

# Detroit: Revving The Engine

Summer 2021



Rent Growth Picks Up Steam, Trails Nation

Employment Growth Turns Positive

Development Most Active in Downtown

# DETROIT MULTIFAMILY



## Limited Deliveries Keep Demand in Check

Detroit's multifamily fundamentals continued to improve despite economic crosswinds. Rents rose 0.8% on a trailing three-month basis through June to \$1,103, behind the national average, which went up an impressive 1.4%, to \$1,482. The occupancy rate in stabilized properties increased by 80 basis points in the 12 months ending in May, to 96.6%.

The unemployment rate clocked in at 6.0% in May, 20 basis points above the national figure. Employment growth marked a 0.3% uptick (318,500 jobs) in the 12 months ending in May, following 13 months of negative performance. Nearly two-thirds of regained jobs were added in just three sectors—leisure and hospitality (64,800 jobs, +67.2%), manufacturing (64,800 jobs, +41.0%) and professional and business services (61,200 jobs, +19.1%). Manufacturing is especially poised for continued growth, sustained by expansions from several automobile companies including Ford, Lordstown Motors Corp. and Fiat Chrysler.

Developers had 6,054 units under construction as of June, following the delivery of only 455 units in the first half of 2021. Meanwhile, transaction activity remained tepid, with the volume totaling just \$116 million in the first two quarters. Yet, the per-unit price rose by a substantial 63.3%, to \$114,647.

## Market Analysis | Summer 2021

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### Recent Detroit Transactions

#### The Haven at Grosse Pointe



City: Harper Woods, Mich.  
Buyer: DRA Advisors  
Purchase Price: \$29 MM  
Price per Unit: \$71,814

#### Peterboro Place

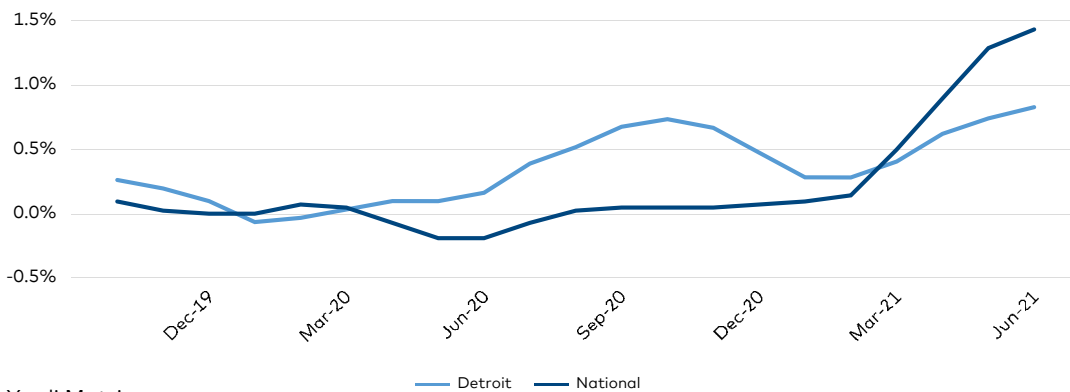


City: Detroit  
Buyer: Winfire Capital  
Purchase Price: \$4 MM  
Price per Unit: \$50,000

## RENT TRENDS

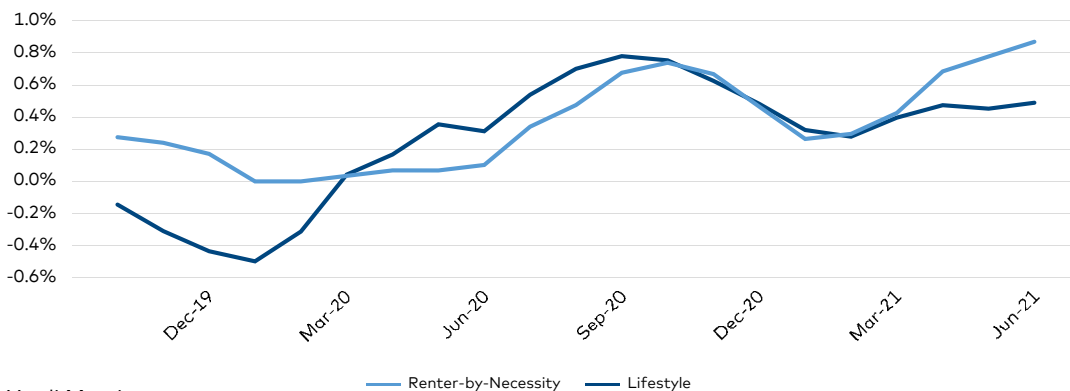
- ▶ Following a brief softening in the first quarter, rent growth picked up again. Detroit rates rose progressively during the second quarter, marking a 0.8% increase on a trailing three-month (T3) basis through June, to \$1,103. The U.S. rate rose 1.4% on a T3 basis, to \$1,482.
- ▶ Despite the brief but acute economic downturn, rent expansion has remained positive since the onset of the health crisis. Year-over-year through June, the average Detroit rent was up a solid 7.4%. Meanwhile, the national figure grew 6.3%, marking the largest jump in the history of Yardi Matrix's data set.
- ▶ Bucking the national trend, rent growth in Detroit was led by the Renter-by-Necessity segment, up 0.9% on a T3 basis through June, to \$1,053. During the period, Lifestyle rents improved by 0.5%, to \$1,718.
- ▶ Of the 45 submarkets tracked by Yardi Matrix, just 19 posted an average rent below the \$1,000 mark as of June. Twelve months prior, 27 submarkets in Detroit had an average rent below the threshold.
- ▶ Bloomfield Hills/Birmingham and Dearborn—the most expensive submarkets in the metro—posted year-over-year rent gains of 9.7% to \$1,482 and 8.7% to \$1,458, respectively. In Detroit-Northeast, the metro's most affordable area, rents marked the weakest performance, up by just 0.4%, to \$675.

### 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 unemployment rate inched up to 6.0% in May, 20 basis points above the national average. The May figure marked a decline from the 4.9% April figure, proving once more that U.S. metros, especially large ones, are still facing the effects of the volatility brought by the pandemic and the ensuing economic turbulence.
- ▶ Even though the economic recovery is well underway, and all sectors gained jobs during the 12 months ending in May, unemployment remains above pre-pandemic levels. However, more than a year after the worst months of the health crisis, employment expanded by 0.3% in the 12 months ending in May, with the addition of 318,500 jobs. Meanwhile, the U.S. rate remained in negative territory, at -1.9%.
- ▶ As expected, hiring in leisure and hospitality had a particularly strong rebound, up 67.2% year-over-year. Manufacturing followed, expanding by 41.0%, or 67,100 jobs. Moreover, car manufacturers are revving their engines once again—Ford is planning its \$185 million battery center in Park, and Lordstown Motors Corp. is looking to establish an automotive R&D center in Farmington Hills. In addition, the Fiat Chrysler Mack Plant is touting more than 3,800 jobs, and Amazon's expansion in the area is expected to add 2,000 new positions.

### Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
30	Manufacturing	231	12.1%
70	Leisure and Hospitality	161	8.4%
60	Professional and Business Services	381	20.0%
40	Trade, Transportation and Utilities	364	19.1%
65	Education and Health Services	295	15.5%
15	Mining, Logging and Construction	80	4.2%
80	Other Services	66	3.5%
55	Financial Activities	124	6.5%
90	Government	180	9.4%
50	Information	25	1.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ The pandemic's social distancing measures negatively impacted the high-density metro, with fewer people once again moving in than out.
- ▶ Detroit lost 15,493 residents in 2020, a 40-basis-point drop. That was twice the contraction recorded in 2019.

### Detroit vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Detroit Metro	4,321,704	4,326,442	4,319,629	4,304,136

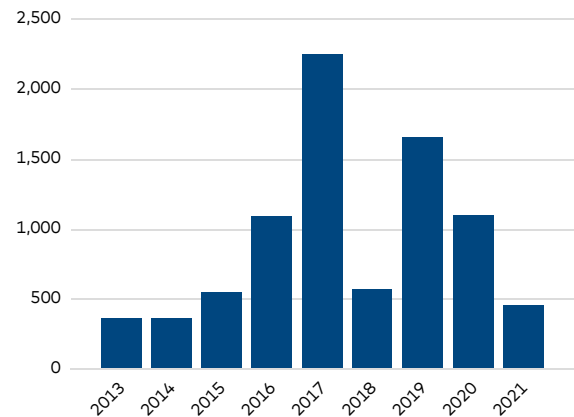
Sources: U.S. Census, Moody's Analytics

## SUPPLY

- ▶ Detroit had 6,054 units under construction as of June, with more than three-quarters of the pipeline targeting high-income renters. Only 882 units across four communities were underway in the Renter-by-Necessity segment, with the pipeline also including 273 units in four fully affordable properties.
- ▶ In the first half of the year, developers delivered just 455 units, 0.2% of total stock, well below the 0.9% U.S. average. Similar to the pipeline, the bulk of deliveries was in the Lifestyle segment. For 2021, we expect completions to fall between the 1,095 units delivered last year and the 1,663 apartments that came online in 2019. As of June, metro Detroit had an additional 18,300 units in the planning and permitting stages.
- ▶ Since 2013, Detroit's multifamily inventory has expanded by some 8,400 units. Limited stock expansion kept demand in check. More recently, the occupancy rate in stabilized properties rose 80 basis points in the 12 months ending in May, to 96.6%.
- ▶ The downtown area remained the most active on the development front, with 1,285 units un-

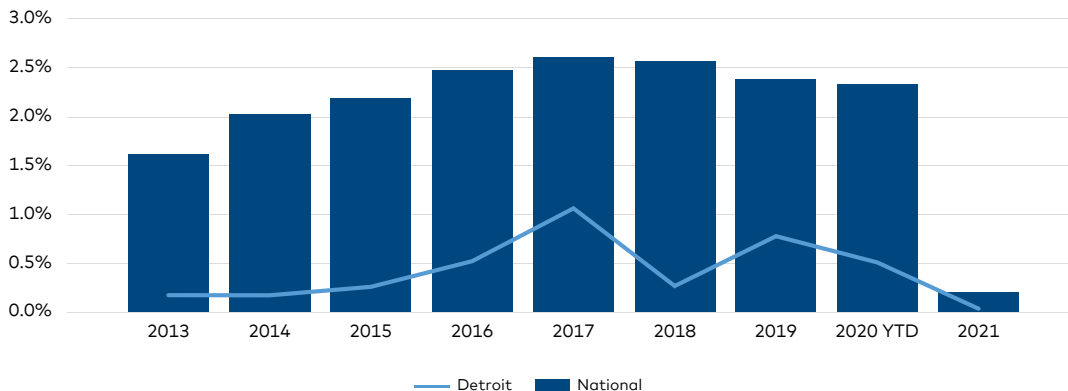
der construction. Clinton Township-West followed with 613 units in one project—Montclair at Partridge Creek—the largest development underway in the metro, built by Mocerri Cos. with aid from a nearly \$40 million construction loan issued by PNC Bank. The property has been under construction since 2015 and several buildings have already been delivered. Full completion is slated for 2024.

**Detroit Completions (as of June 2021)**



Source: Yardi Matrix

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

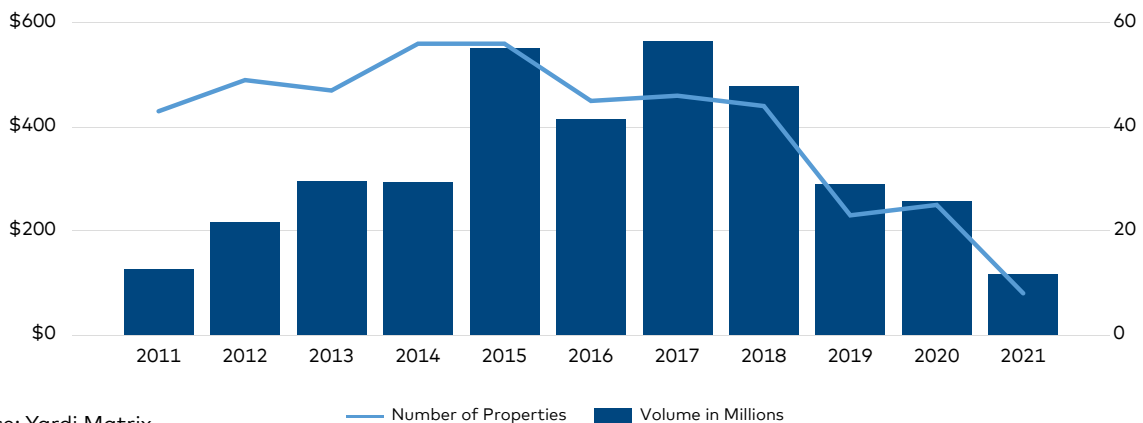


Source: Yardi Matrix

## TRANSACTIONS

- ▶ In the first six months of the year, some \$116 million in multifamily assets traded in Detroit, a 69% decline compared to the same period in 2020. The vast majority of last year's deals, however, were completed prior to the pandemic.
- ▶ Even though investors remained cautious, property values spiked. The average price per unit rose by a consistent 63.3% to \$114,647 in the first half of 2021 when compared to 2020's first two quarters, despite the fact that all sales this year were for RBN assets. In fact, no Lifestyle property with more than 50 units has changed hands in Detroit since 2019. Meanwhile, the U.S. average per-unit price rose to \$172,960.
- ▶ The largest single-asset deal of the year through June was GSH Group's sale of The Haven at Grosse Pointe, a 408-unit asset in Harper Woods. Buyer DRA Advisors paid \$29.3 million, or \$71,814 per unit, with aid from \$20 million in Fannie Mae loans arranged by Berkadia.

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



Source: Yardi Matrix

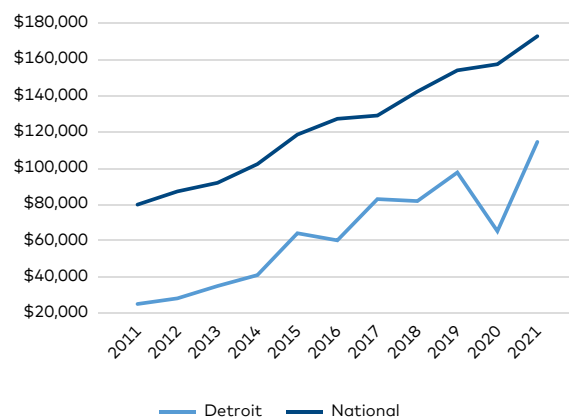
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Novi	66
St. Clair Shores/Grosse Pointe	29
Harrison Township	22
Canton/Plymouth	17
Livonia/Redford	11
Waterford	8
Pontiac	8

Source: Yardi Matrix

<sup>1</sup> From July 2020 to June 2021

**Detroit vs. National Sales Price per Unit**



Source: Yardi Matrix

## Top Rust Belt Markets for Construction Activity

By Corina Stef

More than 68,700 units were underway in the Rust Belt as of June, Yardi Matrix data shows. Combined, the top five markets in the region include some 40,500 units underway, accounting for 59 percent of the total pipeline. Construction activity lagged in 2020 due to the pandemic, with most markets recording a drop in multifamily deliveries.

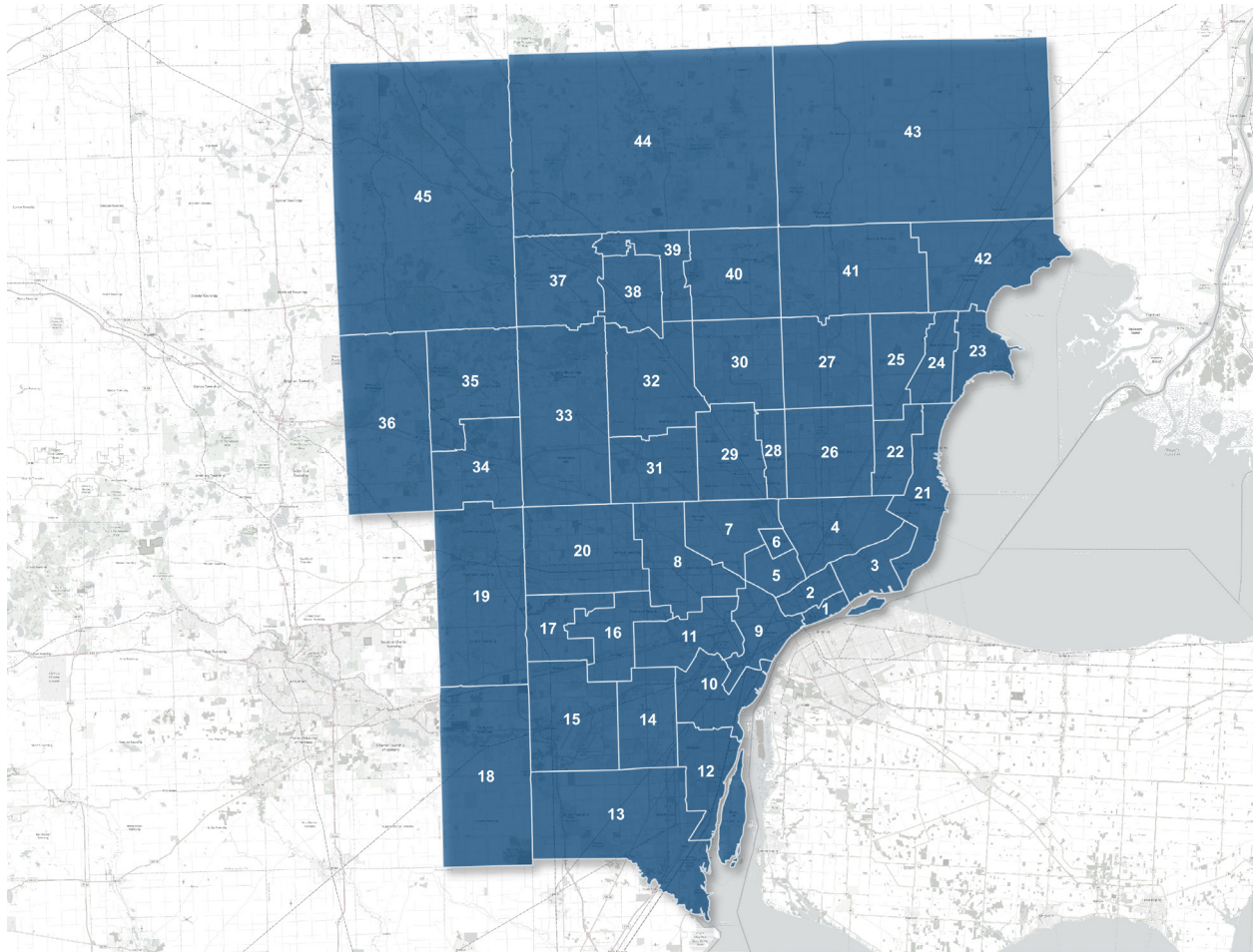
Rank	Market	Units Under Construction
1	Chicago	16,491
2	Columbus	7,945
3	Detroit	6,054
4	Milwaukee	5,271
5	Indianapolis	4,744

### DETROIT

With Detroit on the path to recovery thanks to Gov. Gretchen Whitmer's Michigan COVID Recovery Plan, some 6,050 units were under construction in the metro. More than 3,600 of those are anticipated to reach completion by the end of the year. The number of units slated to come online surpasses the combined deliveries of 2020 and 2019 (2,758 units). As of June, the largest project underway was Moceli Cos.' Montclair at Partridge Creek, a 613 -unit property in Clinton Township, expected to come online in the second quarter of 2024.+



## 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.

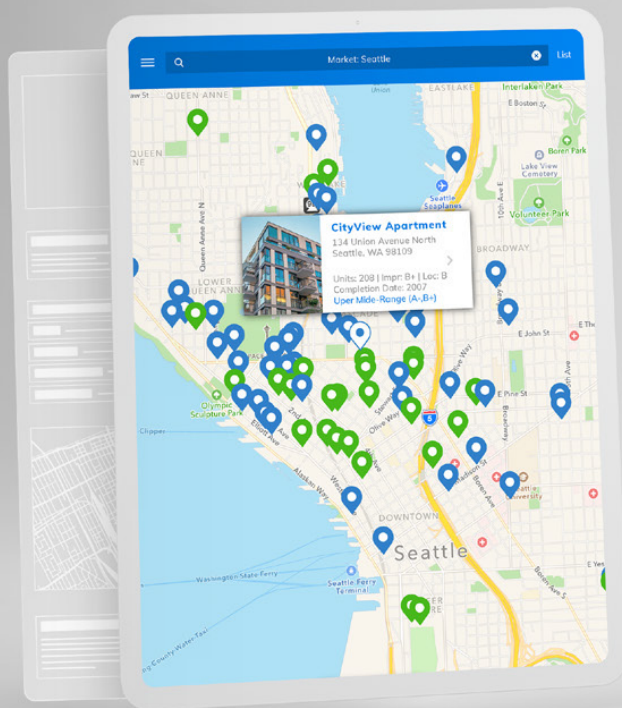
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.



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