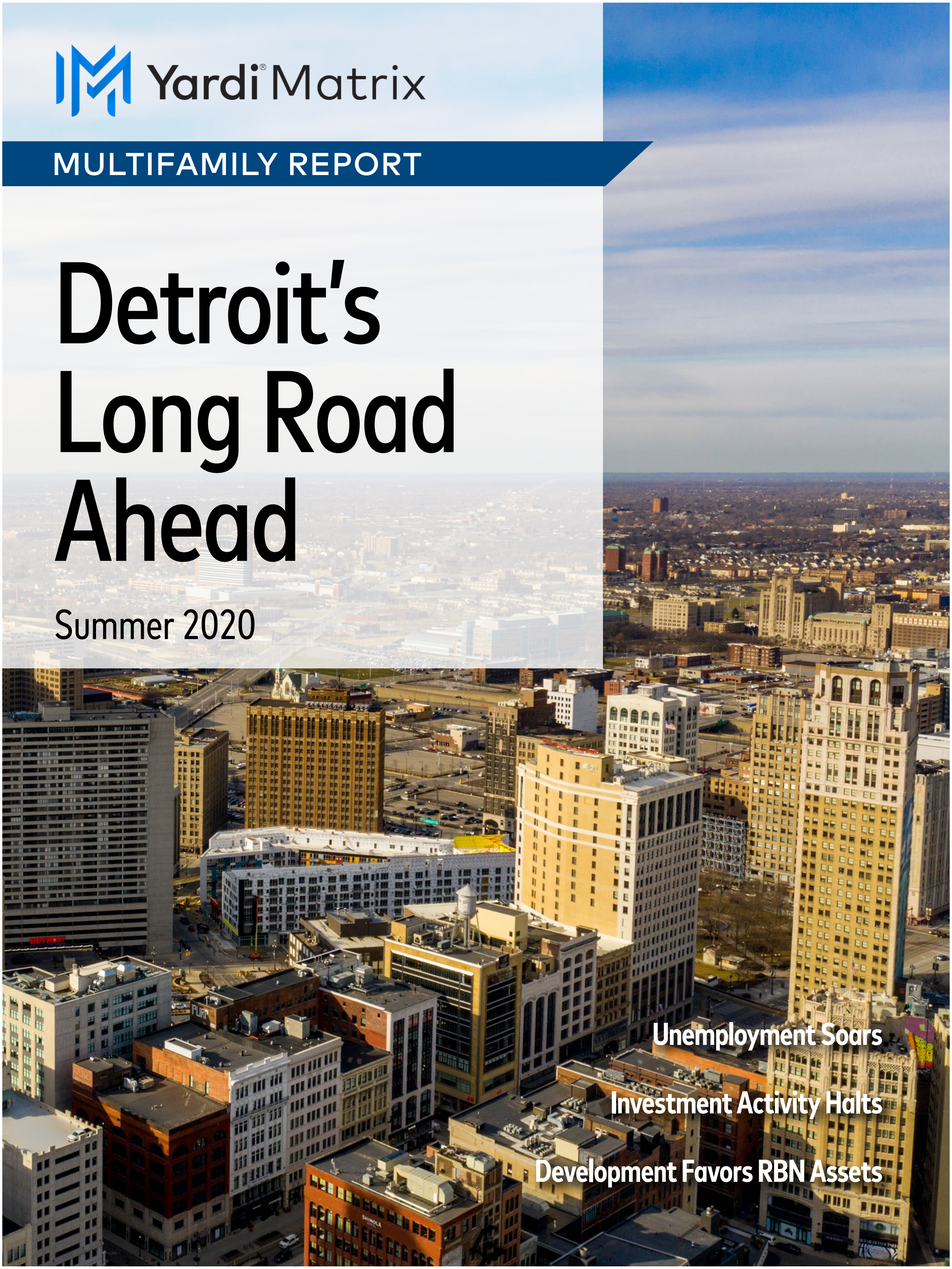
Yardi Matrix

MULTIFAMILY REPORT

Detroit's Long Road Ahead

Summer 2020



Unemployment Soars

Investment Activity Halts

Development Favors RBN Assets

DETROIT MULTIFAMILY

Investors Pull Back As Job Losses Mount

Detroit's multifamily market faced its share of challenges in the first half of 2020, and the road is steep. Rent expansion remained positive at 0.2% on a trailing three-month basis through June. Lifestyle rates, typically more volatile during a downturn, were up 0.3% as a result of limited supply. Renter-by-Necessity figures increased by 0.1%. As nearly all of Detroit's 4,895 units under construction fell into this category, we expect rent improvements to further soften as projects deliver.

Michigan entered a state of emergency in early March following the state's first confirmed cases of COVID-19, effectively bringing Detroit's economy to a halt. Unemployment jumped from 5.4% in March to 26.4% in May. Leisure and hospitality was the hardest-hit area, but all sectors saw significant losses through May. The recovery will be slow: Although Michigan moved closer to reopening in June, concerns over a second wave of cases led the governor to hit the brakes on easing further restrictions.

Transaction volume reached $153 million in the first half of 2020. All of the metro's transactions during this period involved Renter-by-Necessity properties—with value-add potential—in Detroit's suburbs. However, uncertainty stemming from the pandemic gave investors pause: No major transactions closed after the start of April.

Market Analysis | Summer 2020

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Recent Detroit Transactions

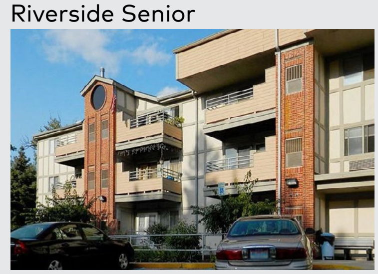
Independence Green

City: Farmington Hills, Mich.
Buyer: JRK Property Holdings
Purchase Price: $100 MM
Price per Unit: $101,427

Atrium

City: Southfield, Mich.
Buyer: Contour Development Group
Purchase Price: $4 MM
Price per Unit: $37,500

Riverside Senior



City: Utica, Mich.
Buyer: Shamrock Acquisitions
Purchase Price: $3 MM
Price per Unit: $51,389

Dearborn View

City: Inkster, Mich.
Buyer: The Goldstone Group
Purchase Price: $26 MM
Price per Unit: $55,315

RENT TRENDS

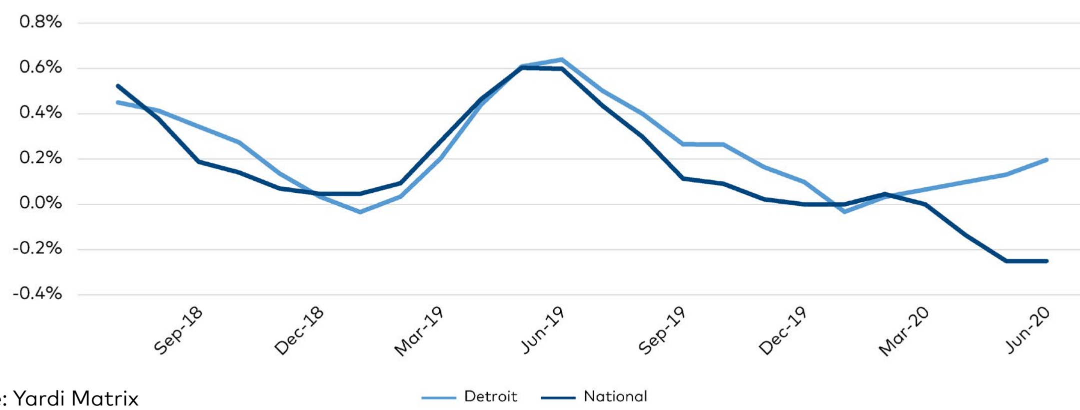
- Detroit rents rose 0.2% on a trailing three-month basis through June, contrary to the national rate's 0.3% decrease. The metro's average rent was $1,022, 26.1% less than the $1,382 national price.

- Lifestyle rents in Detroit increased 0.3% to $1,590, even as national higher-end rents fell 0.3%, partly due to a lack of supply at the high end of the quality spectrum. Renter-by-Necessity rates increased 0.1% to $980. As the vast majority of developments underway were RBN projects, rents in lower-end properties may soften amid new deliveries.

- State and local governments took several initiatives to reduce the economic fallout from the crisis. Although a statewide eviction moratorium expired in July, Detroit renters were granted an extension through mid-August. Additionally, in July, the Michigan State Housing Development Authority set aside $50 million for rental assistance for tenants earning up to 100% of the area median income.

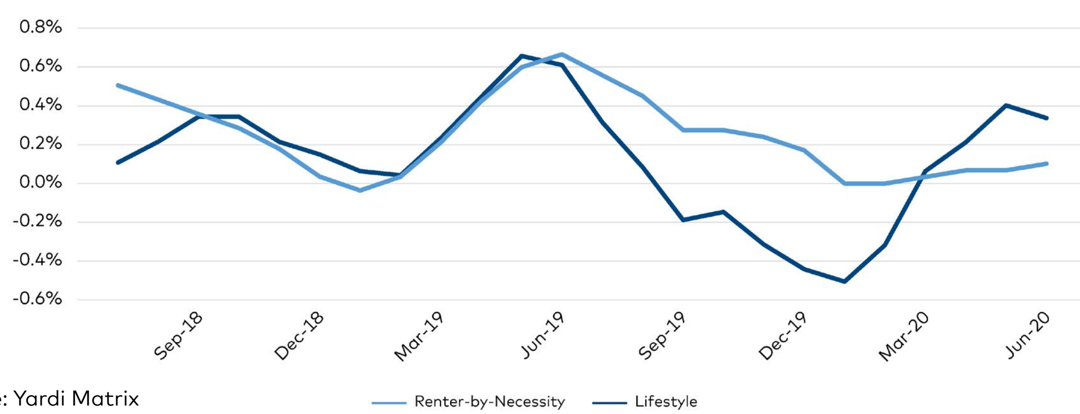
- In June, the Bloomfield Hills/Birmingham ($1,351), Dearborn ($1,340) and Detroit–Downtown ($1,322) submarkets had the highest average rents. After decades of decay, Detroit's downtown area has drawn interest in recent years, with major developments announced in 2018 and 2019, from Ford's $740 million redevelopment of Michigan Central Station to the University of Michigan's $300 million Detroit Center for Innovation.

Detroit vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Detroit Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- The COVID-19 pandemic dealt Detroit's economy a significant blow. The metro's unemployment rate was 26.4% as of June, compared to the 11.1% U.S. rate. The largest job losses occurred in the leisure and hospitality sector, which contracted by 52.8% year-over-year through May. None of Detroit's employment sectors saw gains, resulting in a 19.9% slide.

- Major employers had announced furloughs and layoffs as a result of the pandemic. Among many others, Henry Ford Health System and Trinity Health Michigan cut a combined total of 5,400 jobs in April. Future redundancies are expected: In May and June, employers in the Detroit metro filed 32 notices under the Worker Adjustment and Retraining Notification Act, affecting nearly 8,500 full-time positions.

- After April's initial surge in COVID-19 cases, Gov. Gretchen Whitmer enacted a statewide shutdown, shuttering many businesses and restricting many nonessential activities. After entering Phase 4 of the the state's reopening plan, an uptick in new cases forced the governor to extend Michigan's state of emergency through early September, and reinstate COVID-19-related restrictions.

Detroit Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
50	Information	25	1.5%
55	Financial Activities	115	7.0%
90	Government	180	11.0%
15	Mining, Logging and Construction	61	3.7%
80	Other Services	56	3.4%
40	Trade, Transportation and Utilities	322	19.6%
60	Professional and Business Services	338	20.6%
65	Education and Health Services	262	16.0%
30	Manufacturing	185	11.3%
70	Leisure and Hospitality	97	5.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro lost 6,813 residents in 2019, contracting by 0.2%, while the U.S. population grew by 0.3%.

- Suburbs have long buoyed the metro's demographics: The city of Detroit's population has declined every year since 2010, according to The Brookings Institution.

Detroit vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Detroit Metro	4,316,198	4,321,704	4,326,442	4,319,629

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

SUPPLY

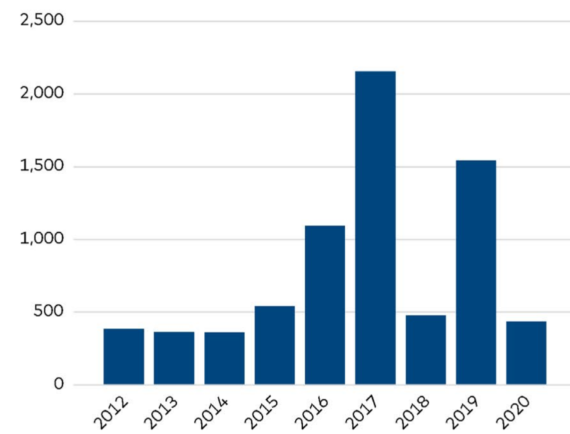
- Detroit had 4,895 units under construction as of June, accounting for 0.3% of completed inventory. An additional 14,000 units were in the planning and permitting stages. Although Michigan's government had halted nearly all construction between March and late April due to the coronavirus pandemic, developments moved forward once the sector was reopened.

- After delivering 1,544 units in 2019, developers added 436 units, or 0.2% of total inventory, to Detroit's rental stock in 2020 through June. While an additional 3,286 units were slated for completion by year-end, many projects will likely face delays given the myriad uncertainties surrounding the pandemic. Bucking a nationwide slant toward the Lifestyle segment, all of the year's deliveries through June were in Renter-by-Necessity assets.

- Downtown Detroit led development activity with 1,027 units underway, or 21% of the construction pipeline. The largest project was Moceri Cos.' Montclair at Partridge Creek, a 613-unit development in the Clinton Township-West submarket. The project broke ground in 2015 and is slated to deliver in 2022.

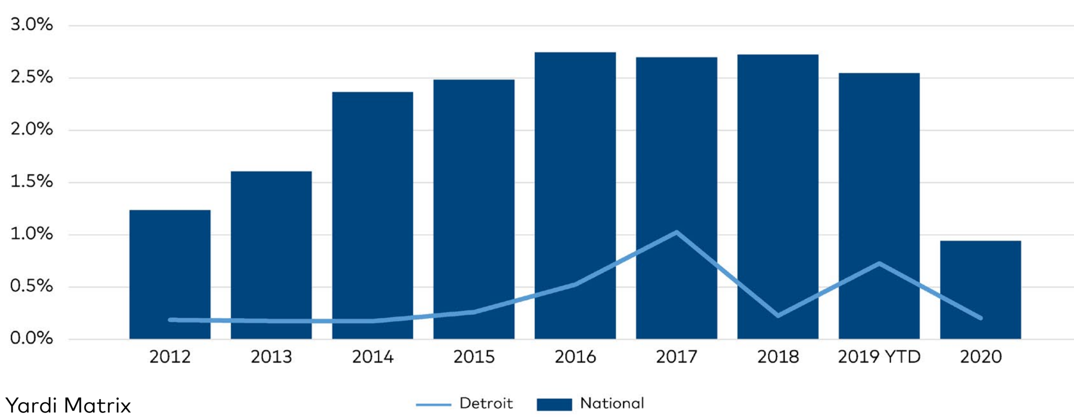
- Ginosko Development Co.'s January delivery of the 200-unit Renaissance Estates of Ecorse in the Lincoln Park/Melvindale submarket was the largest completion in the first half of 2020. Developers broke ground on the fully affordable development in early 2018. The property was financed through Michigan State Housing Development Authority bonds and HUD loans.

Detroit Completions (as of June 2020)



Source: Yardi Matrix

Detroit vs. National Completions as a Percentage of Total Stock (as of June 2020)



Source: Yardi Matrix

TRANSACTIONS

- In the first six months of 2020, Detroit's transaction volume totaled $153 million, though all but one sale occurred in the first quarter. While significantly higher than the $25 million closed during the first half of 2019, activity came to a halt in early April as investors reassessed moves due to the COVID-19 pandemic.

- All of Detroit's multifamily sales in 2020 through June involved Renter-by-Necessity assets in the suburbs. The average price per unit was $92,140, an 8.4% decrease from 2019's $100,547, and 39% lower than the national average of $152,119.

- JRK Property Holdings' $99.5 million acquisition of the 981-unit Independence Green in Farmington Hills was the metro's largest transaction in 2020 through June. Berkadia provided the buyer with an $82 million Fannie Mae loan for the purchase. Seller Hayman Co. acquired the asset for $53 million from Aimco in late 2013.

Detroit Sales Volume and Number of Properties Sold (as of June 2020)

Source: Yardi Matrix

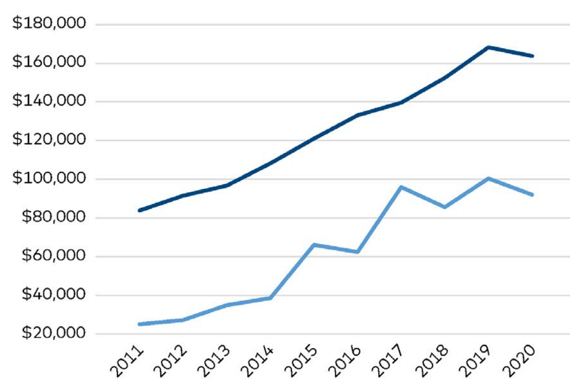
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Farmington Hills/West Bloomfield	179
Rochester Hills	88
Dearborn Heights/Inkster	26
Waterford	24
Auburn Hills	23
Canton/Plymouth	20
Wayne/Romulus	17

Source: Yardi Matrix

[1] From July 2019 to June 2020

Detroit vs. National Sales Price per Unit



Source: Yardi Matrix

MULTI-HOUSING NEWS

data by Yardi Matrix

Top 5 Markets for Transaction Growth

By Razvan Cimpean

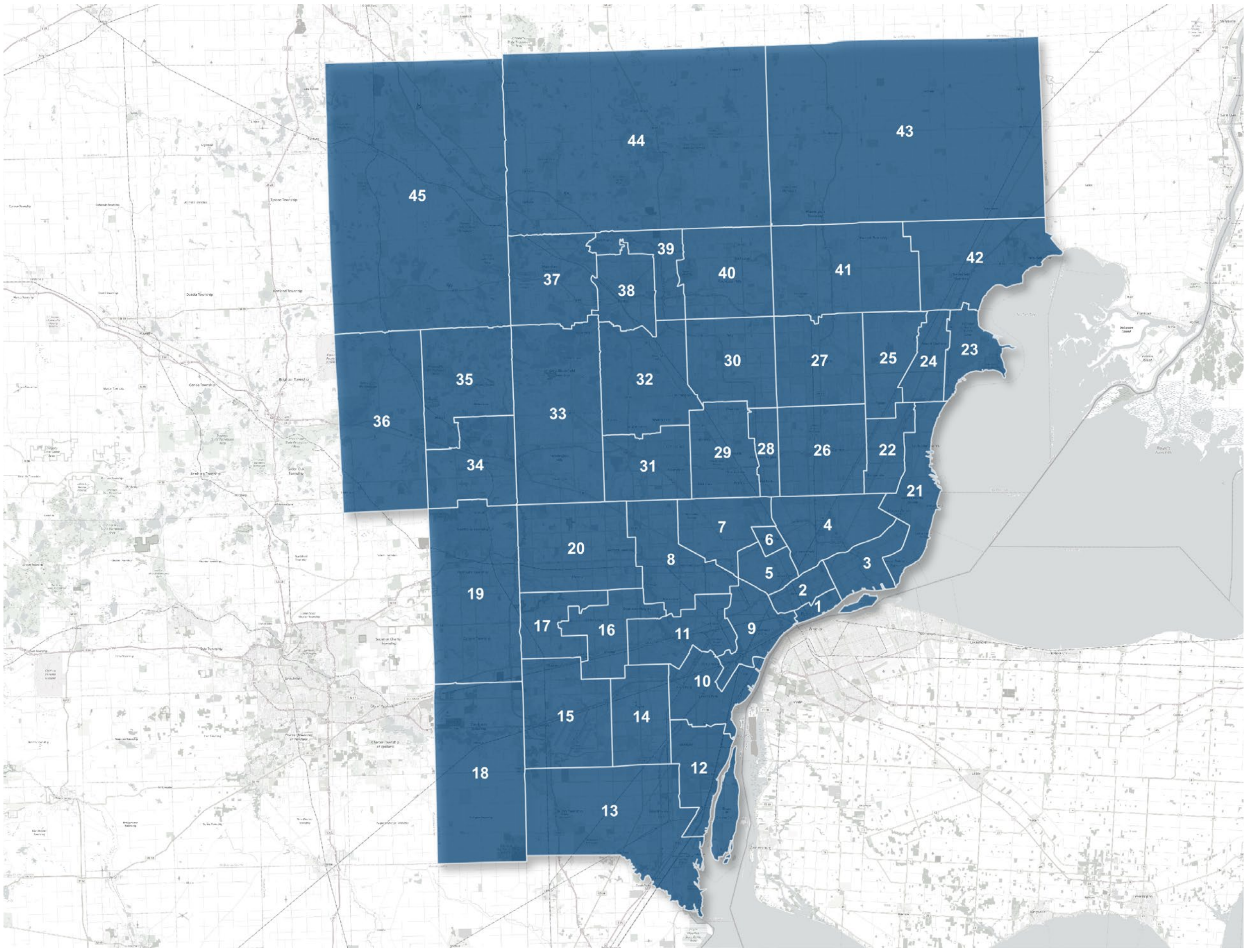
The coronavirus outbreak has put a dent in real estate investment activity nationwide. The total sales volume for multifamily transactions declined by almost a third in the first five months of 2020 compared to the same interval last year, according to Yardi Matrix data. While transaction volume decreased in most major multifamily markets across the nation, some smaller regions have seen their dollar volume go up by double or triple digits, as investors sought value-add opportunities in less expensive areas.

Rank	Market	Sales Volume Jan-May 2019 (MM)	Sales Volume Jan-May 2020 (MM)	Percentage Change
1	Detroit	$16.6	$152.6	819.2%
2	Wilmington	$17.8	$110.5	520.8%
3	White Plains	$13.0	$61.6	373.8%
4	Augusta	$19.2	$82.8	330.8%
5	Huntsville	$27.5	$101.4	268.2%

DETROIT

For a multifamily market this size, Detroit witnessed several underperforming quarters in terms of transactions over the past two years. Year-to-date through May, investors completed five transactions for a combined total of $152.6 million. JRK Property Holdings' acquisition of the 981-apartment Independence Green in the Farmington Hills/West Bloomfield submarket was the largest multifamily transaction of 2020 so far. The Los Angeles-based firm paid $99.5 million to Hayman Co. for the 67-building asset.

DETROIT SUBMARKETS



Area No.	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

Area No.	Submarket
16	Dearborn Heights/Inkster
17	Westland
18	Belleville
29	Canton/Plymouth
20	Livonia/Redford
21	St. Claire Shores/Grosse Pointe
22	Roseville
23	Harrison Township
24	Clinton Township–East
25	Clinton Township–West
26	Warren
27	Sterling Heights
28	Madison Heights
29	Royal Oak/Oak Park
30	Troy

Area No.	Submarket
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

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 June 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 June 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, June 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.