

# Detroit's Drift

Fall 2020



Rents Post Significant Gains Across Submarkets

Employment Market Expected to Gain 1,200 Jobs

Downtown Detroit Leads Development

# DETROIT MULTIFAMILY



## Rents Rebound Favorably

Despite the vulnerability displayed in recent decades, Detroit's multifamily market has not succumbed to the current downturn. Rents in the metro rose a substantial 0.7% on a trailing three-month basis through October to \$1,050, with Lifestyle rents posting a remarkable rebound after six consecutive months of negative performance that ended in March.

Employment took a serious hit, declining 14.9% in the 12 months ending in September, trailing the -9.3% national average. The unemployment rate slid to 12.8% in August from the 26.5% all-time high registered in May, with the preliminary September figure clocking in at 12.5%. As expected, because of the state's automotive industry concentration, manufacturing was among the worst-hit sectors, contracting by 9.8% in the 12 months ending in September. Even though Detroit has lost a large chunk of its workforce since the onset of the pandemic, the metro is better positioned to weather the immediate fallout of the current crisis than it was in past downturns.

Developers delivered only 547 units through October and had another 5,732 under construction. Meanwhile, \$194 million in multifamily assets traded during the first 10 months of the year, with one transaction recorded in April accounting for nearly half of that.

## Market Analysis | Fall 2020

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On the cover: Photo by Sean Pavone/iStockphoto.com

### Recent Detroit Transactions

#### Independence Green



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

#### Garfield Park



City: Fraser, Mich.  
Buyer: Princeton Enterprises  
Purchase Price: \$5 MM  
Price per Unit: \$48,485

#### Atrium



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

#### Ryan Court

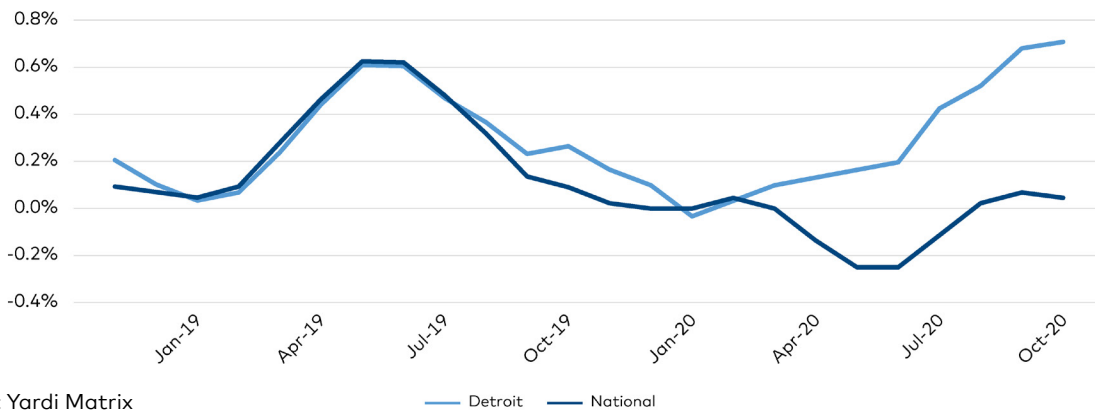


City: Detroit  
Buyer: Century Partners  
Purchase Price: \$1 MM  
Price per Unit: \$5,440

## RENT TRENDS

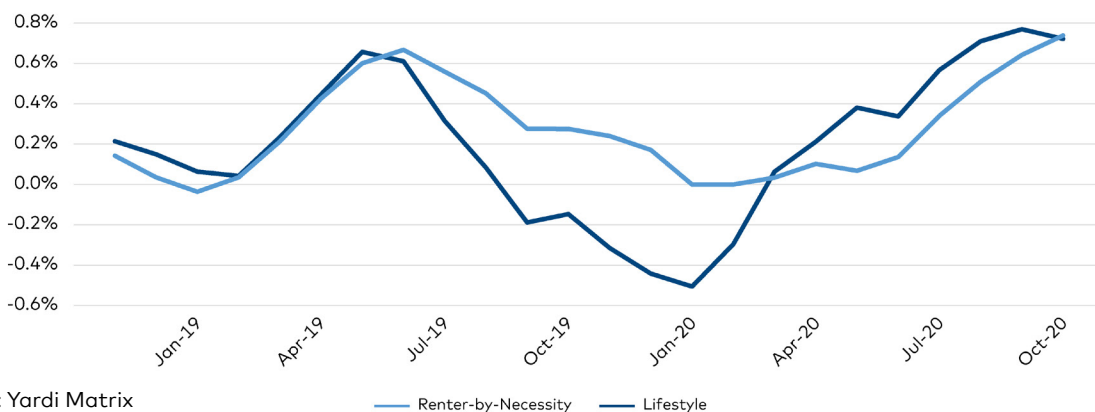
- ▶ Detroit rents rebounded substantially in the third quarter, with the average rate rising 0.7% on a trailing three-month (T3) basis through October to \$1,050, while the U.S. rate stayed flat at \$1,464. Year-over-year, Detroit rents were up 3.8%.
- ▶ Demand strengthened for both Renter-by-Necessity and Lifestyle units, with rates in both segments appreciating equally, up 0.7% on a T3 basis through October to \$1,007 and \$1,639. However, the smaller Lifestyle segment paints a more dynamic evolution: While rents contracted for six consecutive months on a T3 basis preceding the onset of the pandemic, prices turned positive in March and have gradually improved since then.
- ▶ Growth was mainly positive across submarkets, with the average rent inching down year-over-year in only two areas: Dearborn—the metro’s most expensive submarket—(-0.1% to \$1,390) and Detroit–East (-1.2% to \$1,093).
- ▶ In Bloomfield Hills/Birmingham and Detroit-Downtown, the second- and third-most expensive submarkets, rents rose 1.8% and 1.3% year-over-year to \$1,387 and \$1,358, respectively. Meanwhile, Detroit’s most affordable submarkets posted relatively consistent gains: In Detroit–West rents rose 3.6% to \$685 and in Detroit–North the average was up 3.5% to \$749. Year-over-year, the best performing submarkets were Belleville (16.5% to \$1,079) and Wixom/Walled Lake (11.8% to \$995).

### 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

- ▶ Detroit's job market has been severely affected by the current downturn. The unemployment rate rose to an all-time high of 26.5% in May. By August, the rate was down to 12.8% and preliminary data for September pointed to a steady recovery at 12.5%.
- ▶ Employment recorded a 14.9% decline in the 12 months ending in September, below the -9.3% U.S. average, placing Detroit among the bottom 10 metros in the country. While leisure and hospitality shrunk by nearly one-third, the metro's largest sectors—professional and business services (19.8% of the workforce) and trade, transportation and utilities (19.3%)—contracted by 6.9% and 6.2%, respectively. Amazon's plans to bring a \$400 million distribution center to the former Michigan State Fairgrounds were approved—the move is expected to add 1,200 jobs.
- ▶ Beyond the pandemic, Detroit is facing the biggest budget crisis the city has seen since its bankruptcy. This vulnerability stems from its reliance on highly volatile revenue streams—income taxes and casinos—with the latter generating about 17% of municipal revenue. However, Detroit is better positioned to navigate the crisis relative to previous downturns thanks to savings-conscious budgets in the recent past, as well as its diversifying economy.

### Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
50	Information	25	1.4%
80	Other Services	70	3.8%
15	Mining, Logging and Construction	76	4.1%
55	Financial Activities	117	6.4%
90	Government	180	9.8%
40	Trade, Transportation and Utilities	356	19.3%
30	Manufacturing	232	12.6%
60	Professional and Business Services	365	19.8%
65	Education and Health Services	279	15.2%
70	Leisure and Hospitality	141	7.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Detroit's demographic evolution has been uneven since 2010. After a 0.1% expansion in 2018—which also marked the peak of the decade—Detroit lost 6,813 residents in 2019. That marked a 0.2% contraction, while the U.S. average was up 0.3%.

### Detroit vs. National Population

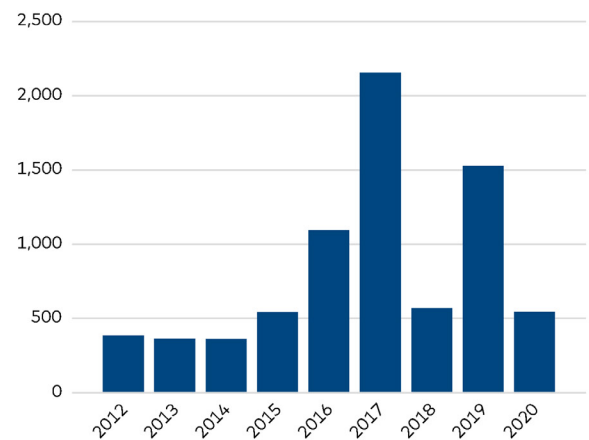
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Detroit Metro	4,316,198	4,321,704	4,326,442	4,319,629

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

## SUPPLY

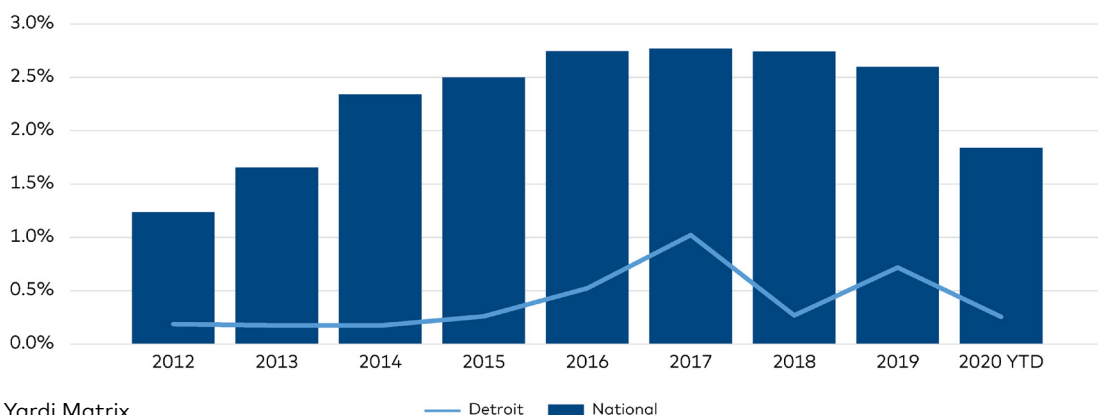
- ▶ Developers brought online only 547 units this year through October, accounting for 0.3% of stock, lagging the 1.8% U.S. rate. The health crisis prompted officials to put development activity across the state on hold between March and late April for nearly all asset classes. With population not expanding, development has been scarce over the past decade, with just 7,556 units delivered since 2012.
- ▶ The pipeline encompassed 5,732 apartments in October, 341 of which are in fully affordable projects—all initially scheduled to come online in 2020—and another six properties with a portion of affordable units. The rest of the pipeline consists mostly of upscale Lifestyle projects.
- ▶ Of the units underway, 2,792 were initially slated for completion by the end of the year. However, considering overall economic uncertainty and disrupted supply chains, many will likely face delays well into 2021. Detroit had an additional 15,344 apartments in the planning and permitting stages as of October, many of which could also face significant delays, and even cancellations.
- ▶ Downtown Detroit continued to lead development, having 1,207 units under construction, followed by Clinton Township-West (613 units) and Royal Oak/Oak Park (611 units).
- ▶ The only property with more than 50 units delivered during the pandemic was Baltimore Station, a 161-unit Lifestyle asset in the New Center submarket, owned by The Platform.

**Detroit Completions** (as of October 2020)



Source: Yardi Matrix

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

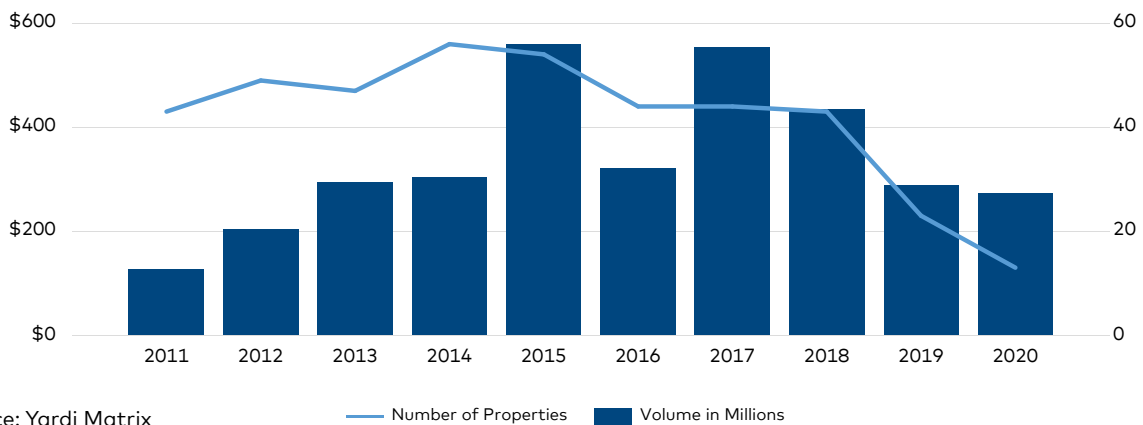


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Detroit transactions totaled \$194 million year-to-date through October, marking a slowdown from the \$261 million registered for the same time frame in 2019. Almost all 2020 deals closed in the first quarter, with activity nearly halting after the beginning of the health crisis.
- ▶ All properties that changed hands in 2020 through October were in the Renter-by-Necessity segment. The per-unit price clocked in at \$65,167, well behind the \$164,863 national average.
- ▶ JRK Property Holdings' acquisition of the 981-unit Independence Green property in Farmington Hills from Hayman Co. marked the largest deal of the year through October. The asset traded for \$99.5 million, or \$101,427 per unit. However, the highest price per unit was paid to North Empire by a private investor for the purchase of Pinewoods Village. The 156-unit asset in Romulus traded for \$16.6 million, or \$106,090 per unit.

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



Source: Yardi Matrix

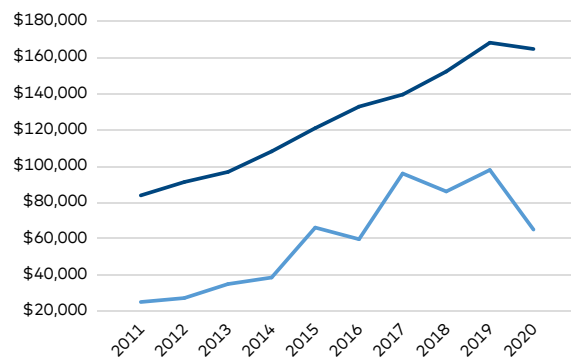
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Farmington Hills\West Bloomfield	100
Dearborn Heights/Inkster	26
Waterford	25
Wayne/Romulus	17
Southfield	12
Detroit - West	11
Royal Oak/Oak Park	10

Source: Yardi Matrix

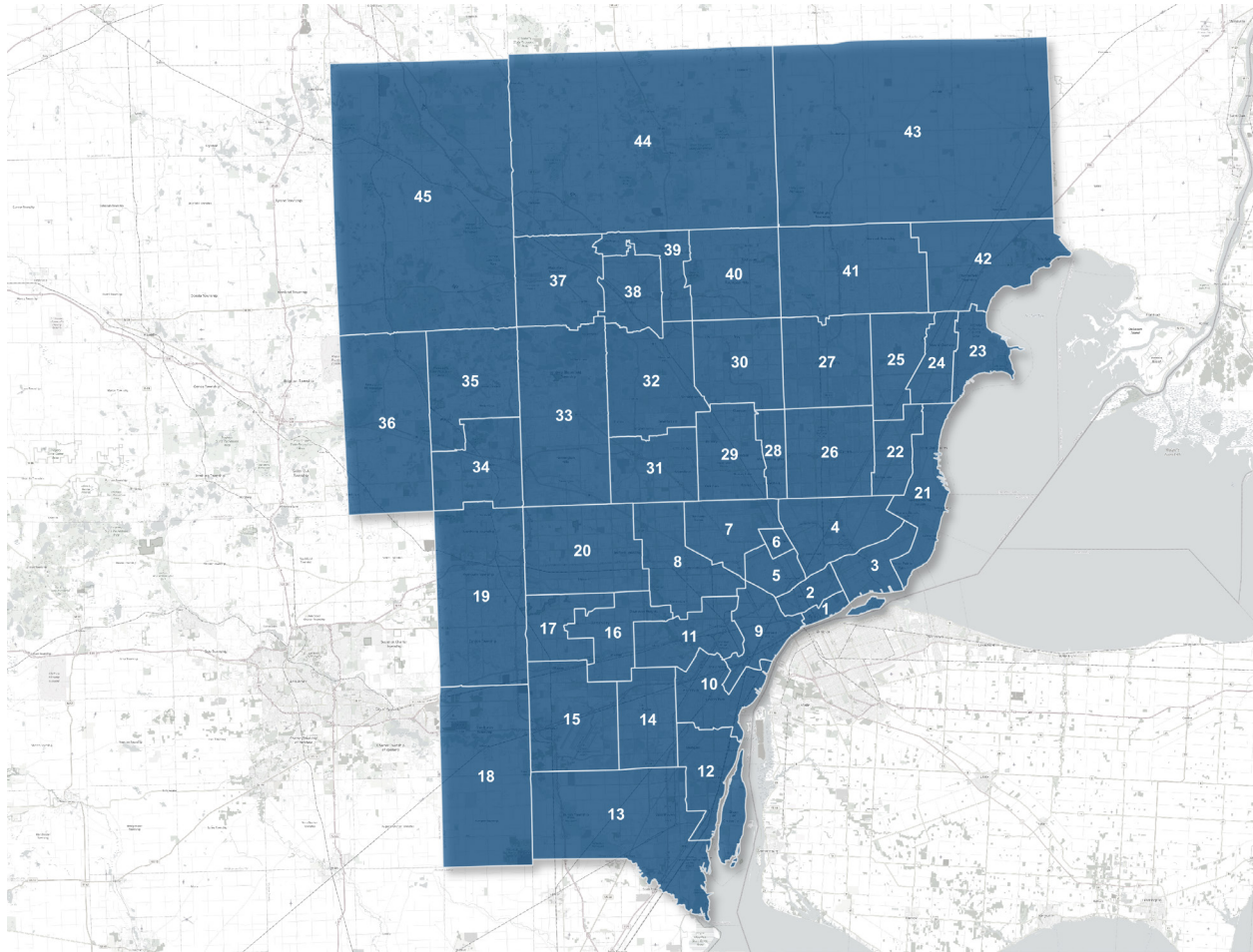
<sup>1</sup> From November 2019 to October 2020

### Detroit vs. National Sales Price per Unit



Source: Yardi Matrix

## 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
19	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 October 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 October 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, October 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.

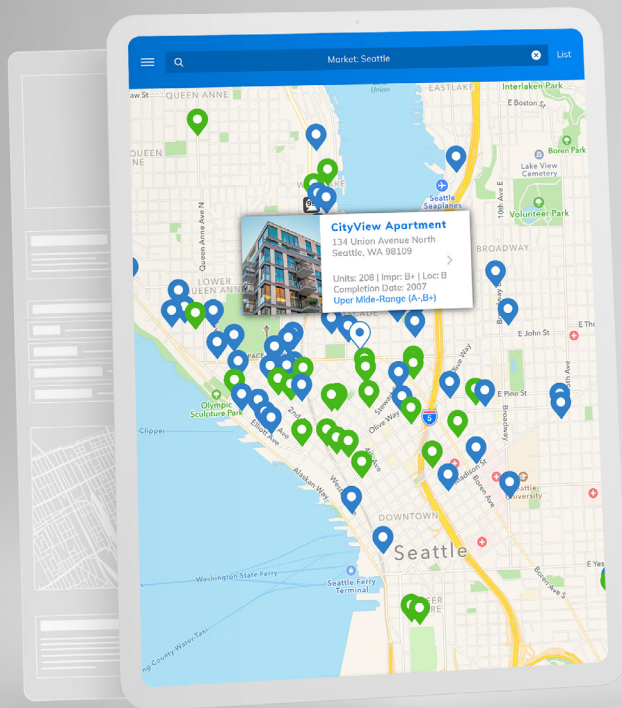
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