



MULTIFAMILY REPORT

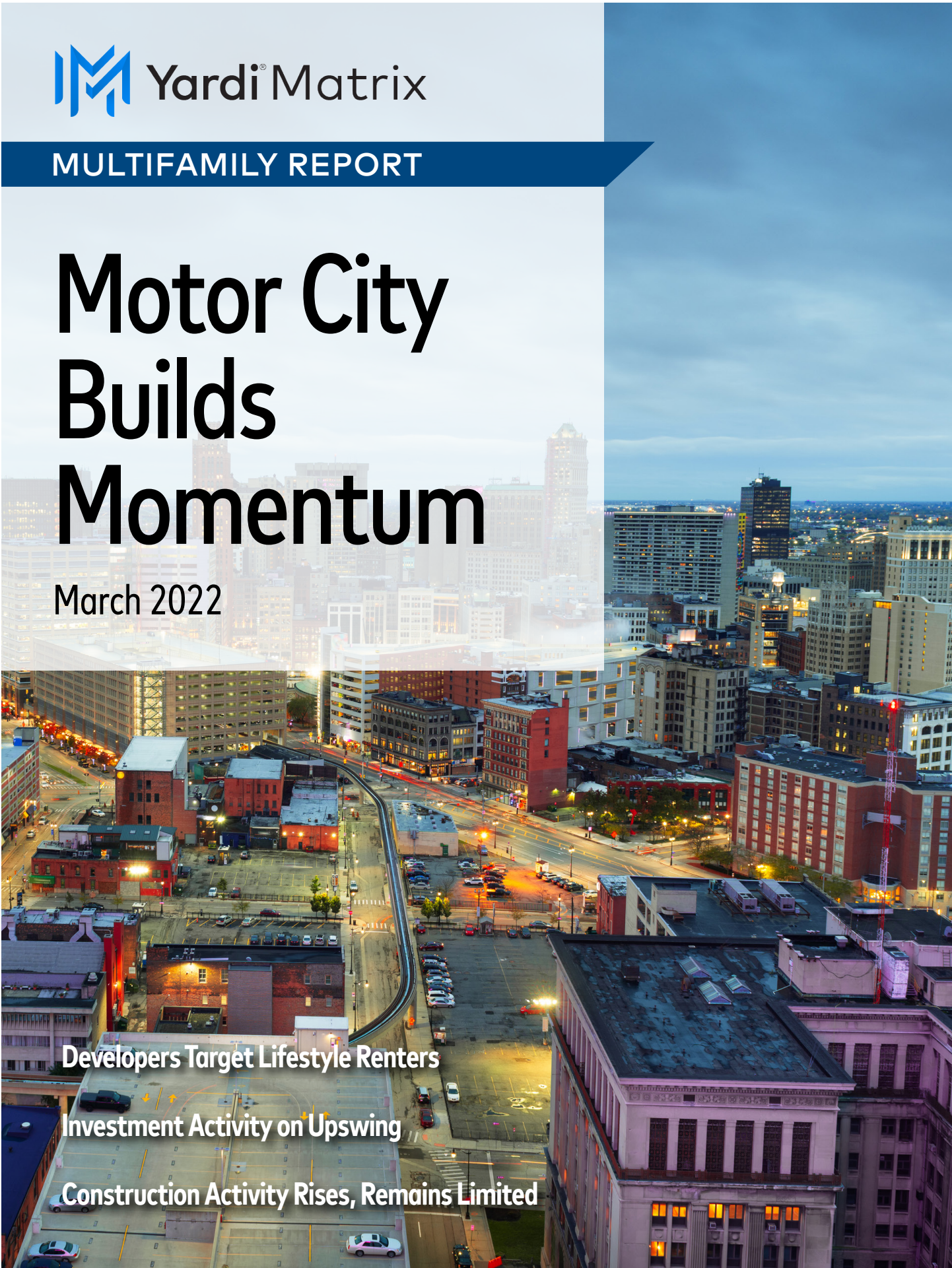
Motor City Builds Momentum

March 2022

Developers Target Lifestyle Renters

Investment Activity on Upswing

Construction Activity Rises, Remains Limited



DETROIT MULTIFAMILY



Detroit Housing Market Improves, Still Moderate

Motor City's recovery trajectory remained positive, as increased multifamily investor interest showcased strengthening confidence. Mirroring U.S. trends, rent growth softened at the beginning of the year, increasing 0.2% on a trailing three-month (T3) basis through January, to an average of \$1,165. Detroit's occupancy rate in stabilized properties was 96.9% in December.

The unemployment rate rose to 4.3% in December, according to preliminary data from the Bureau of Labor Statistics, after fluctuating through the year. The metro added 81,400 jobs in the twelve months ending in November, a 5.2% increase year-over-year. Detroit's largest sector—professional and business services—was second in terms of growth, expanding by 24,900 jobs. Despite work from home still keeping white-collar workers away from the office, Bedrock—the metro's largest real estate company—made significant investments along the Detroit riverfront over the past year, with the purchase of The River Place portfolio and the 420,000-square-foot The Icon.

Construction activity bounced back by Detroit's standards, as developers completed 2,039 units in 2021, 0.9% of total stock and almost double compared to the previous year. The metro had 4,952 units under construction, with developers focusing entirely on Lifestyle assets, mostly in submarkets in the North and the urban core.

Market Analysis | March 2022

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Recent Detroit Transactions

The Crossings at Canton



City: Canton, Mich.
Buyer: GSH Group
Purchase Price: \$144 MM
Price per Unit: \$193,760

Manors at Knollwood



City: Clinton Township, Mich.
Buyer: The Solomon Organization
Purchase Price: \$132 MM
Price per Unit: \$219,502

Kings Pointe

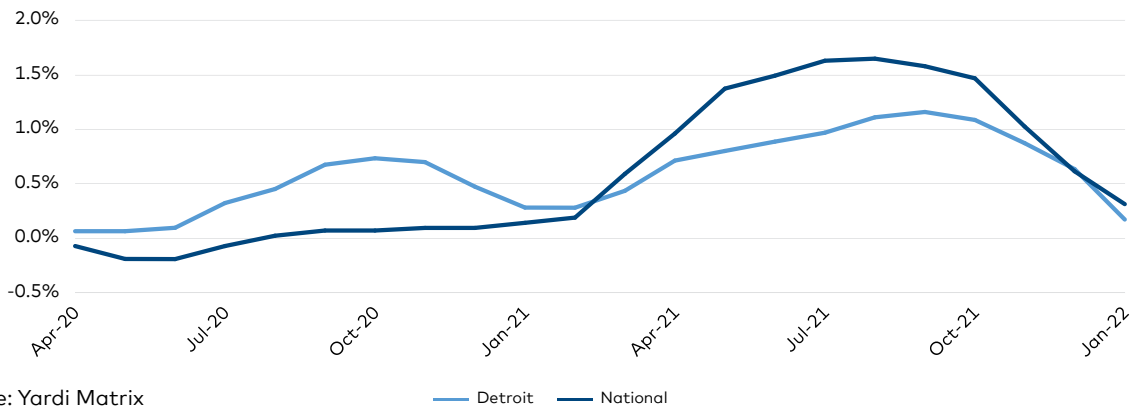


City: Warren, Mich.
Buyer: LR Management
Purchase Price: \$18 MM
Price per Unit: \$105,412

RENT TRENDS

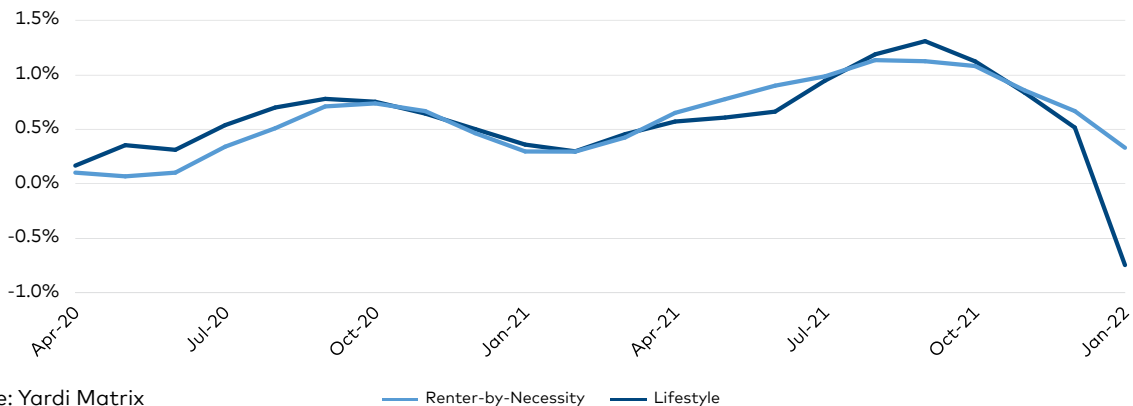
- ▶ Mirroring U.S. trends, rent growth in Detroit softened at the beginning of 2022 as rents were up only 0.2% on a T3 basis through January, 10 basis points lower than the national average. Overall average rents in the metro clocked in at \$1,165, significantly below the national average of \$1,604. Year-over-year, rents in the metro rose 9.2%, 470 basis points less than the national average 13.9%.
- ▶ Rents between the quality segments progressed differently, with Renter-by-Necessity rates on a T3 basis through January advancing 0.3% to \$1,114, while rents for Lifestyle assets decreased 70 basis points to \$1,778.
- ▶ The occupancy rate in stabilized properties rose 50 basis points year-over-year, to 96.9% as of December. With new development targeting high-end renters, the occupancy rate in Lifestyle properties was moderate, at 95.9%. At the other end of the quality spectrum, Renter-by-Necessity properties saw a 50-basis-point increase to an average occupancy rate of 97.0%.
- ▶ Of the 45 submarkets tracked by Yardi Matrix data in metro Detroit, only Highland Park recorded a decrease year-over-year as of January, down 10 basis points to an average rent of \$846. Dearborn and Bloomfield Hills/Birmingham remained the most expensive submarkets and the only ones with average rents above the \$1,500 threshold, up 10.5% to \$1,541 and 4.5% to \$1,520, 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

- ▶ The Detroit unemployment rate fluctuated throughout the year, rising to 4.3% in December, 40 basis points higher than the national average, according to preliminary data from the Bureau of Labor Statistics. The metro added 81,400 jobs in the twelve months ending in November for a 5.2% increase, 60 basis points above the national average.
- ▶ Like most metros around the country, the leisure and hospitality sector led employment growth; it added 19,900 jobs in the 12 months ending in November, for a 13.6% year-over-year increase, and was the only sector to record a double-digit percentage hike. Professional and business services—the metro’s largest sector—expanded 6.7% or 24,900 jobs and added the most positions by sector.
- ▶ While the automotive sector picked up momentum with the June opening of Stellantis’ new \$1.6 billion Mack Avenue assembly complex, the global microchip shortage dampened the rebound expected in the sector. Even with remote work keeping white-collar workers away from the office, Bedrock made significant investments along the Detroit riverfront with the purchase of The River Place portfolio and the 420,000-square-foot The Icon.

Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	398	20.1%
70	Leisure and Hospitality	166	8.4%
40	Trade, Transportation and Utilities	380	19.2%
30	Manufacturing	247	12.5%
65	Education and Health Services	298	15.1%
90	Government	187	9.5%
55	Financial Activities	126	6.4%
80	Other Services	67	3.4%
15	Mining, Logging and Construction	81	4.1%
50	Information	25	1.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Detroit experienced a 0.4% population decrease in 2020, while the U.S. population rose by 0.4%.
- ▶ The metro’s population has been on a slow decline since 2018, as the effects of deindustrialization have continued to impact demographic trends.

Detroit vs. National Population

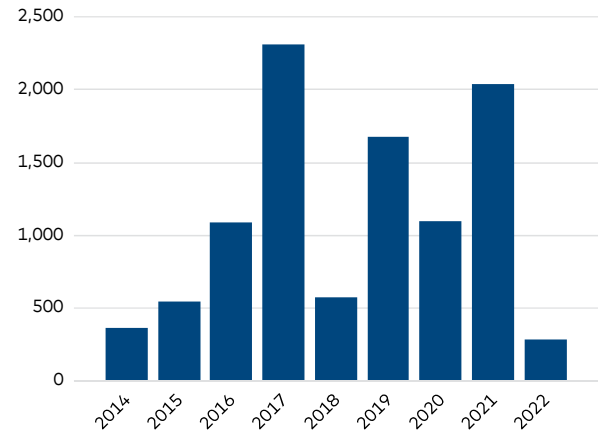
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Detroit Metro	4,321,704	4,326,442	4,319,629	4,304,136

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

SUPPLY

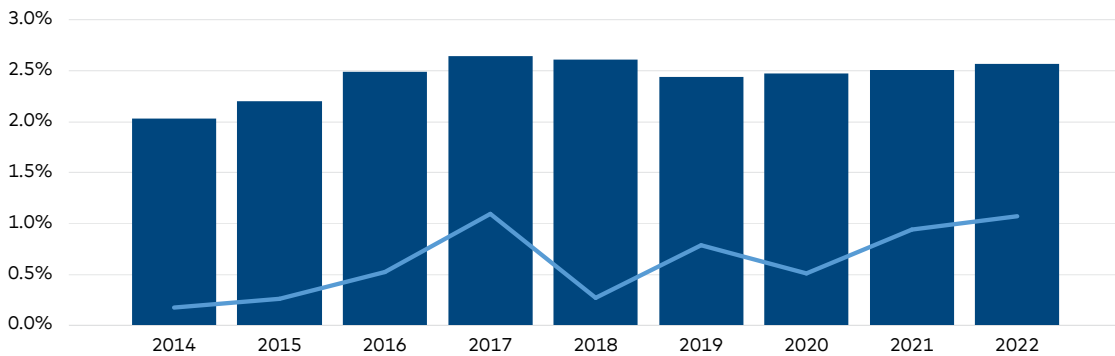
- ▶ Detroit's development pipeline had 4,952 units under construction across the metro as of January, 342 of which were in fully affordable properties. Another 19,100 units were in the planning and permitting stages.
- ▶ Construction activity in Detroit bounced back in 2021 as developers completed 2,039 units, which represents 0.9% of total stock, well below the 2.5% national average. Developers focused solely on high-end renters, as all the properties completed last year were Lifestyle assets. Despite the limited rate of delivery, completions in Detroit were nearly double 2020's totals, when 1,095 units were added to the inventory. The market has consistently come in well below the national average rate of delivery throughout the past decade.
- ▶ Development activity focused heavily on northern submarkets and on areas close to the metro's urban core, comprising roughly 43% of all units underway as of January. Detroit-Downtown (733 units) led the way in development, followed by Troy (491 units), Rochester Hills (483 units) and Detroit-Midtown (438).
- ▶ The largest project under construction as of January was Edward Rose & Sons' 24 at Bloomfield. The 430-unit project is taking shape in the Bloomfield Hills/Birmingham submarket and is expected to be completed in the second quarter of the year.

Detroit Completions (as of January 2022)



Source: Yardi Matrix

Detroit vs. National Completions as a Percentage of Total Stock (as of January 2022)



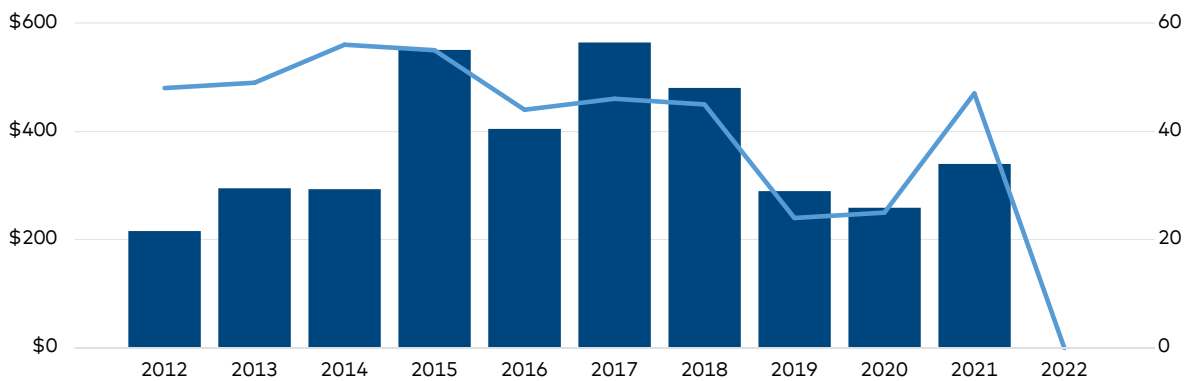
Source: Yardi Matrix

— Detroit ■ National

TRANSACTIONS

- ▶ Transaction activity in Detroit made a significant comeback in 2021, with roughly \$340 million in rental assets changing hands, up 30.7% from 2020. While this points to an increased level of investor confidence in the metro, rental sales still have some way to go to surpass the \$565 million decade-high recorded in 2017.
- ▶ Investors overwhelmingly targeted RBN assets in the twelve months ending in January. Of the 45 properties that traded, only one property catered to the high-end Lifestyle segment. Per-unit prices in 2021 reached \$124,528, roughly double the prior annual average of \$64,164.
- ▶ At the end of 2021, Lightstone Group grew its presence in the metro substantially with the purchase of a 7,810-unit portfolio. The 27 properties are spread across 14 Detroit submarkets and the new owner has improvement plans for the assets.

Detroit Sales Volume and Number of Properties Sold (as of January 2022)



Source: Yardi Matrix

— Number of Properties ■ Volume in Millions

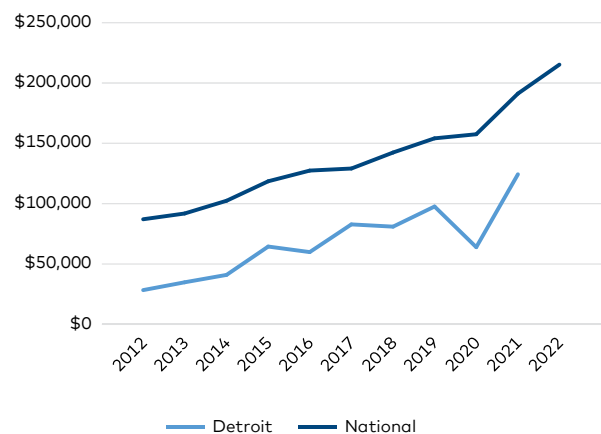
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Canton/Plymouth	144
Clinton Township–West	132
Novi	66
Southgate/Riverview	60
St. Claire Shores/Grosse Pointe	29
Warren	18
Dearborn	5

Source: Yardi Matrix

¹ From February 2021 to January 2022

Detroit vs. National Sales Price per Unit



Source: Yardi Matrix



Bedrock Detroit on the City's Ongoing Recovery

By Tudor Scolca

Detroit's multifamily market remains in a good position for a rebound. The metro's job market shows steady signs of betterment, with unemployment at 5.4 percent as of December, according to preliminary data from the BLS. Although lagging the national rate, the figure marks an improvement over the third quarter. Kofi Bonner, CEO of Bedrock Detroit, discusses how the metro's multifamily market is performing under the current economic conditions.

Where does the metro's multifamily market currently stand, two years into the health crisis?

Overall, we've seen demand for multifamily housing increase since the start of the pandemic. Specifically, demand is near an all-time high for apartments in Detroit. This is a continuation of a year-long performance of robust demand setting records, with new deliveries increasing 5 percent year-over-year.

Detroit has been an active development market, with multifamily inventory expanding 6.5 percent since 2015. Last year, 2,566 new units entered the market. This year is on pace to set a record for new deliveries.

Are multifamily rental rates back to pre-crisis levels?

Yes, rents are above pre-pandemic levels in the Detroit market. They are forecasted to continue to increase by up to 15 percent by the end of 2026.



How is the Brewster-Douglass project progressing?

Bedrock remains committed and passionate about the Frederick Douglass project in Detroit's historic Brush Park neighborhood. We are actively evaluating development plans for the project and expect to have updated plans and associated details later this year.

In your view, what areas of Detroit could also benefit from similar developments?

Detroit still has ample room for growth in the multifamily sector. Detroit has fewer residents in its central business district compared to cities of similar size. The

submarket's vacancy rate, healthy absorption of new developments and rental growth all indicate a market that still has plenty of room to grow. This will also continue Detroit's push to be a 24-hour city.

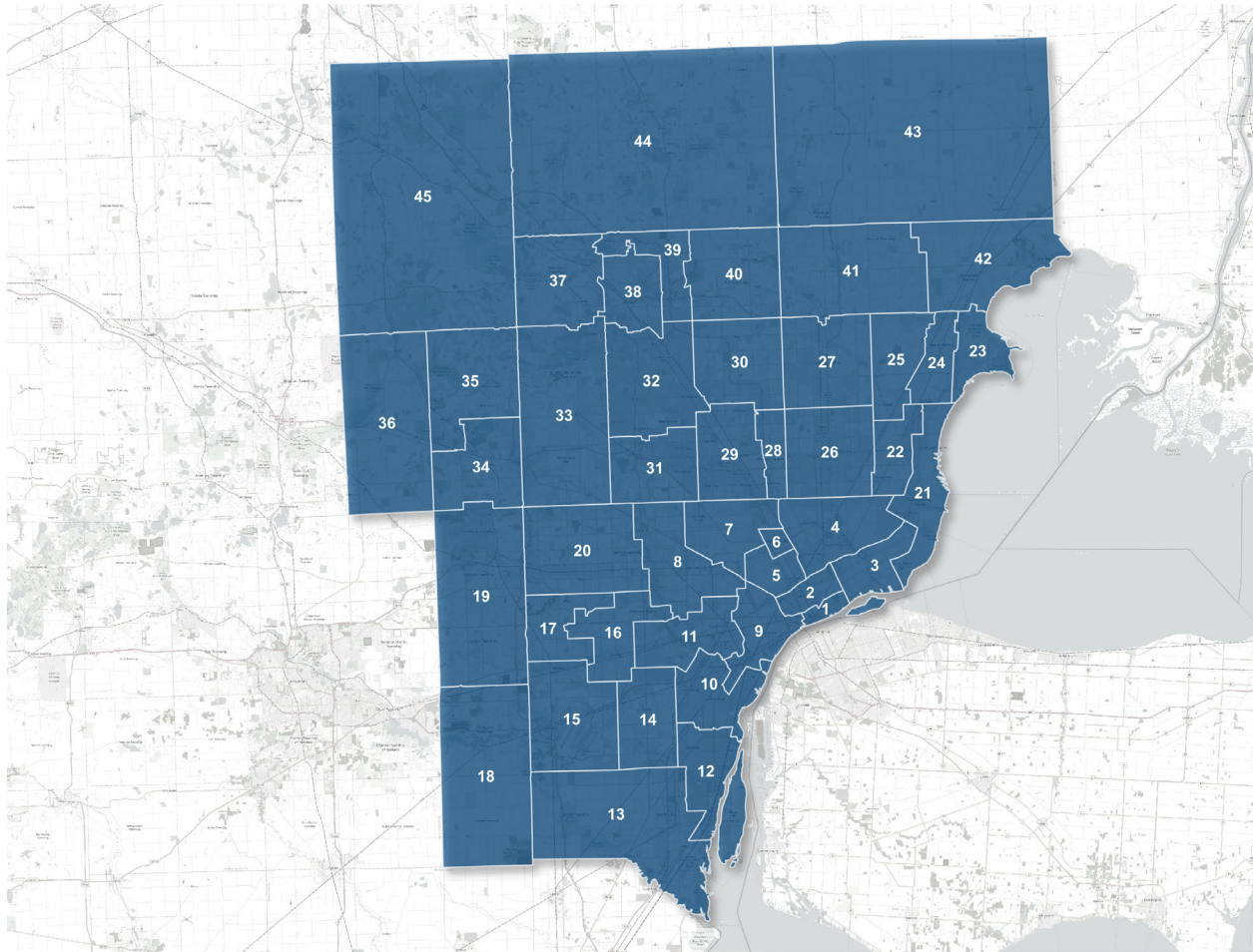
Bedrock partnered with the World Economic Forum last year to establish a Global Center for Urban Transformation in the city. How do you expect this project to impact Detroit's multifamily market?

Organizations like the World Economic Forum committing to development in Detroit showcases the momentum and our extraordinary growth.

This type of commitment further enhances development in the city which will, in turn, have a positive effect on Detroit's multifamily market.

(Read the complete interview on multihousingnews.com.)

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.

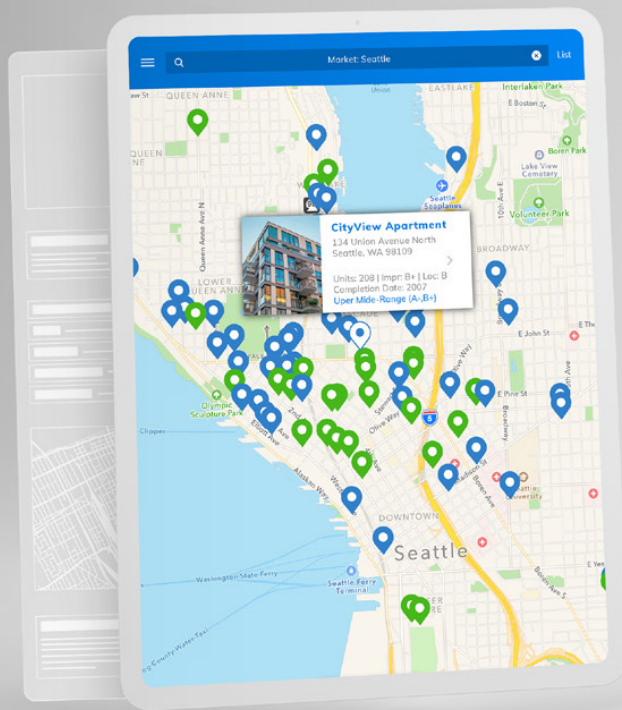
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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