

Smoother Path For Detroit

Fall 2021



Rent Growth Plateaus in Q4

Unemployment Drops Below 4%

Price Per Unit Surpasses \$100K Mark

DETROIT MULTIFAMILY



Recovery Well Underway

Detroit's recovery was quicker than expected, and the faster pace helped the multifamily market by boosting healthy fundamentals throughout 2021. The limited inventory expansion kept demand in check, and the occupancy rate in stabilized properties rose 70 basis points in the 12 months ending in September, to 97.1%. Additionally, rents rose 1.1%, to \$1,157 on a trailing three-month basis through October, albeit slower than the 1.5% U.S. average.

Unemployment dropped to 3.8% as of September, according to preliminary data from the Bureau of Labor Statistics, outperforming the 4.8% U.S. average. The job market posted a solid 8.7% expansion in the 12 months ending in August, leading the 4.6% national rate. Following the leading leisure and hospitality sector—up by 25,700 jobs—were Detroit's largest sectors, which combined accounted for nearly half of all job additions. Several notable projects underway will likely maintain the recovery, including the Gordie Howe International Bridge and Stellantis' Mack Avenue Engine Complex.

Developers brought online 1,483 units in 2021 through October and had another 5,289 apartments under construction. Meanwhile, transaction activity reached \$338 million, surpassing both last year's and 2019's totals. The price per unit rose to \$126,771, an 18.6% increase from pre-pandemic levels.

Market Analysis | Fall 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

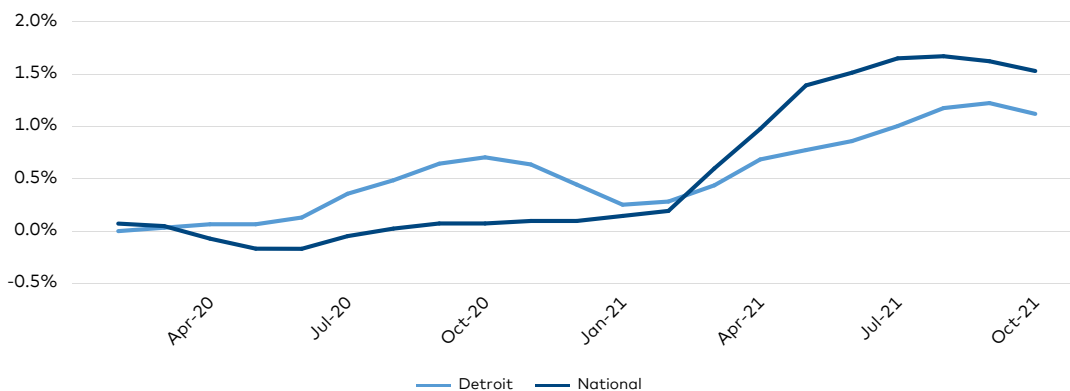


City: Detroit
Buyer: Winfire Capital
Purchase Price: \$4 MM
Price per Unit: \$50,000

RENT TRENDS

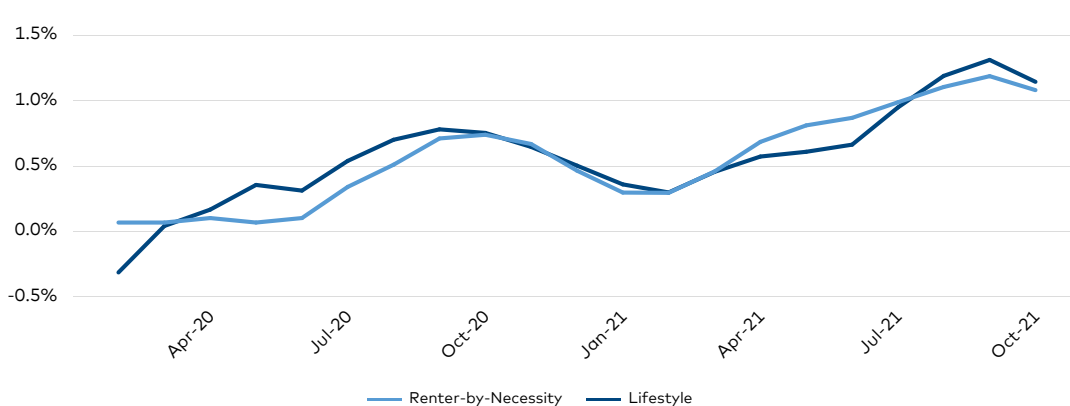
- ▶ Similar to last year's progress, Detroit responded to seasonal patterns, and at the start of the fourth quarter, posted a slight moderation in rent growth. The average rent recorded a 1.1% increase on a trailing three-month (T3) basis through October, to \$1,157, lagging the U.S. average in both pace of growth and value. The national rate rose 1.5% to \$1,572 during the period. On a year-over-year basis, rents rose a strong 9.5% in Detroit and an unprecedented 13.7% nationally.
- ▶ Healthy demand was equally strong across quality segments, with rents rising 1.1% on a T3 basis through October for both Lifestyle units (to \$1,818) and Renter-by-Necessity apartments (to \$1,103). The occupancy rate in stabilized properties reflected a slightly higher demand for Lifestyle units, up 80 basis points in the 12 months ending in September, to 96.5%. Meanwhile, RBN occupancy rose 70 basis points to 97.1%. Overall, Detroit occupancy rose 70 basis points, to 97.1%.
- ▶ Of the 45 submarkets tracked by Yardi Matrix, 29 had an average rent above the \$1,000 mark in October, up from 22 the prior year. In addition, 19 submarkets posted double-digit year-over-year rent increases. The best rent performance was recorded in the Detroit-New Center submarket, up by 32.7% to \$1,070.
- ▶ Dearborn and Bloomfield Hills/Birmingham remained the most expensive areas in the market, following rent increases of 10.9% to \$1,542 and 8.6% to \$1,504, respectively.

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 unemployment improved quicker than expected, reaching 3.8% in September, according to preliminary BLS data. Despite fluctuation this year, the rate was below the 4.6% U.S. average in September. Even so, absolute labor participation remained below pre-pandemic levels.
- ▶ The job market posted the fourth-consecutive month of yearly growth, marking a solid 8.7% expansion in the 12 months ending in August, well ahead of the 4.6% U.S. rate. Mirroring the national trend, leisure and hospitality led gains, up 17.5% or 25,700 jobs. Next in line were Detroit's largest sectors—professional and business services and trade, transportation and utilities—which accounted for nearly half of all job additions. Government was the only sector to lose jobs.
- ▶ Several large projects currently underway will likely maintain a steady recovery, but the ongoing pandemic can still cause delays. One such development is the Gordie Howe International Bridge, a \$5.7 billion project, slated for completion in 2024, which will connect Detroit to Windsor. Another project underway is Stellantis' Mack Avenue Engine Complex. The first \$1.6 billion phase of the massive \$4.5 billion investment plan was completed in June and utilized almost 5,000 workers. In addition, a new Amazon distribution center is expected to come online before 2026.

Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	173	9.0%
60	Professional and Business Services	386	20.0%
40	Trade, Transportation and Utilities	368	19.0%
65	Education and Health Services	295	15.3%
30	Manufacturing	240	12.4%
55	Financial Activities	127	6.6%
80	Other Services	67	3.5%
15	Mining, Logging and Construction	82	4.2%
50	Information	25	1.3%
90	Government	169	8.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Detroit lost 15,493 residents in 2020, a 0.4% downtick and double the contraction rate recorded in the prior year. Meanwhile, the U.S. population marked a 0.4% expansion.
- ▶ Detroit's population has been fluctuating throughout the decade, shrinking by 0.3% overall since 2010.

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

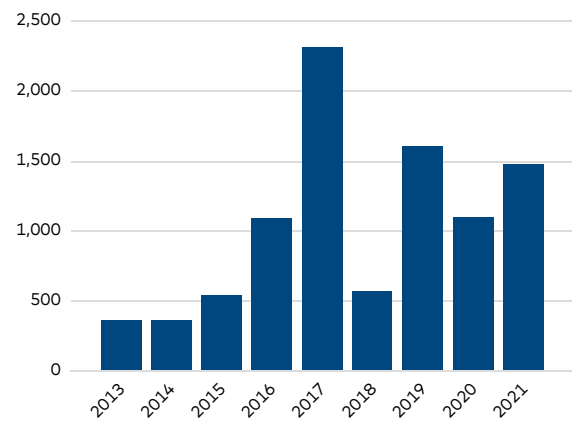
SUPPLY

- ▶ Detroit had 5,289 units under construction as of October, more than 2,000 of which were slated for completion by year-end. Yet, supply chain disruptions and other pandemic-induced woes will likely cause delays. Another 18,000 units were in the planning and permitting stages across the metro.
- ▶ Deliveries totaled 1,483 units in 2021 through October, which represented 0.7% of total stock, well below the 1.8% U.S. rate, but above Detroit's 0.5% rate of last year. Meeting relatively slow demand due to shaky demographic shifts, stock expansion has been limited throughout the past decade, with the metro constantly trailing the nation.
- ▶ Developers continued to focus on the Lifestyle segment: All units delivered this year through October targeted high-income renters; this is also the case for about two-thirds of the current pipeline. The Renter-by-Necessity segment had just 282 units in the works in fully affordable communities and 964 market-rate apartments as of October.
- ▶ Development remained centered around core and northern submarkets. Downtown (733

units underway), Midtown (518 units), Troy (491 units) and Rochester Hills (483 units) led in construction activity.

- ▶ The largest project under construction is 24 at Bloomfield, a 430-unit property in the Bloomfield Hills/Birmingham submarket, built by Edward Rose & Sons. The community is currently in preleasing and slated for completion in the second quarter of 2022.

Detroit Completions (as of October 2021)



Source: Yardi Matrix

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

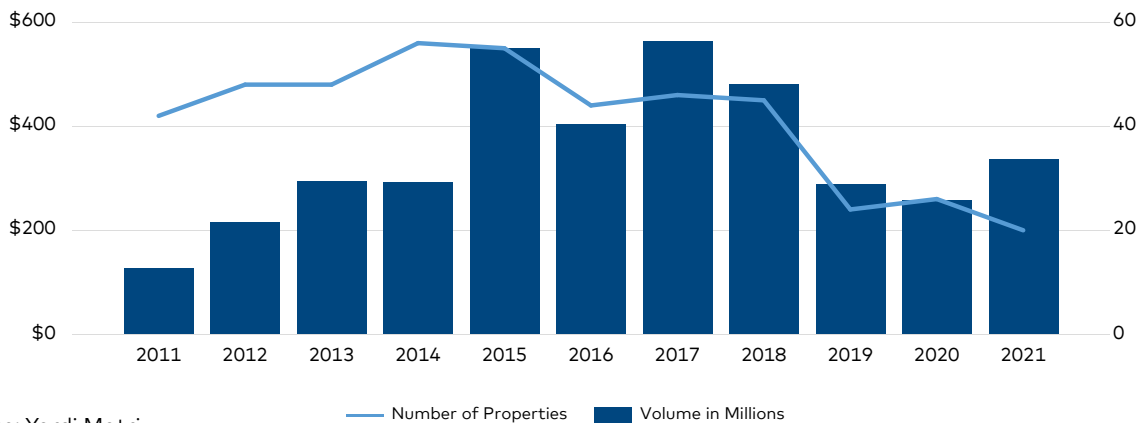


Source: Yardi Matrix

TRANSACTIONS

- ▶ Nearly \$338 million in multifamily assets traded in Detroit in 2021 through October, surpassing the totals of both 2020 (\$260 million) and 2019 (\$289 million), a sign that investor confidence in the market is steadily stabilizing.
- ▶ Unlike developers, who kept their focus on Life-style projects, investors were drawn by value-add plays. All properties of more than 50 units that traded in the metro during the first 10 months of 2021 were RBN assets.
- ▶ The average price per unit doubled year-over-year through October, to \$126,771. The increase might look like a hefty jump; while that's the case to a certain extent, last year was in fact the outlier. In 2020, Detroit property values plummeted, and the current per-unit price represents an 18.6% increase from pre-pandemic levels. Meanwhile, the U.S. figure rose to \$184,007 year-to-date through October.

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



Source: Yardi Matrix

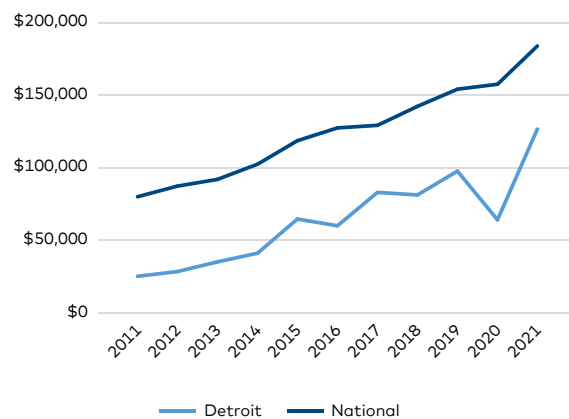
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Clinton Township - West	132
Novi	66
Southgate/Riverview	60
St. Clair Shores/Grosse Pointe	29
Harrison Township	22
Warren	18
Canton/Plymouth	17

Source: Yardi Matrix

¹ From November 2020 to October 2021

Detroit vs. National Sales Price per Unit



Source: Yardi Matrix

Top Rust Belt Markets for Self Storage Construction Activity

By Evelyn Jozsa

The cities that make up America's Rust Belt region have been underperforming for a long time. However, efforts to diversify and revitalize the region's employment base in recent years, have helped to improve economic fundamentals. Millennials looking for more affordable living are also flocking to the region, driving demand for rental housing, as well as self storage.

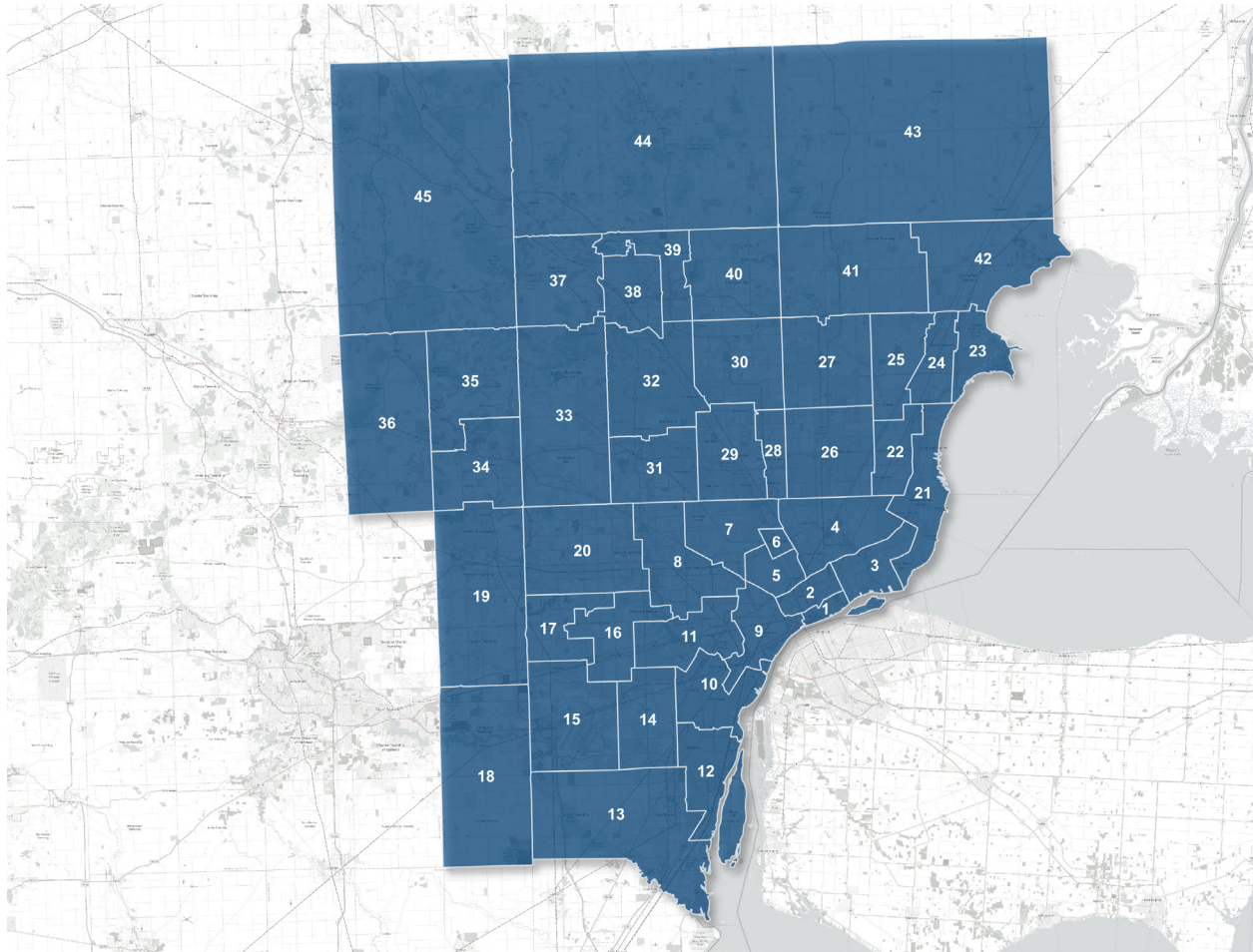
Rank	Metro	Under Construction + Planned SF	Percentage of Stock
1	Syracuse	410,974	15.5
2	Buffalo	506,838	12.9
3	Madison	307,277	8.9
4	Detroit	2,455,217	8.6
5	Cincinnati	805,572	7.1

Detroit

Detroit has been steadily recovering from the effects of the health crisis with solid employment growth, recovering 101,800 jobs in the 12 months ending in July. Multifamily development picked up the pace this year; around 6,050 units were under construction as of June and more than 3,600 units are slated for completion by the end of this year—exceeding completions registered in previous years. Self storage development has also gradually accelerated over the past five years in Detroit. So far this year, a total of 13 projects or 973,561 square feet of storage space have come online in the metro.



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.

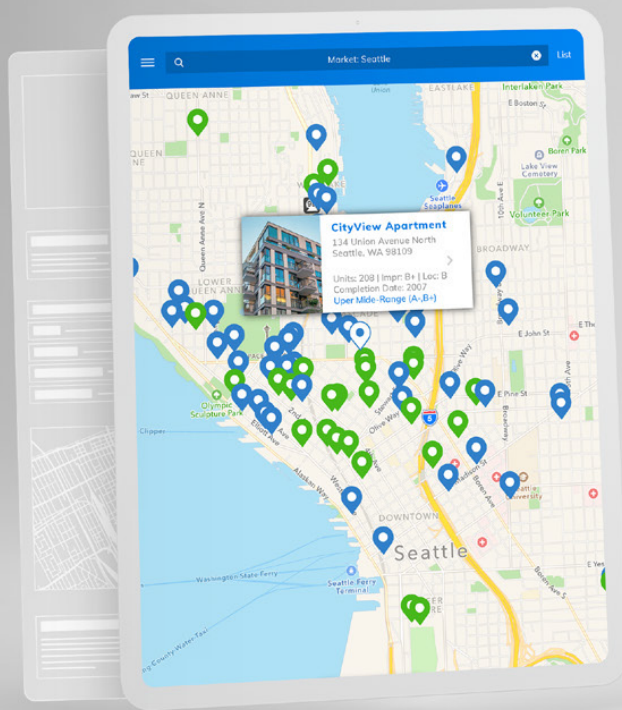
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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