



**YARDI**<sup>®</sup> Matrix

# Detroit: Approaching the Fast Lane?

Multifamily Winter Report 2017

**High Earners Drive Demand**

**Reinvigorating Residential  
Neighborhoods**

**Investment Cools  
But Prices Rise**



## Market Analysis

Winter 2017

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## Motor City Facelift Speeds Growth

Detroit is steadily overcoming its resonant collapse and continuing its recovery from the Great Recession. With the automotive industry regaining its footing and with manufacturing and infrastructure improvements on the rise, the city is trying to move forward, despite a laundry list of headwinds.

Detroit's revival relies partly on local government efforts to bring new life into the city's blighted areas and increase community involvement in residential neighborhoods. One strategy involves hiring professional design services aimed at revitalizing several local communities, starting with utilities and transportation infrastructure. The city continues to add a significant number of jobs in the manufacturing sector, with auto giants Fiat-Chrysler and Ford Motor Co. announcing nearly \$2 billion in investments to expand their units in Michigan. Detroit is also becoming an attractive place for young professionals, who have been enticed by modern work environments such as WeWork, one of several companies to recently lease office space in the central business district (CBD).

The Motor City continues to upgrade its aging housing stock with options fit for Millennials and Baby Boomers, with nearly 10,000 units in various stages of development. Although we expect demand to remain healthy, the amount of new supply will decelerate rent growth, reducing it from 4.4% in 2016 to 3.4% in 2017.

### Recent Detroit Transactions

Riverfront Towers



City: Detroit  
Buyer: Image Capital  
Purchase Price: \$80 MM  
Price per Unit: \$143,502

Fairlane East



City: Dearborn, Mich.  
Buyer: Monarch Investment  
Purchase Price: \$33 MM  
Price per Unit: \$136,612

The Heights



City: Madison Heights, Mich.  
Buyer: Monarch Investment  
Purchase Price: \$28 MM  
Price per Unit: \$123,733

Bloomfield Square



City: Auburn Hills, Mich.  
Buyer: Yechiel Lopiansky  
Purchase Price: \$17 MM  
Price per Unit: \$66,406

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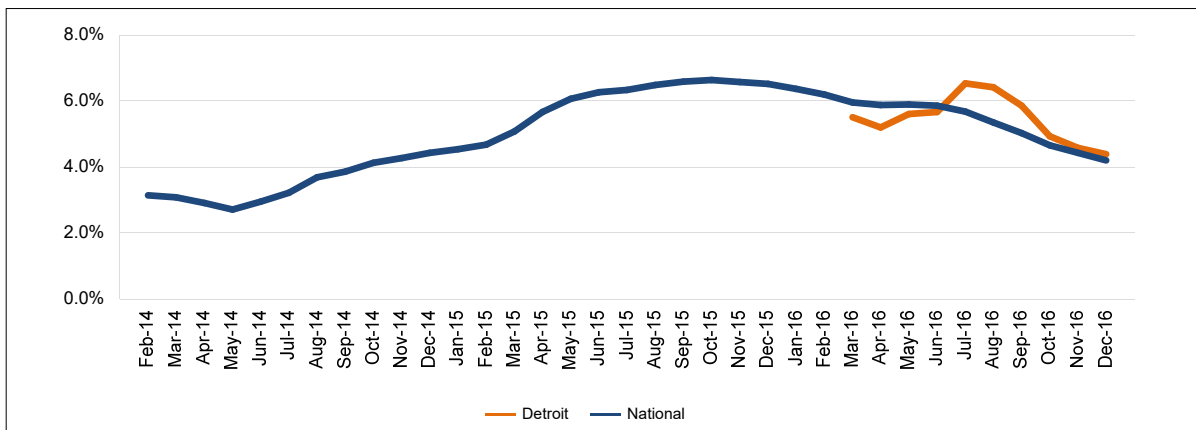
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## Rent Trends

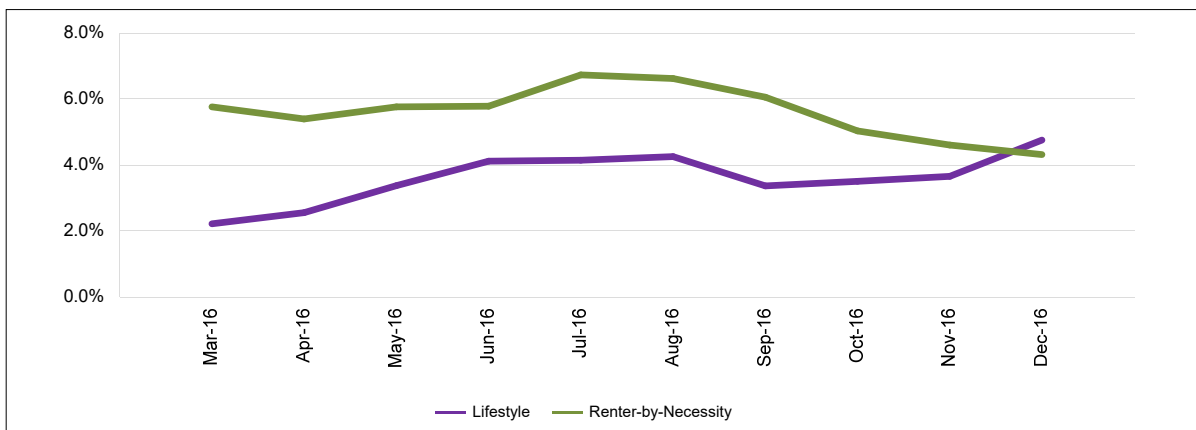
- Rents in Detroit increased 4.4% year-over-year in 2016 and, despite recent deceleration, exceeded the national rate of 3.9%. Average rents were \$926, lagging the national level of \$1,210.
- Rent growth derived mostly from the high-end Lifestyle sector's 4.8% year-over-year increase to \$1,400, compared to 4.3% in the Renter-by-Necessity segment (\$903). With employment surging in high-earning sectors, demand for luxury rentals is expected to expand, leading developers that are banking on growth to build more high-end projects.
- Increases in rental rates resulted from rising demand, especially in the metro's core markets, and a lack of consistent new supply. While appetite for apartments remained concentrated in the downtown, demand is also strong in the high-earning sectors of the metro's western submarkets due to steady job growth.
- Detroit's northwestern submarkets registered the most significant rent growth. Farmington Hills/West Bloomfield recorded a 20% year-over-year increase, while Southfield followed close behind with 19.2%. Royal Oak/Oak Park (8%), Detroit-East (8.6%) and Belleville (7.6%) also registered substantial increases.

### Detroit vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

### Detroit Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

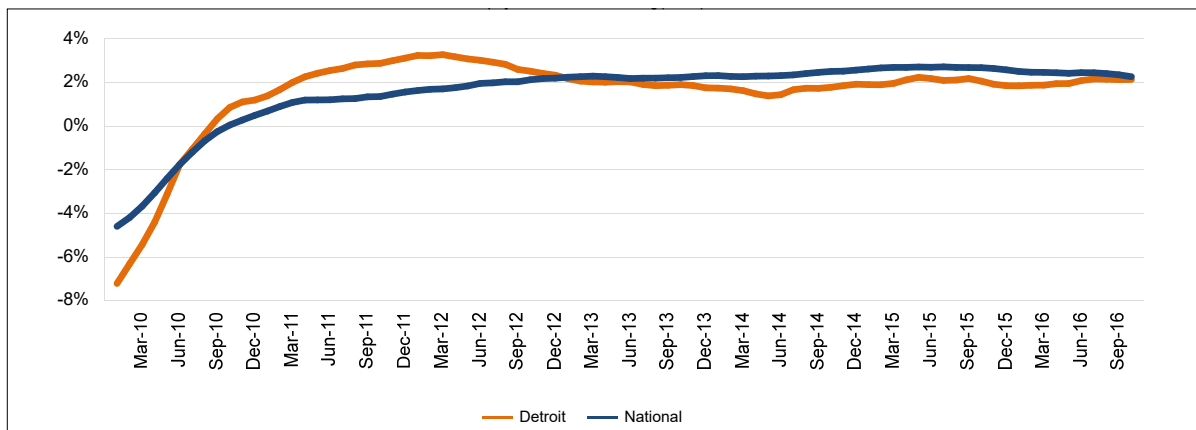


Source: YardiMatrix

## Economic Snapshot

- Detroit continued its economic revival by adding 45,800 jobs in the 12 months ending in October 2016. Its 2.1% employment growth rate trailed close behind the national average of 2.3%.
- High-earning sectors such as professional and business services (17,500) led job gains, followed by leisure and hospitality (8,500) and education and health services (5,800). Manufacturing maintained its importance to the local economy, adding 5,200 new jobs. Fiat-Chrysler announced a \$1 billion expansion of its assembly plant in Warren, Mich., and Ford Motor Co. unveiled a \$700 million expansion plan for its Flat Rock plant. The intersection of technology with the automotive industry is leading to advances. Ahead of plans to open facilities in the metro, Google and Uber began lobbying the Michigan legislature to allow the companies to test driverless vehicles.
- A positive outlook led to strong leasing activity in Detroit's office market, with roughly 1.3 million square feet of space absorbed in 2016's third quarter, according to Colliers International. Farmington Hills/West Bloomfield led submarkets in absorption, but the central business district also performed well, as co-working provider WeWork leased 80,000 square feet in the area. Redico LLC's recent purchase of 150 W. Jefferson Ave. brought renewed optimism to downtown Detroit, as it showed that the area's investor base is broadening beyond Dan Gilbert's Rock Ventures.

### Detroit vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Detroit Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	412	20.6%	17,500	4.4%
70	Leisure and Hospitality	198	9.9%	8,500	4.5%
65	Education and Health Services	313	15.7%	5,800	1.9%
55	Financial Activities	114	5.7%	5,300	4.9%
30	Manufacturing	242	12.1%	5,200	2.2%
15	Mining, Logging and Construction	72	3.6%	3,300	4.8%
40	Trade, Transportation and Utilities	360	18.0%	200	0.1%
80	Other Services	77	3.9%	-200	-0.3%
50	Information	27	1.4%	-400	-1.4%
90	Government	182	9.1%	-3,500	-1.9%

Sources: YardiMatrix, Bureau of Labor Statistics

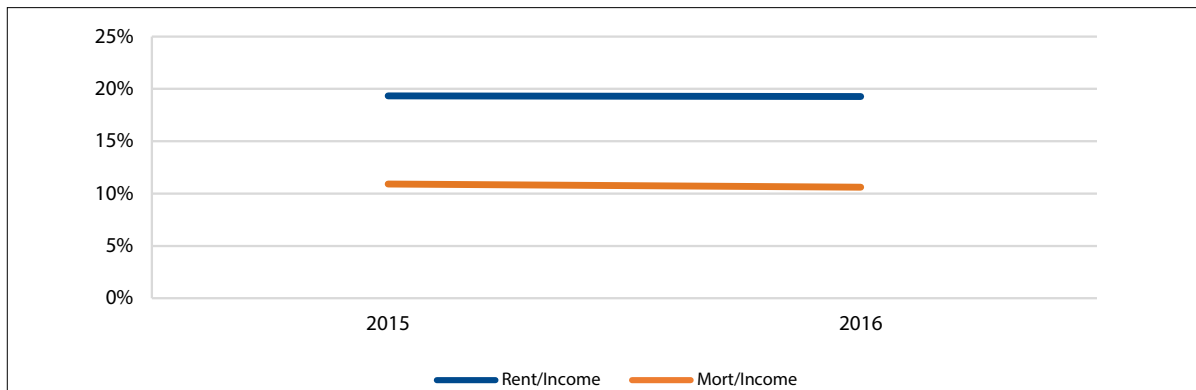


## Demographics

### Affordability

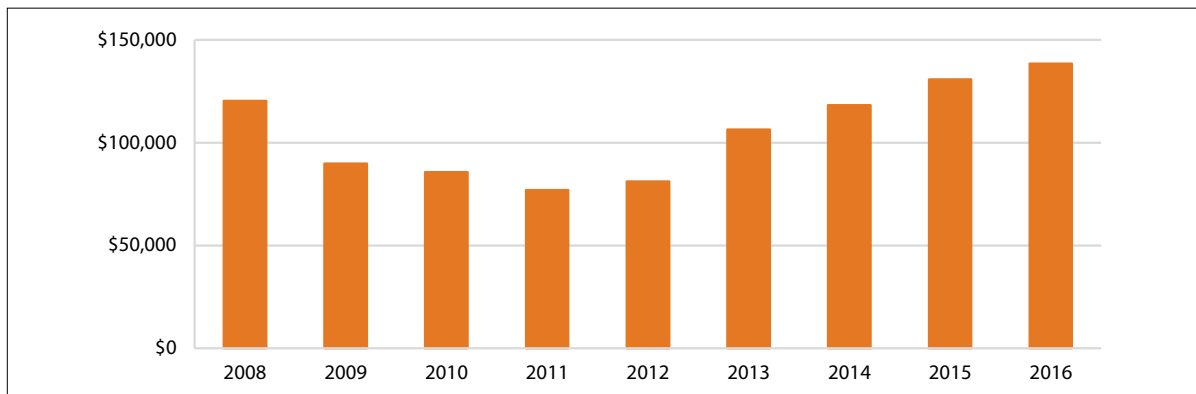
- The median home price in Detroit reached \$138,430 in 2016, up 6% for the year and 80% compared to 2011's market trough.
- Average wages increased as well, keeping affordability flat from 2015 to 2016. Mortgages accounted for 11% of the median income, while rents comprised 19%.
- Affordable housing, however, is still an issue. To combat the lack of supply, Develop Detroit, a public-private partnership, launched its first two projects, which will offer more than 180 units for low-income residents.

### Detroit Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Detroit Median Home Price



Source: Moody's Analytics

### Population

- The metro's population has grown very slowly, with fewer than 15,000 residents moving in since 2011.
- Detroit's population rose by 0.1%, far below the 0.8% national average.

### Detroit vs. National Population

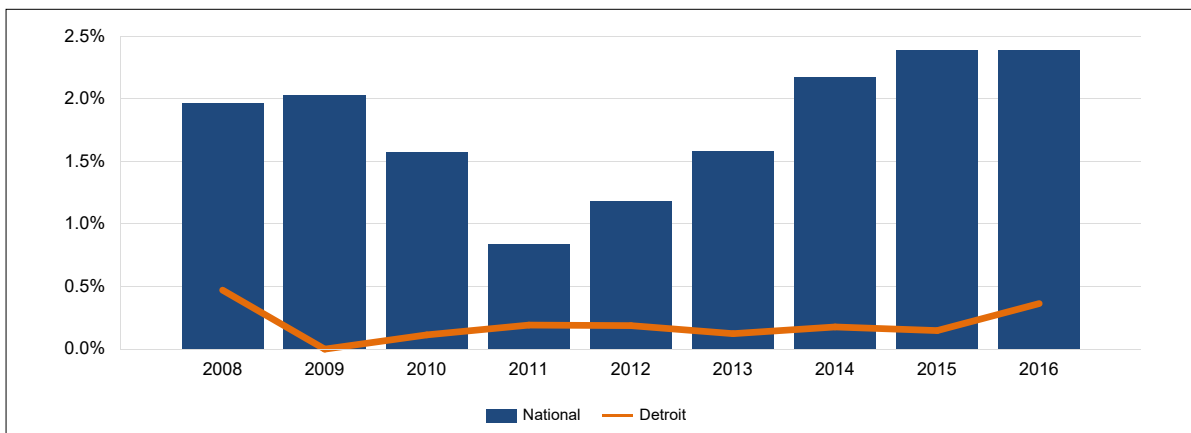
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Detroit-Warren-Dearborn, Mich. Metropolitan Statistical Area	4,287,427	4,294,049	4,297,081	4,301,480	4,302,043

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

## Supply

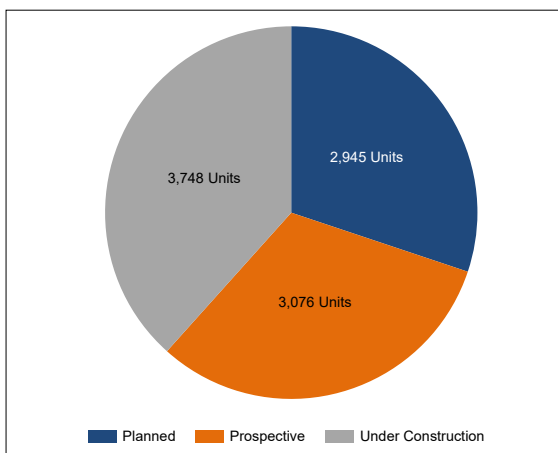
- New apartment construction has been tepid, but it should pick up substantially, with more than 3,100 units expected to come online in 2017. About 750 units were completed in 2016, adding a mere 0.4% to the total stock. While that figure lags the national rate, which has remained at 2.4% since 2015, it still represents significant expansion compared to previous years. The number of units that came online in Detroit last year doubled from 2015, representing a peak for the current cycle.
- Nearly 10,000 units are in various development stages, with almost 3,800 under construction. Around half of all units are located in downtown Detroit, where the trend is to build smaller layouts for young professionals and downsizing Baby Boomers. Bedrock's 28 Grand will bring 218 micro-lofts to the city center, with completion scheduled for summer 2017.
- Another top submarket for new development, Midtown Detroit, has roughly 400 units under construction. Here, the city of Detroit is planning to redevelop the Wigle Recreation Center. Montclair at Partridge Creek, located in Clinton Township, Mich., is the metro's largest residential development, with more than 600 units.

**Detroit vs. National Completions as a Percentage of Total Stock (as of December 2016)**



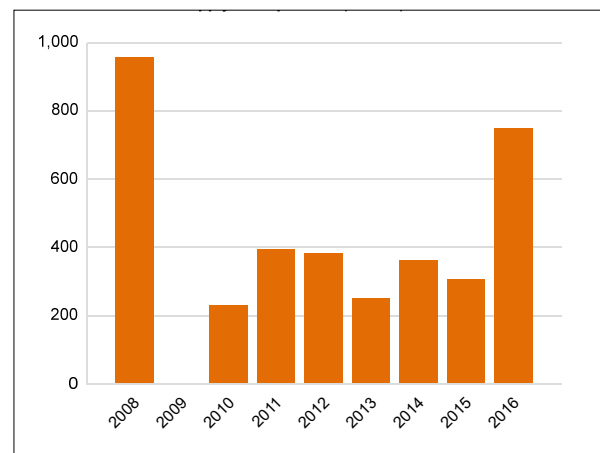
Source: YardiMatrix

**Development Pipeline (as of December 2016)**



Source: YardiMatrix

**Detroit Completions (as of December 2016)**



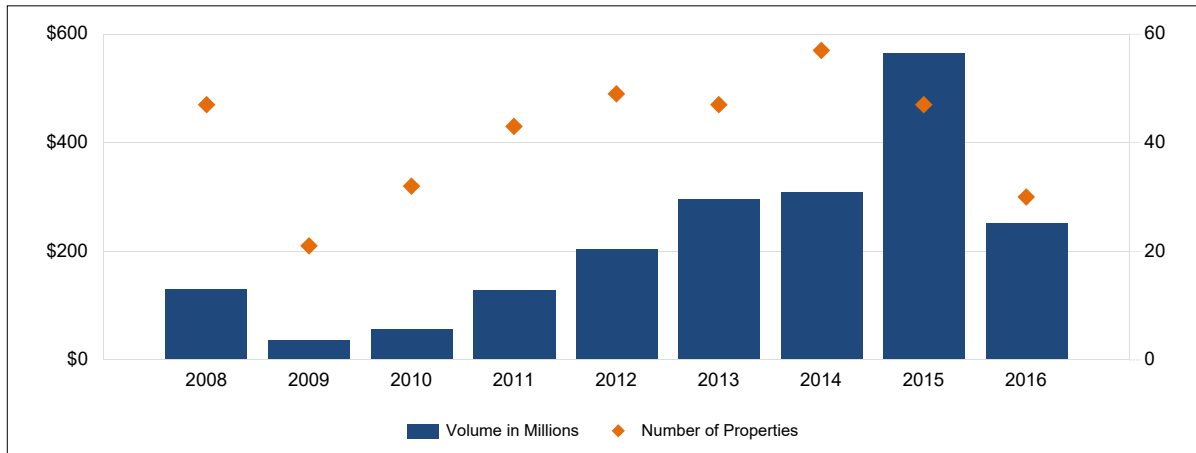
Source: YardiMatrix



## Transactions

- Detroit's investment momentum slowed in 2016, as total transaction volume dropped to \$252 million, a record for the current cycle and a substantial decrease from \$565 million in 2015. While Detroit has shown signs of steady growth and offered strong yields since the recession, the risk present in the metro seems to have cooled investment appetite.
- Despite the significant decrease in transaction volume, prices continued to swell. In Detroit, the price per unit in 2016 reached \$74,972, almost double the value in 2014, when the average price was \$39,042. Despite the increase, the metro still trails far behind the national price-per-unit average of \$134,802.
- A significant number of revival projects in the downtown area have attracted the most interest from investors, as evidenced by the sale of Riverfront Towers to Image Capital for nearly \$80 million in June 2016.

### Detroit Sales Volume and Number of Properties Sold (as of December 2016)



Source: YardiMatrix

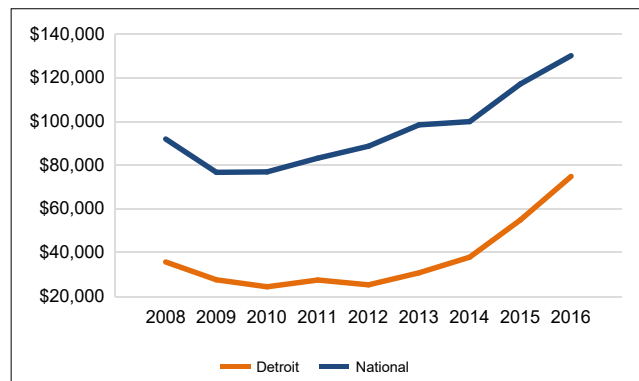
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Detroit-Downtown	80
Dearborn	33
Madison Heights	28
South Lyon/Milford	23
Auburn Hills	17
Westland	16
Southfield	14
Dearborn Heights/Inkster	12

Source: YardiMatrix

<sup>1</sup> From January 2016 to December 2016

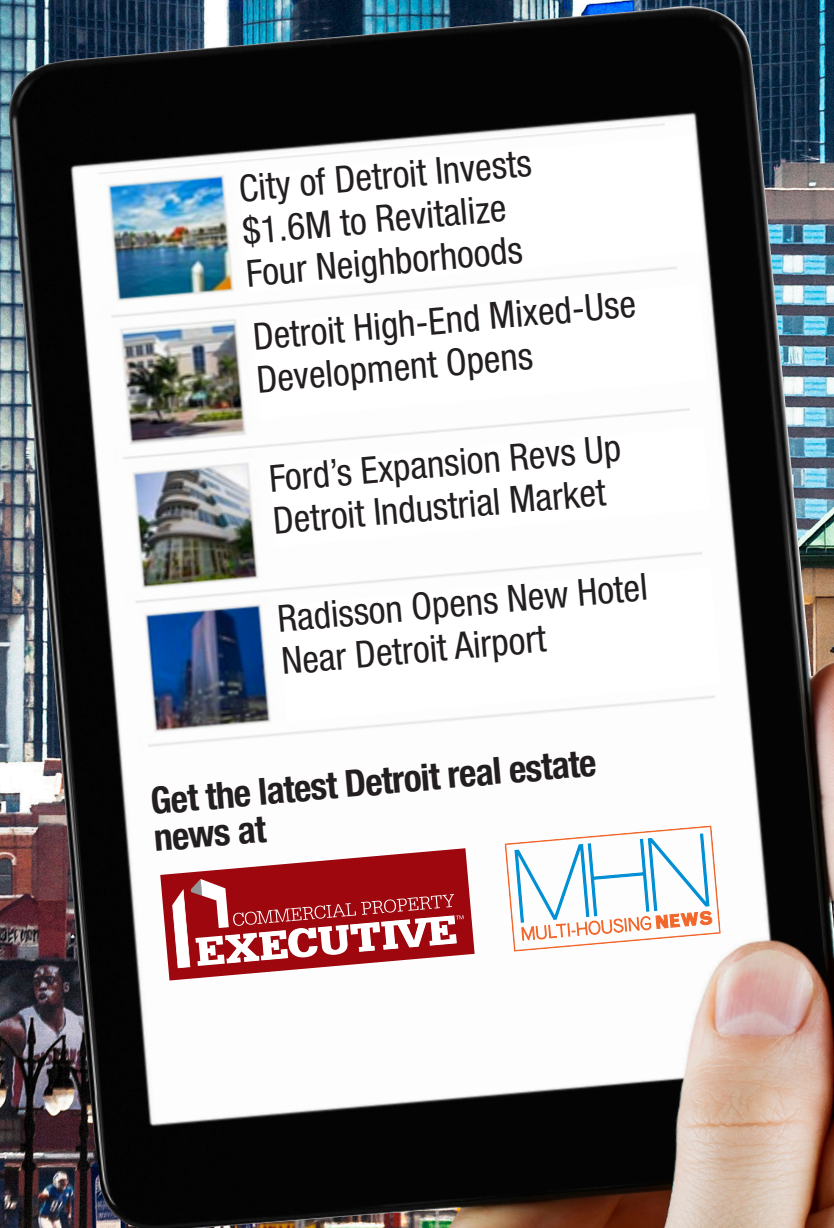
### Detroit vs. National Sales Price per Unit



Source: YardiMatrix



# Read All About It!

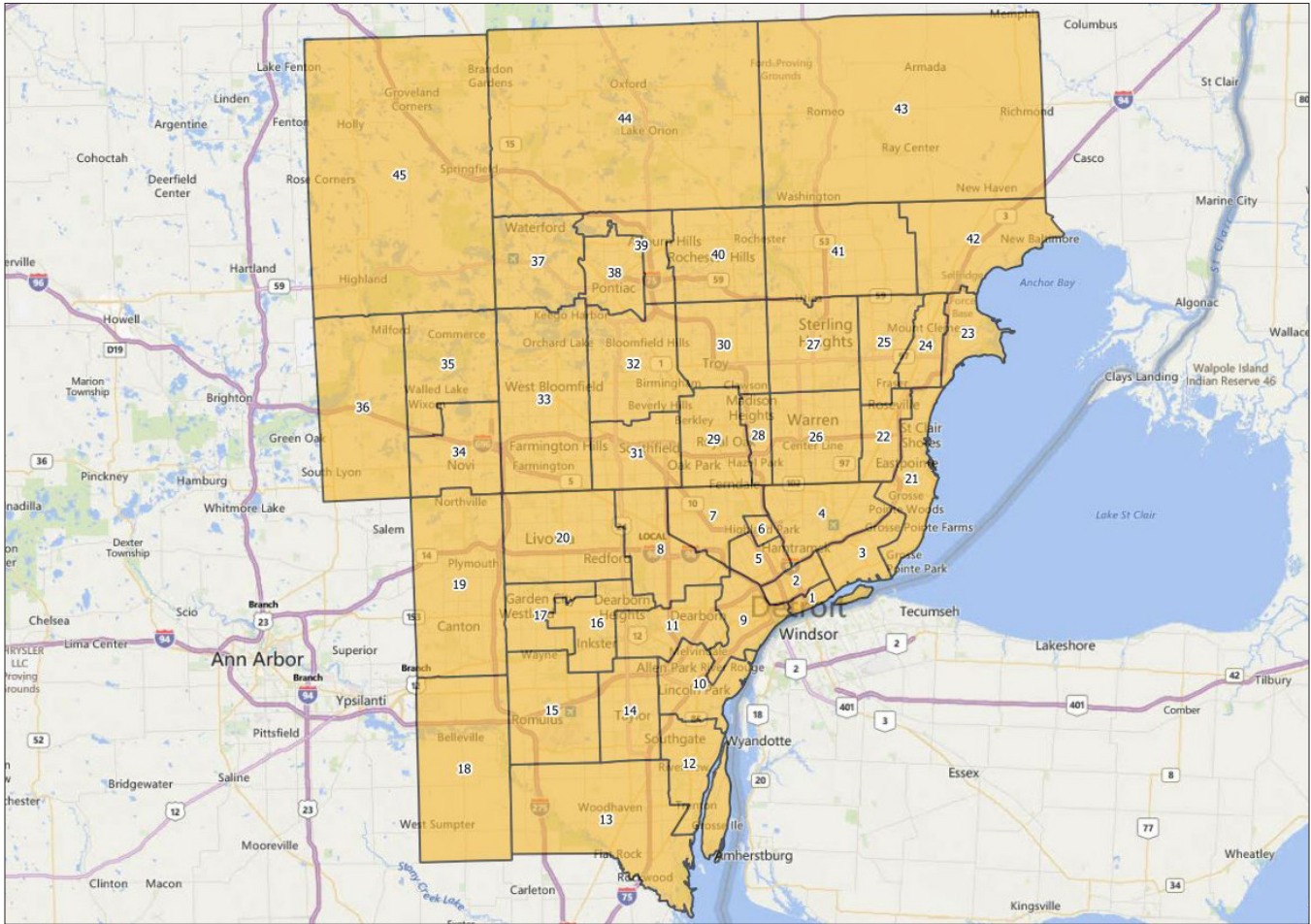


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## Detroit Submarkets



Area #	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 #	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 #	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

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## 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 may 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 may 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, may 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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