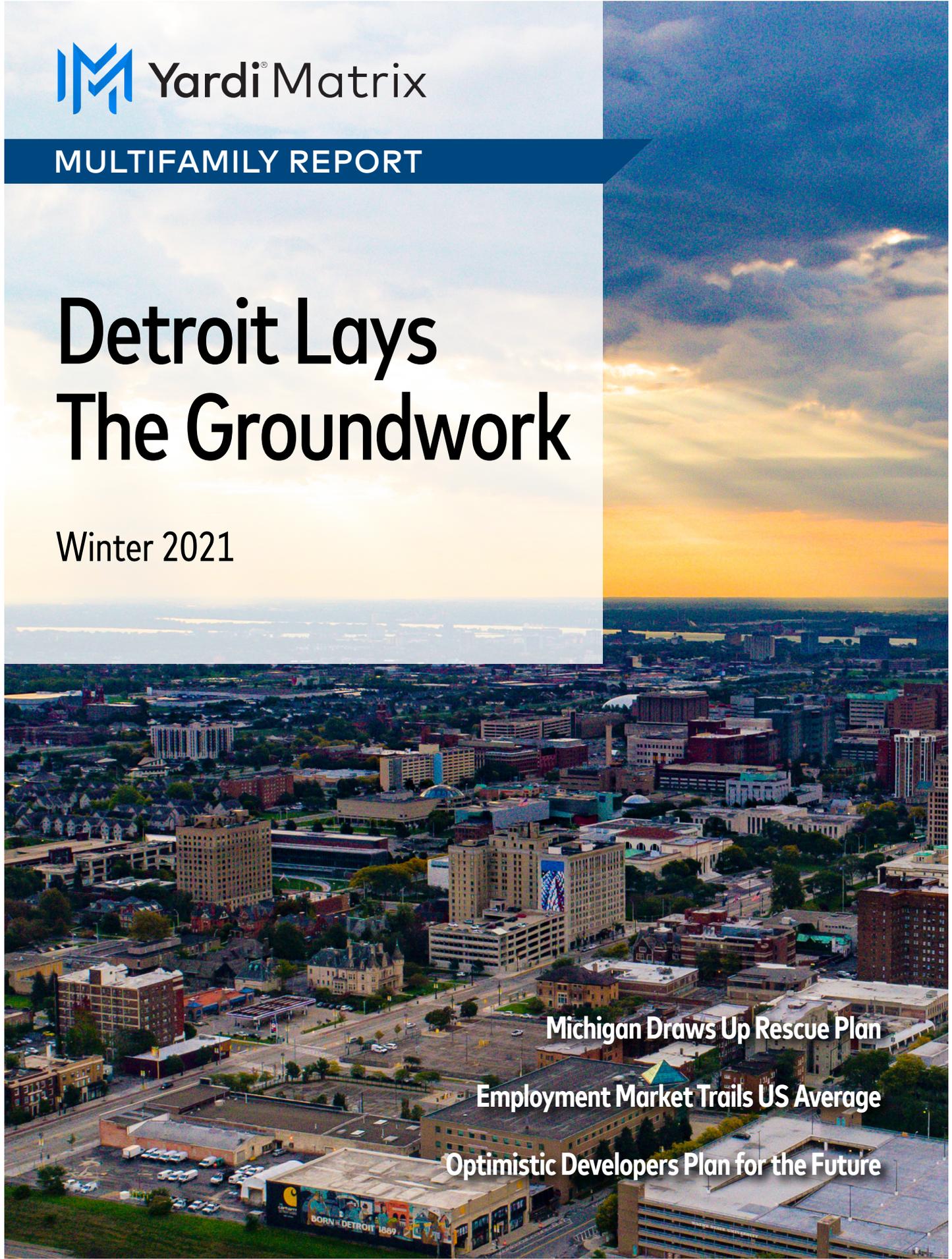




MULTIFAMILY REPORT

Detroit Lays The Groundwork

Winter 2021



Michigan Draws Up Rescue Plan

Employment Market Trails US Average

Optimistic Developers Plan for the Future

DETROIT MULTIFAMILY



Smart Strategies Prepare Metro for Recovery

As the state gears up for Gov. Gretchen Whitmer's Michigan COVID Recovery Plan, the metro's path to a future rebound—as is the case with many other markets—depends heavily on federal financial support and widespread vaccine rollouts. Despite the challenges Detroit faced in 2020, multifamily fundamentals remained relatively healthy—rent growth persisted throughout the year and ramped up in the fourth quarter, with the average rate reaching \$1,052 in December 2020 and holding through January.

As of December, unemployment stood at 7.5% in Michigan and at 10.1% in metro Detroit, rates which were above the 6.7% national figure. In the 12 months ending in November, the metro lost a total of 191,700 jobs, with the leisure and hospitality sector (down 56,100 positions) carrying the weight of the economic dislocation. In continued efforts to facilitate recovery, the state has set up the Going PRO Talent Fund, which will distribute \$39 million in grants to employers to train some 30,000 Michigan workers.

Metro Detroit had 6,206 units under construction as of January, nearly 80% of which are aimed at high-income renters. Last year, developers completed 702 apartments, equal to 0.3% of total stock and well below the 2.2% U.S. rate. Meanwhile, some \$225 million in assets traded in 2020, marking a 22.4% decline, compared to 2019.

Market Analysis | Winter 2021

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Recent Detroit Transactions

Village Club on Lake St. Clair



City: Harrison Township, Mich.
Buyer: Lightstone Group
Purchase Price: \$22 MM
Price per Unit: \$100,554

Greyberry Park

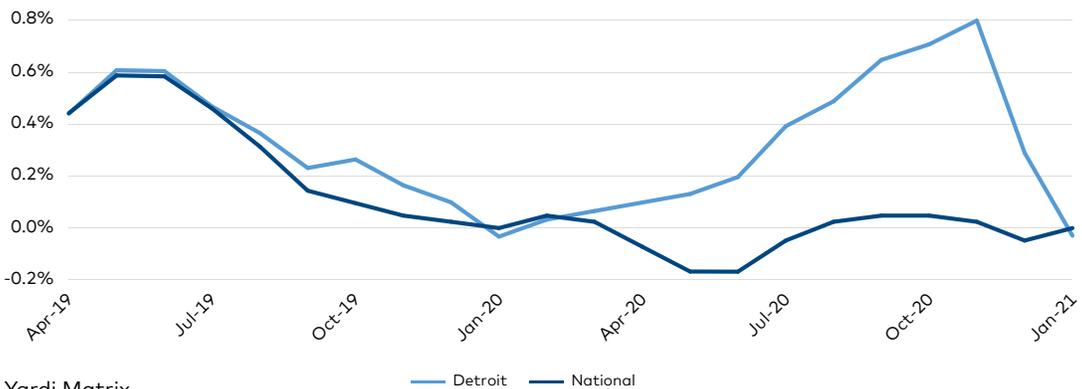


City: Waterford, Mich.
Buyer: Belfor
Purchase Price: \$8 MM
Price per Unit: \$65,234

RENT TRENDS

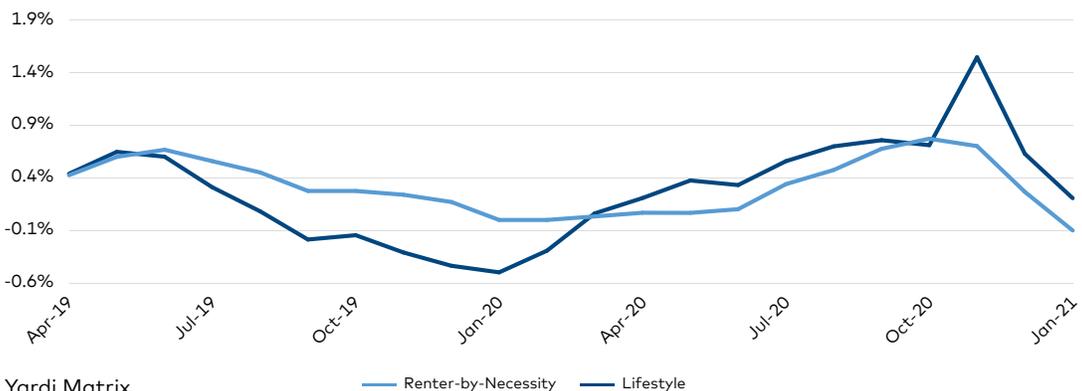
- ▶ Following a strong second half of 2020, rent growth tempered going into 2021. Metro rents were down 20 basis points in January, at \$1,052, while the U.S. average rose 0.2%, to \$1,392. Despite the economic contraction, gains in the metro were consistent in 2020—after a slow start in the first quarter, rent expansion continually improved, peaking at 0.8% on a trailing three-month (T3) basis in November. This trend was in line with patterns displayed by Detroit in previous years.
- ▶ Rates in the relatively small Lifestyle segment were up 0.2% on a T3 basis as of January, to \$1,672, while working-class Renter-by-Necessity rates slid 0.1%, to \$1,004. Both segments enjoyed a healthy 2020, with Lifestyle growth peaking at 1.5% on a T3 basis through November, while RBN prices peaked at 0.8% through October.
- ▶ Royal Oak/Oak Park (7.3% to \$1,074), Woodhaven/Brownstown (6.8% to \$900) and Detroit–New Center (6.0% to \$799) led rent growth in the 12 months ending in January. Rates in Dearborn—the priciest submarket—rose 2.2% to \$1,389.
- ▶ As of Feb. 2, Michigan tenants and landlords were waiting for the Legislature to approve \$622 million in new federal assistance, which is expected to be distributed in installments. The Michigan State Housing Authority will administer the COVID Emergency Rental Assistance program. The funds could assist as many as 60,000 Michigan households.

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

- ▶ As of December, unemployment stood at 7.5% in Michigan and 10.1% in metro Detroit, both above the 6.7% U.S. figure. While the national jobless rate stalled compared to the previous month, both the Michigan and Detroit figures marked upticks from November, from 7.0% and 8.8%, respectively. Unemployment in Detroit peaked at 24.2% in April, but the figure has been on a downward trajectory since.
- ▶ In the 12 months ending in November, the metro lost a total of 191,700 jobs, with the services industry bearing the brunt of the economic fall-out—leisure and hospitality lost 56,100 positions (-28.7%). Education and health services shed 39,900 jobs (-12.4%), while manufacturing—one of the linchpins of the metro's economy—contracted by 10.5%, down 27,100 jobs.
- ▶ The state has set up the Going PRO Talent Fund, set to distribute \$39 million aimed at assisting some 30,000 residents in gaining jobs by providing training grants to more than 850 businesses.
- ▶ In January, Amazon revealed plans for five new buildings to support its operations in metro Detroit. The project is expected to create 3,000 construction jobs and 1,200 permanent positions. The e-commerce giant currently operates 10 facilities in Detroit.

Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
50	Information	25	1.3%
15	Mining, Logging and Construction	75	4.0%
80	Other Services	71	3.8%
55	Financial Activities	116	6.2%
90	Government	183	9.8%
40	Trade, Transportation and Utilities	370	19.8%
60	Professional and Business Services	371	19.9%
30	Manufacturing	232	12.4%
65	Education and Health Services	283	15.2%
70	Leisure and Hospitality	140	7.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ The metro gained 28,036 residents in the past decade, for a 0.7% uptick, well below the 6.1% U.S. rate.
- ▶ Population growth remained modest and was mainly driven by immigration. Expansion softened further in 2016 and turned negative in 2019 (-0.4%).

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

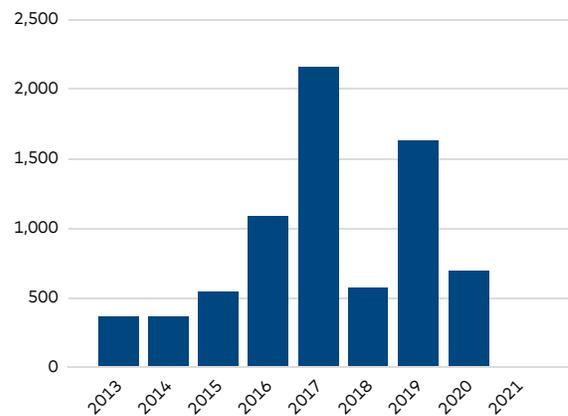
SUPPLY

- ▶ Detroit had 6,206 units under construction as of January, with 78% of those targeting high-income earners. With multifamily fundamentals proving relatively resilient, optimistic developers are planning for the future—as of January, another 16,600 units were in the planning and permitting stages across metro Detroit, Yardi Matrix data shows.
- ▶ Last year, developers completed only 702 apartments, equal to 0.3% of total stock and well below the 2.2% national rate. More than half of new deliveries (54%) were in the Lifestyle segment.
- ▶ Going hand in hand with the metro's tepid population growth, developers delivered an average of 930 apartments a year since 2013, with deliveries peaking at 2,155 in 2017. Following that cycle peak, completions reached another high point in 2019, with the completion of 1,629 units.
- ▶ Developers broke ground on some 1,663 units across 12 communities in 2020. Despite projects facing numerous difficulties, the figure was not that far from 2019's construction

starts, when developers broke ground on 2,303 units across 10 properties.

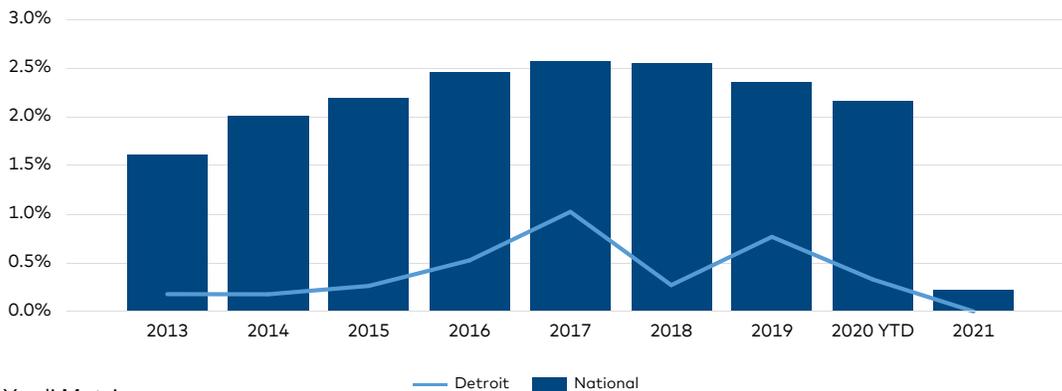
- ▶ Detroit–Downtown (1,207 units) led development as of January, accounting for one-fifth of the total pipeline. Royal Oak/Oak Park (623 units) and Clinton Township (613 units) rounded out the top three.

Detroit Completions (as of January 2021)



Source: Yardi Matrix

Detroit vs. National Completions as a Percentage of Total Stock (as of January 2021)



Source: Yardi Matrix

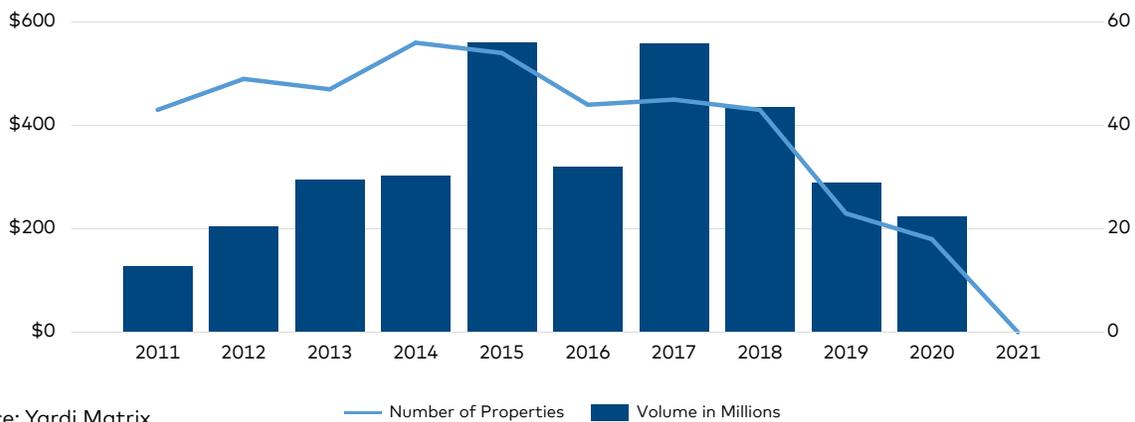
TRANSACTIONS

- ▶ Some \$225 million in assets traded in 2020, marking a 22.4% decline compared to 2019. The health crisis has certainly impacted investment sales, but deal velocity had been fluctuating in the metro following the cycle high of 2015, when sales volume peaked at \$560 million. Last year's total was still well above the decade's low point of \$128 million recorded in 2011.
- ▶ A total of 3,025 units sold in the 12 months ending in January, with investors prioritizing

the RBN segment. All 15 communities that traded between February 2020 and January 2021 were RBN assets. As of January, the average per-unit price stood at \$79,282, marking an improvement over the 2019 average, but considerably lagging the \$202,554 U.S. figure.

- ▶ Lightstone Group's \$22.3 million buy of the 222-unit Village Club on Lake St. Clair was the largest deal of the fourth quarter. City Club Apartments sold the community for \$100,554 per unit.

Detroit Sales Volume and Number of Properties Sold (as of January 2021)



Source: Yardi Matrix

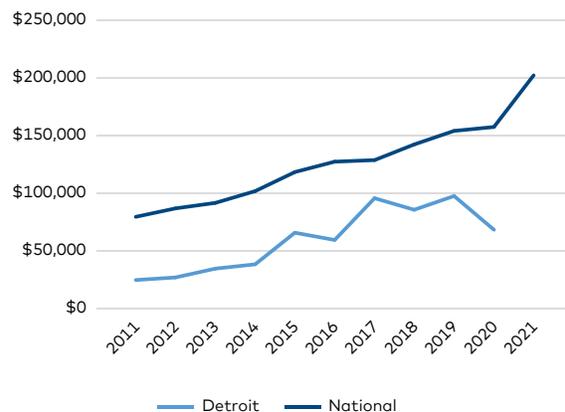
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Farmington Hills/West Bloomfield	100
Waterford	33
Harrison Township	22
Wayne/Romulus	17
Southfield	12
Clarkston/Orion	9
Clinton Township-West	5

Source: Yardi Matrix

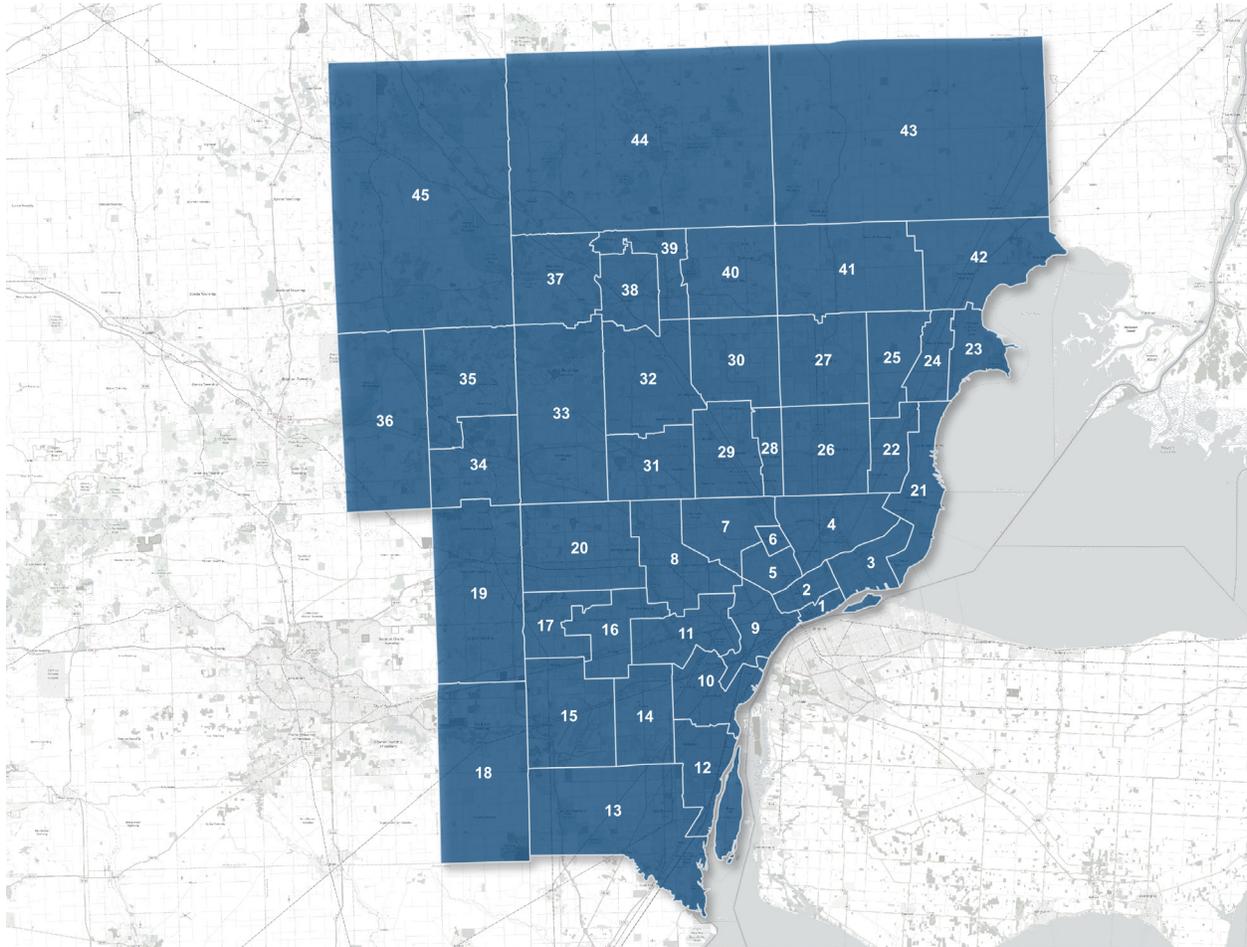
¹ From February 2020 to January 2021

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 December 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 December 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, December 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.

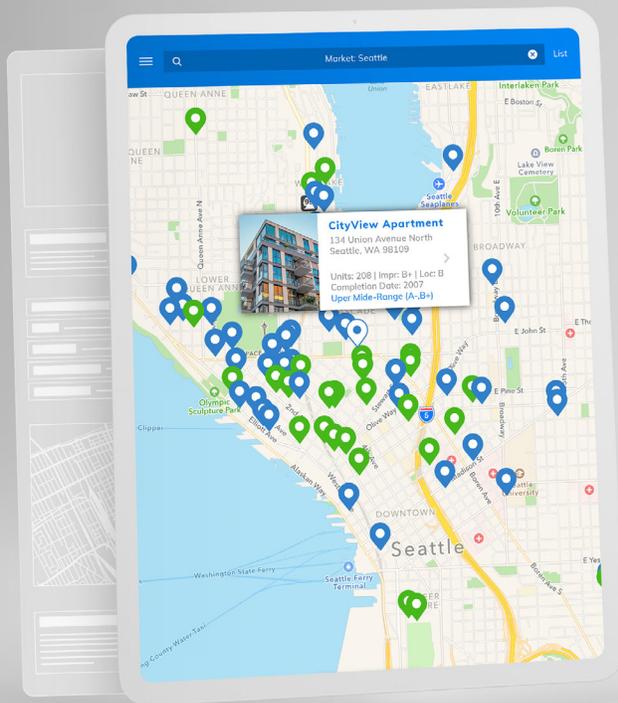
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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