



Yardi® Matrix

Detroit: Far from Singing the Blues

Multifamily Report Spring 2017

Rent Growth Tops Average

New Supply Hits Core Locales

Soaring Home Prices Drive Affordable Housing

Market Analysis

Spring 2017

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Alexandra Pacurar

Senior Writer

Motown's Expansion Hits High Notes

Despite numerous headwinds, Detroit is gamely bouncing back, thanks to concerted efforts by public and private sources to bring commerce and households back to the city. Small businesses are receiving financial support from several public-private funds, including the \$100 million New Economy Initiative.

The automotive industry has regained its footing. Flex-N-Gate broke ground on a \$100 million manufacturing facility that is expected to create 700 jobs, while Troy-based Delphi Automotive joined BMW, Intel and Mobileye in the development of advanced autonomous driving systems. Detroit is also strengthening its tech industry, with business accelerators for graduates and financial support for technology startups, through the \$4.2 million First Capital Fund.

Demand drivers are mixed. Young professionals are attracted to Detroit's job opportunities in high-earning sectors, and the transformation of core areas into modern live-work environments continues to drive growth. Even so, population levels in the city remain relatively flat. After years of little new supply, development is beginning to pick up: More than 4,000 units are under construction. Rents increased 4.2% year-over-year as of April, exceeding twice the national growth rate. We expect strong demand to continue, and with minimal new deliveries, rents should increase by 4.1% in 2017.

Recent Detroit Transactions

Riverfront Towers



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

Chimney Hill



City: West Bloomfield, Mich.
Buyer: The Solomon Organization
Purchase Price: \$52 MM
Price per Unit: \$158,841

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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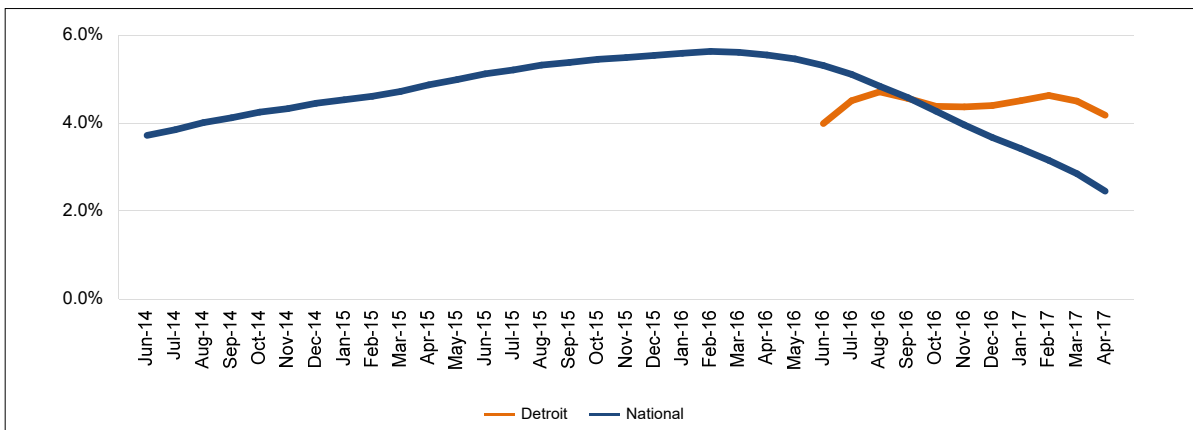
Hollie Zepke

Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

Rent Trends

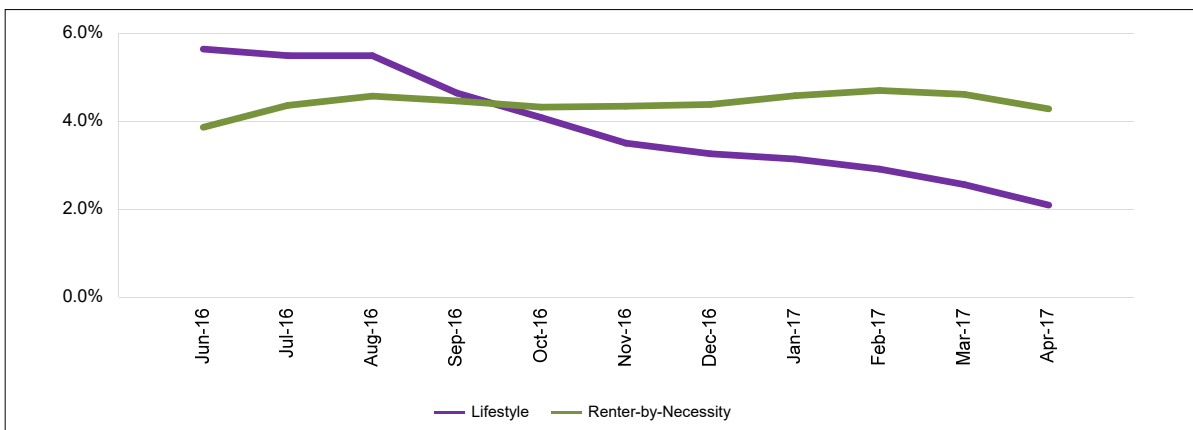
- Rents in Detroit grew by 4.2% year-over-year as of April 2017, more than double the national growth rate of 2.0%. The Detroit rental market is still modestly priced at an average of \$913 compared to the nation's \$1,314.
- With a limited new supply of apartment units, rent increases have been greater in Detroit's Renter-by-Necessity segment, which saw an increase of 4.3% year-over-year as of April 2017, to \$878. As the metro continues to add jobs in the professional services, finance and technology sectors, demand for luxury units is expected to remain elevated. With most new supply concentrated in the high-end segment, rent growth for Lifestyle units was a modest 2.0%, rising to \$1,500.
- Downtown Detroit, Bloomfield Hills/Birmingham and Dearborn are the most expensive submarkets, with rents ranging from \$1,236 to \$1,300. Detroit-South saw the highest rent bump, at 18% year-over-year, followed by Troy (10%) and Bloomfield Hills/Birmingham (10%).
- Strong demand and limited new supply should keep upward pressure on rents, producing our forecast of 4.1% rent growth in 2017.

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)

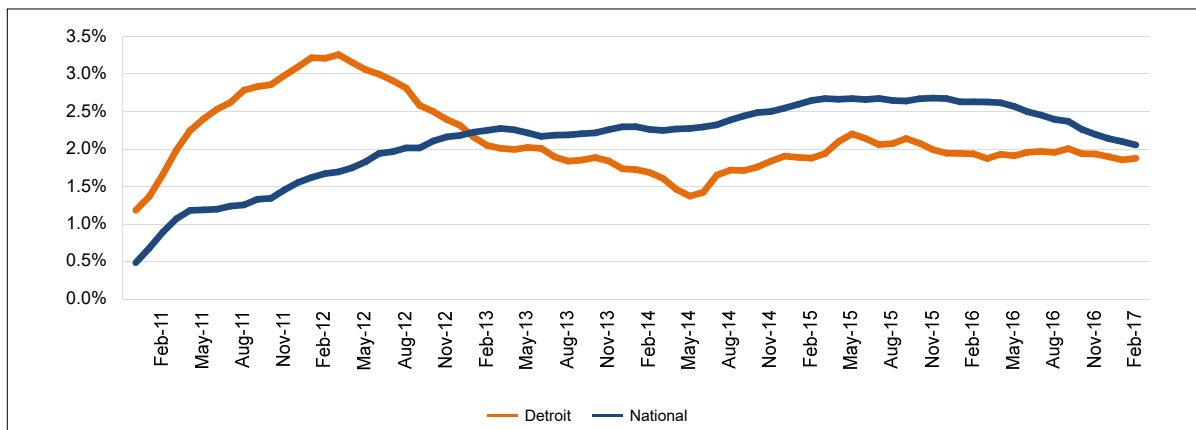


Source: YardiMatrix

Economic Snapshot

- Detroit added 38,000 jobs during the 12 months ending in February 2017, a 1.9% change year-over-year and in line with the 2.0% national average. Gains were led by the professional and business services sector, which added 9,700 jobs.
- The wave of redevelopment in both the private and public sectors led to notable job expansion in the construction sector, which added 6,400 jobs, representing an increase of 10.7% year-over-year.
- Education and health services (4,300) is expected to continue contributing to growth. The Detroit Medical Center, Henry Ford Health System and St. John Providence will provide job training and placement opportunities in the health sector for city residents in coming months. Financial services (3,900) is also growing.
- Demand for high-quality office space in prime downtown areas is spurring new investment. The redevelopment of the former Hudson's site on Woodward Avenue is expected to add 280,000 square feet of Class A office space. Also, Dan Gilbert plans to expand the 1 million-square-foot One Campus Martius (Compuware Building) by 250,000 square feet. Microsoft also announced it will relocate its Southfield technology center to One Campus Martius in early 2018 and lease 42,000 square feet of space.

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	394	20.0%	9,700	2.5%
15	Mining, Logging and Construction	66	3.3%	6,400	10.7%
90	Government	191	9.7%	4,500	2.4%
65	Education and Health Services	313	15.9%	4,300	1.4%
30	Manufacturing	244	12.4%	4,200	1.8%
70	Leisure and Hospitality	190	9.6%	4,100	2.2%
55	Financial Activities	113	5.7%	3,900	3.6%
40	Trade, Transportation and Utilities	358	18.2%	500	0.1%
50	Information	28	1.4%	400	1.5%
80	Other Services	75	3.8%	(200)	-0.3%

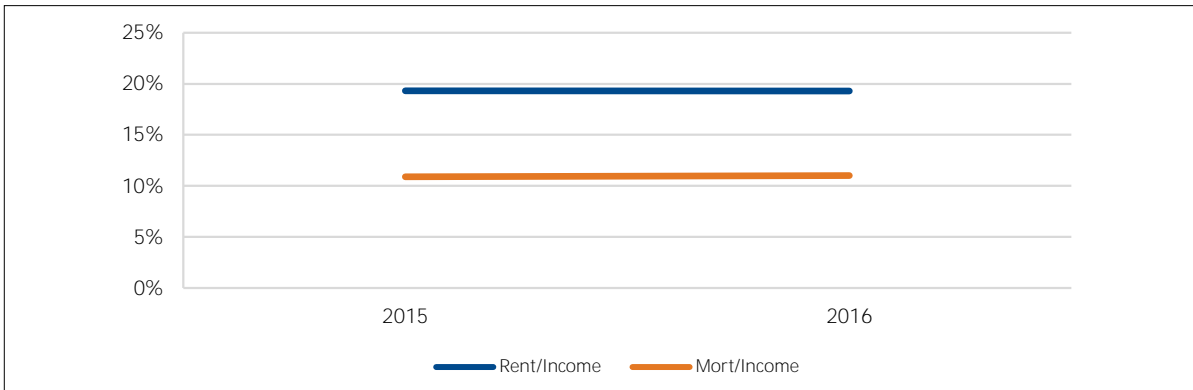
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

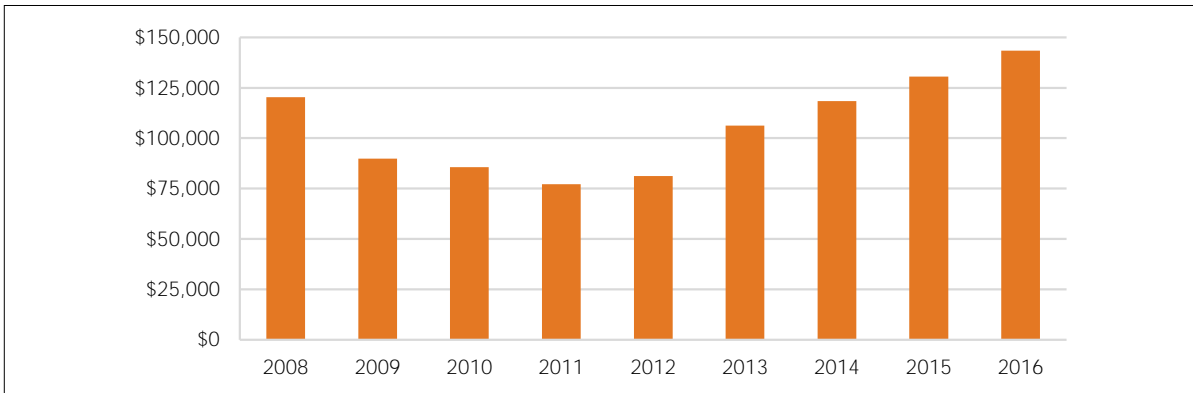
- Housing costs are rising in Detroit, where the median home price reached \$143,374 in 2016, a record for the cycle and up 10% compared to 2015. Average rent in the metro was \$913 as of April, up 4.2% in the past year.
- Affordability has been flat for the past two years, with rents comprising 19% of income while mortgages comprise a more modest 11%. With home prices growing, municipalities are making efforts to increase their number of affordable units. The city of Detroit plans to redevelop Lee Plaza, an abandoned residential high-rise, and the nearby Woodland Apartments into nearly 400 low-income housing units. Also, the city is considering an ordinance requiring developers to make 20% of their units affordable for low-income renters.

Detroit Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Detroit Median Home Price



Source: Moody's Analytics

Population

- Detroit's population rose by only 10,000 residents from 2011 to 2016, representing a much slower expansion than the national average.
- The growth rate was flat in 2016, compared to the nationwide value of 0.7%.

Detroit vs. National Population

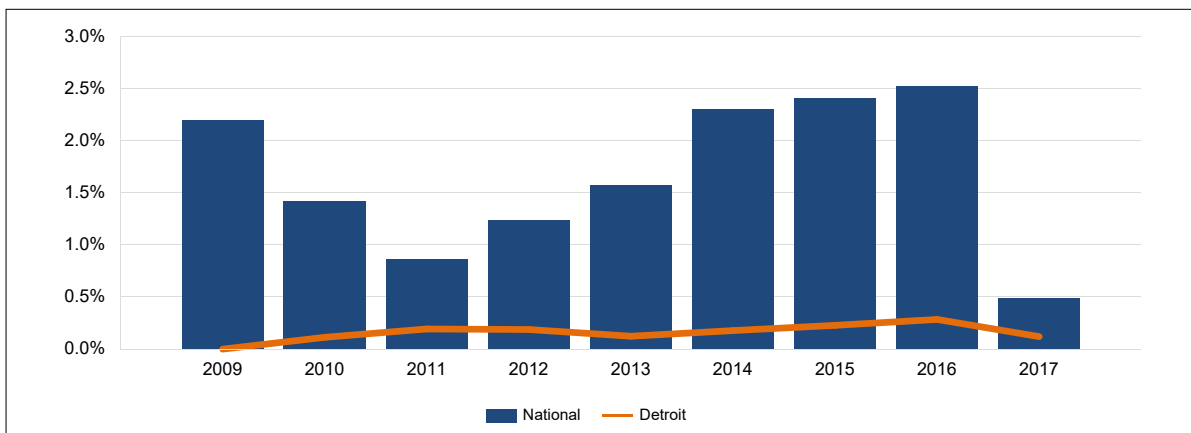
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Detroit Metro	4,293,573	4,295,413	4,299,512	4,297,538	4,297,617

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

Supply

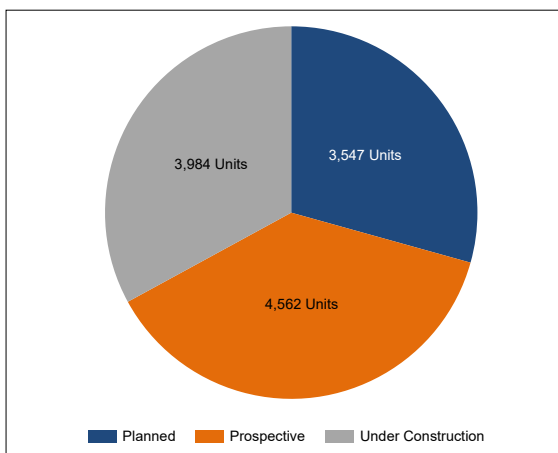
- As Detroit's economy rebounds, the development pipeline is also improving. Yardi Matrix expects nearly 2,000 units to come online in 2017, an increase in stock of 0.9%. Although that is meager by national standards, it represents a cycle high and triple the 600 units that were delivered in 2016.
- More than 12,000 units are in various stages of development, with 4,000 under construction. New supply is concentrated in core areas: More than 1,300 units are underway downtown. Midtown is also seeing large projects, such as the transformation of the Wigle Recreation Center into a mixed-use asset with 335 residential units.
- Infill redevelopment is happening throughout the city. The \$23 million Packard Plant makeover broke ground in May, while the city of Detroit is making efforts to bring new supply into smaller neighborhoods.
- Montclair at Partridge Creek in Clinton Township is the largest multifamily development underway in the metro, with 613 units expected for delivery by the end of 2018.

Detroit vs. National Completions as a Percentage of Total Stock (as of April 2017)



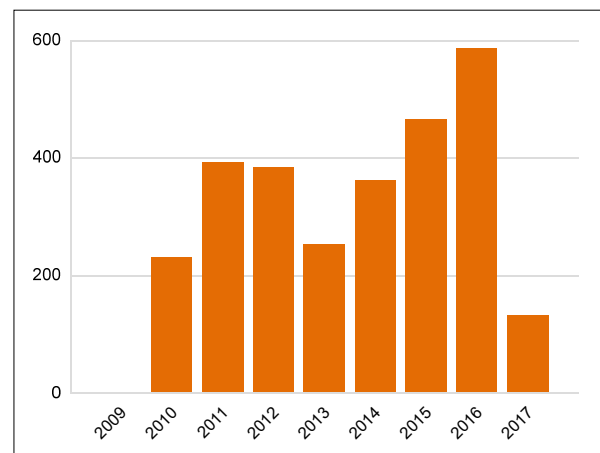
Source: YardiMatrix

Development Pipeline (as of April 2017)



Source: YardiMatrix

Detroit Completions (as of April 2017)

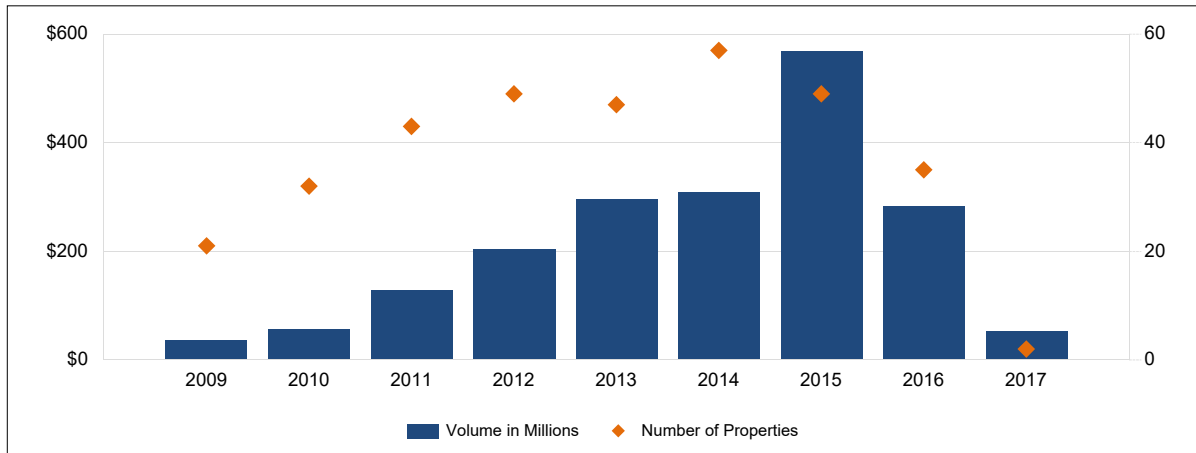


Source: YardiMatrix

Transactions

- Deal flow is slowing as rising prices and macroeconomic shifts cool demand for properties. Approximately \$72 million in multifamily assets changed hands in 2017 through April, on par with 2016's \$283 million.
- Per-unit prices have risen in 2017 to \$128,297, due to the volume of transactions shifting toward more expensive Lifestyle properties. Over the last 12 months, the submarket with the most volume was Downtown, thanks to the \$80 million sale of two high-rise apartment buildings at Riverfront Towers, totaling 557 units. The Farmington Hills/West Bloomfield submarket followed with an investment volume of \$61 million in the past year. The largest transaction year-to-date is The Solomon Organization's acquisition of Chimney Hill in West Bloomfield from Marquette Cos. for \$52 million, which set a record price per unit of \$159,000.

Detroit Sales Volume and Number of Properties Sold (as of April 2017)



Source: YardiMatrix

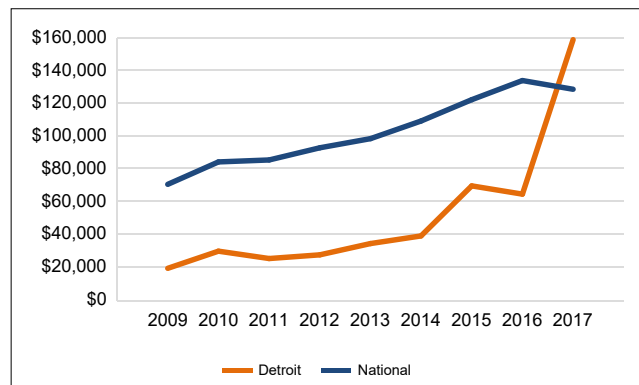
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Detroit-Downtown	80
Farmington Hills/West Bloomfield	61
Madison Heights	28
South Lyon/Milford	23
Auburn Hills	17
Westland	16
Southfield	14
Dearborn Heights/Inkster	12

Source: YardiMatrix

¹ From May 2016 to April 2017

Detroit vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Friedman Sells
58-Unit Detroit Community



Detroit Northern Suburb
Retail Asset Changes Hands



Davenport University Investing
\$6M in New Dorm

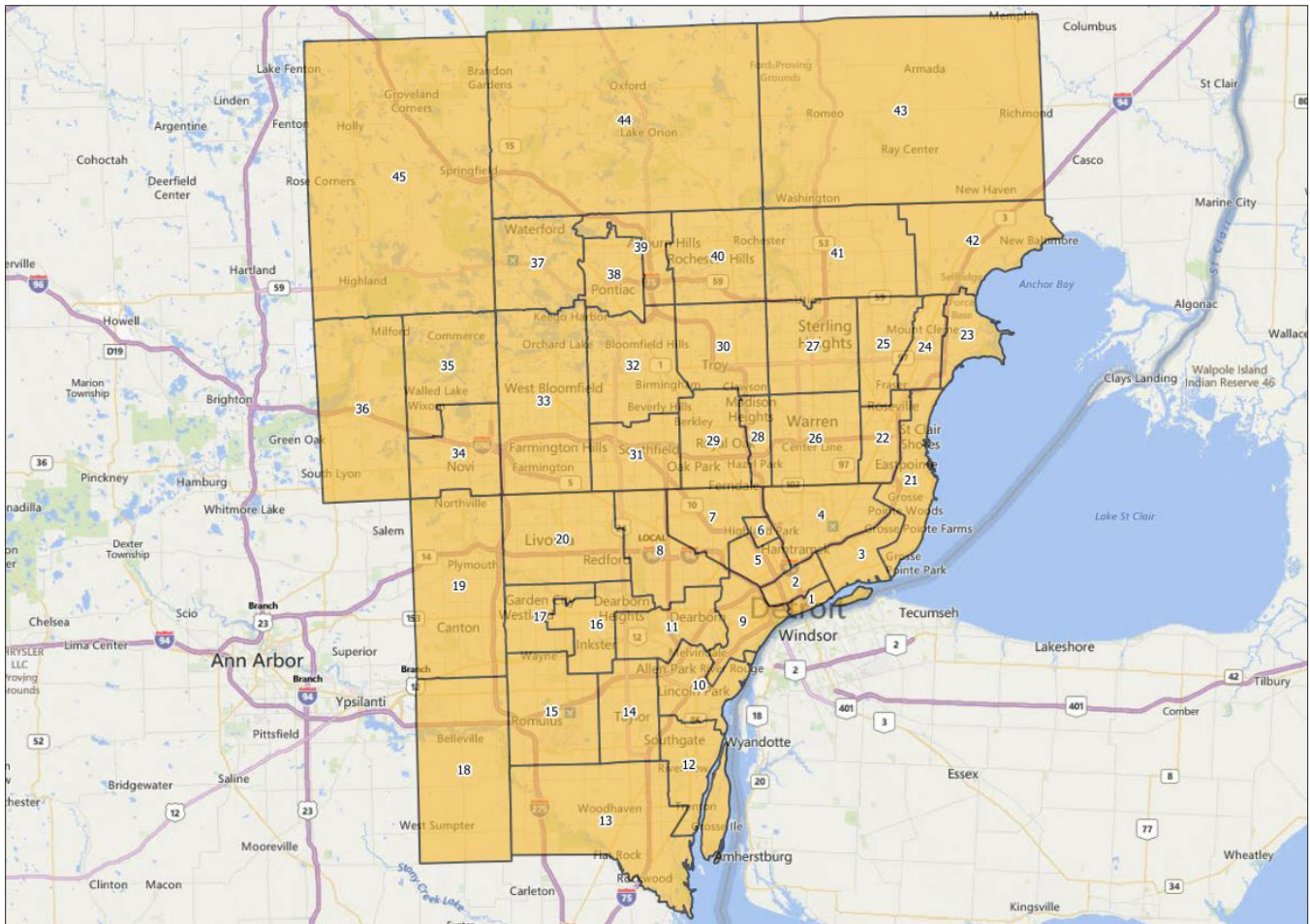


Two Landmark Buildings
In Downtown Detroit Top Off

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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

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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