

Motor City Throttles Down

August 2022



PPU Balloons 50% YoY

Rent Expansion Trails the Nation

Investment Expected to Soften in H2 2022

DETROIT MULTIFAMILY



Fundamentals Stable, Recovery Strolls Along

Detroit's recovery continued well into 2022, with fundamentals staying healthy. Average asking rents rose 0.8% on a trailing three-month (T3) basis through June, to \$1,228, 30 basis points below the national rate and still relatively affordable compared to the \$1,706 U.S. figure. Detroit's limited new inventory continued to boost rent development. And even though the occupancy rate in stabilized properties declined 50 basis points in the 12 months ending in May, it still remained high, at 96.5%.

The unemployment rate in Detroit stood at 4.9% in May, a 20-basis-point improvement from January, trailing the state (4.3%) and the U.S. (3.6%), according to the Bureau of Labor Statistics. Employment expanded 5.1%, or 89,000 jobs, in the 12 months ending in May, surpassing the national rate by 40 basis points. Leisure and hospitality led gains (13.2%, 20,700 jobs), followed by Detroit's largest sectors—trade, transportation and utilities and professional and business services—which added 33,500 jobs combined. As economic volatility intensified, the metro's tech ecosystem and the recent and upcoming expansions in the automotive industry are poised to sustain the recovery.

Developers delivered 1,203 units in 2022 through June, already reaching the annual average for the past decade. Meanwhile, investors traded \$419 million in multifamily assets for a price per unit that rose 49.4% year-over-year, to \$150,239.

Market Analysis | August 2022

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Recent Detroit Transactions

Bloomfield Square



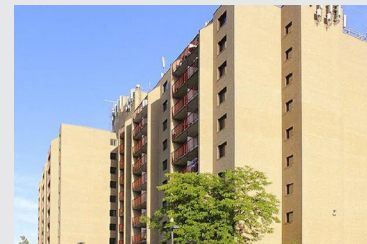
City: Auburn Hills, Mich.
Buyer: Halt Management
Purchase Price: \$38 MM
Price per Unit: \$149,902

Riverview Crossings



City: Riverview, Mich.
Buyer: Pepper Pike Capital
Partners
Purchase Price: \$28 MM
Price per Unit: \$93,333

Greenhouse



City: Detroit
Buyer: Ginosko Development Co.
Purchase Price: \$21 MM
Price per Unit: \$103,088

Chateau Riviera

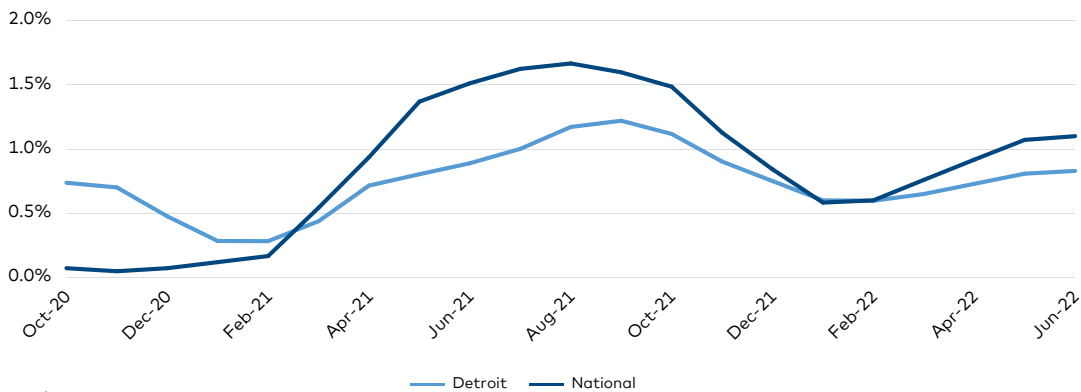


City: Southfield, Mich.
Buyer: Monarch Investment and
Management Group
Purchase Price: \$21 MM
Price per Unit: \$106,333

RENT TRENDS

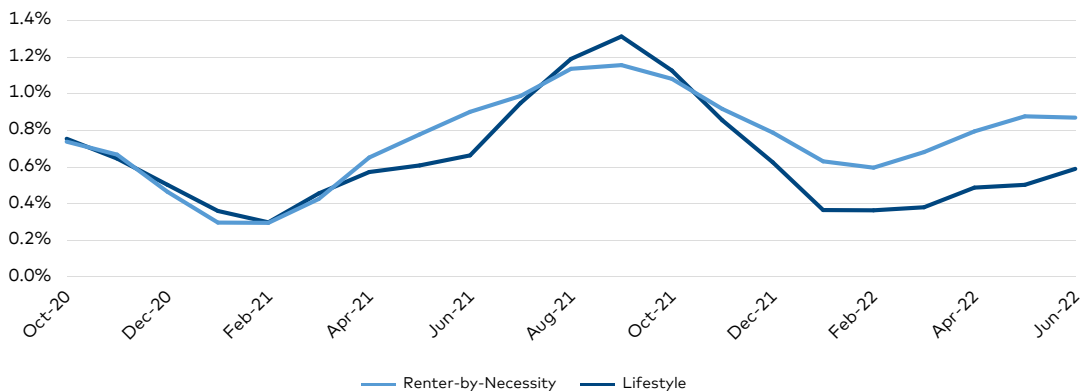
- ▶ Following a mild softening during winter, Detroit rates picked up again and rose 0.8% on a trailing three-month (T3) basis through June, 30 basis points behind the U.S. average. The average asking rent in the metro clocked in at \$1,228, well below the \$1,706 U.S. figure. On a year-over-year basis, rates in Detroit advanced 10.8% as of June, trailing the 13.7% U.S. figure.
- ▶ Renter-by-Necessity units led rent growth, up 0.9% on a T3 basis through June, to \$1,171, while Lifestyle figures increased 0.3%, to \$1,888. In addition to robust demand, Detroit rates also posted steady increases because the metro has one of the tightest rental markets in the country. The overall rate in stabilized properties decreased 50 basis points in the 12 months ending in May, but remained high at 96.5%. Occupancy for RBN units dropped 60 basis points to 96.5%. Lifestyle occupancy slid just 20 basis points, to 96.4%.
- ▶ Of the 45 submarkets tracked by Yardi Matrix, 27 posted double-digit increases in the average asking rent, while in Detroit-East, the rate shrunk by 4.5% to \$1,154. In addition, the number of submarkets with an average below the \$1,000 mark dropped from 19 a year ago to just nine in June. Bloomfield/Birmingham (10.2% to \$1,644) and Dearborn (7.0% to \$1,552) remained the most expensive areas in the metro.
- ▶ Inflation and rising interest rates have made homeownership harder to achieve, further sustaining the rental market. This trend includes single-family rentals, with Detroit rents up 13.2% year-over-year.

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 stood at 4.9% in May, 70 basis points higher than in April but marking a 20-basis-point improvement since the start of the year, according to BLS data. Despite the steady recovery, the metro lags the state (4.3% in May) and the U.S. (3.6%).
- ▶ Employment expanded 5.1%, or 89,000 jobs, in the 12 months ending in May, 40 basis points above the national average. The sustained recovery of leisure and hospitality led growth, up 13.2% or 20,700 jobs, followed by Detroit's largest sectors—trade, transportation and utilities and professional and business services—which added 33,500 jobs combined.
- ▶ Although economic volatility remains high, prospects are favorable for Detroit. The metro benefits from a solid tech ecosystem comprising companies such as Google, Microsoft, Apple, Amazon and IBM. Some of these firms have instated hybrid work models, which has revived nearby businesses relying on their traffic. In addition, the metro is an attractive entrepreneurial market, with startups such as Rivian setting up headquarters here. Stellantis' Mack Avenue Engine Complex is up and running, despite supply-chain issues deepened by the shortage of semiconductors.
- ▶ Amazon has four new sites across the metro, two of which are set to open in 2022 and employ some 600 workers.

Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	178	8.9%
40	Trade, Transportation and Utilities	382	19.1%
60	Professional and Business Services	398	19.9%
30	Manufacturing	249	12.4%
90	Government	184	9.2%
80	Other Services	72	3.6%
65	Education and Health Services	300	15.0%
15	Mining, Logging and Construction	83	4.1%
50	Information	28	1.4%
55	Financial Activities	129	6.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Detroit's population shrunk in 2021, by 0.5% or 20,543 residents, while the U.S. rate increased by 0.1%. This comes on the heels of the decade's best year—2020—when the population rose by 1.5%, equal to the growth rate for the whole 2012 to 2021 interval.

Detroit vs. National Population

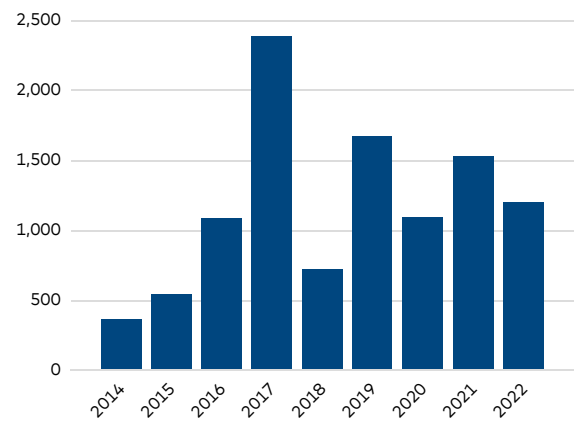
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Metro Detroit	4,323,861	4,319,413	4,385,748	4,365,205

Source: U.S. Census

SUPPLY

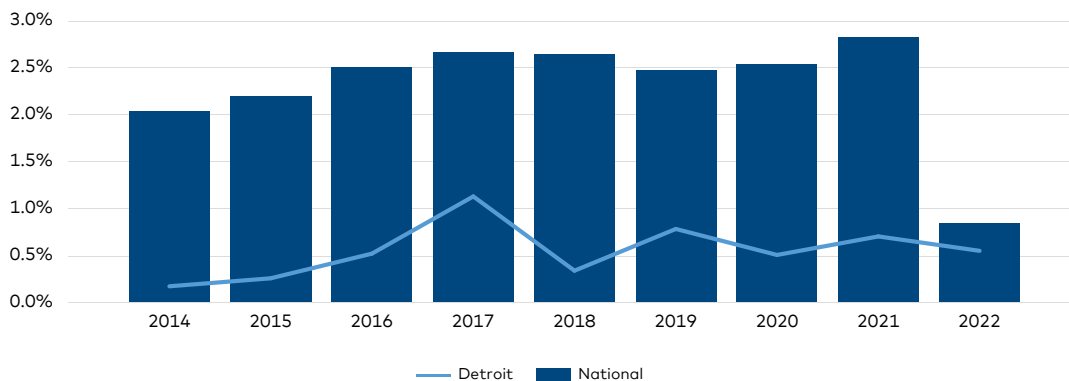
- ▶ Developers delivered 1,203 units in the first half of 2022, the equivalent of 0.6% of total stock, and 30 basis points below the U.S. average. The new stock—which consists entirely of Lifestyle properties—already reached the 1,200-unit annual average registered since 2014 onward.
- ▶ The construction pipeline comprised 4,386 units underway and 24,300 units in the planning and permitting stages going into the third quarter of 2022. Construction starts in the first half of the year totaled just 415 units, below the 700 units recorded during the same period last year. The pipeline consists mainly of Lifestyle properties, which account for three-quarters of apartments underway. Just 664 workforce units, and only 251 units in fully affordable communities were under construction as of June.
- ▶ More than 3,300 units were slated for completion by the end of the year, but delays are anticipated, due to the bumpy economic environment affected by rising inflation and interest rates, as well as prolonged supply-chain issues and labor shortages. Even so, deliveries for the year are on track to surpass last year's volume (1,529 units) and even match the decade peak recorded in 2017, when 2,393 units were added to the inventory.
- ▶ Development was uneven across the map, present in just 18 of the 45 submarkets tracked by Yardi Matrix. Among the areas targeted by developers are Downtown (543 units underway), Troy (491 units) and Rochester Hills (483 units). The largest project under construction as of July was Edward Rose & Sons' 24 at Bloomfield in northern Detroit. The 430-unit Renter-by-Necessity property was slated for completion by the end of the summer.

Detroit Completions (as of June 2022)



Source: Yardi Matrix

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



Source: Yardi Matrix

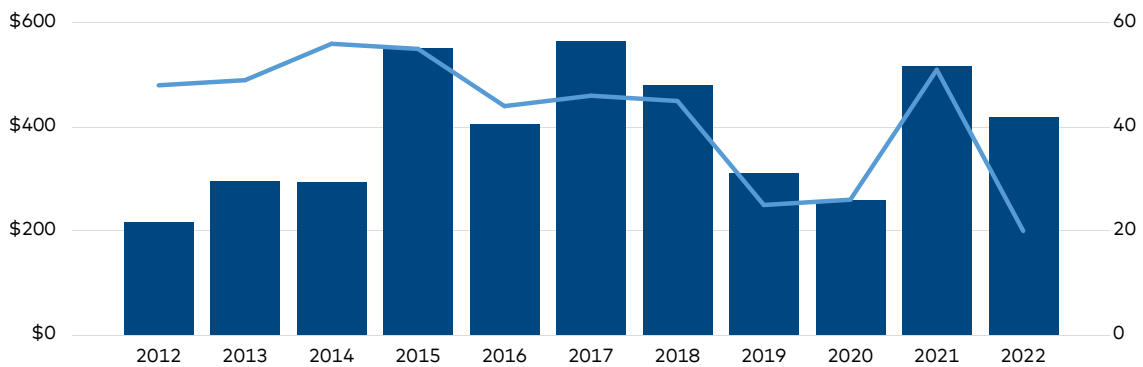
TRANSACTIONS

- ▶ Investors traded \$419 million in multifamily assets during the first half of 2022, in 20 confirmed sales, 19 of which were for working-class RBN properties. The volume is more than double the \$184 million that traded during the same interval last year.
- ▶ The price per unit marked a solid 49.4% increase year-over-year, to \$150,239, despite the sales composition, with just one Lifestyle asset trading. The Crossings at Canton marked the high-

est sale during the first two quarters. The community was acquired by GSH Group for \$144.2 million, with aid from a \$117.7 million loan held by Arbor Realty Trust.

- ▶ Investment activity will most likely dampen in the second part of 2022, as many investors and lenders pause to analyze where the market is heading following rising interest rates and persistent inflation. This slowdown started in the second quarter of 2022, which accounted for less than a quarter of the first half's sales volume.

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



Source: Yardi Matrix

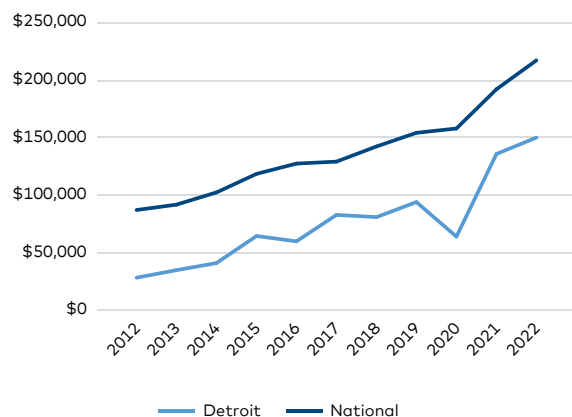
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Canton/Plymouth	144
Clinton Township-West	132
Farmington Hills/West Bloomfield	116
Westland	76
Royal Oak/Oak Park	71
Auburn Hills	38
Shelby Township	35

Source: Yardi Matrix

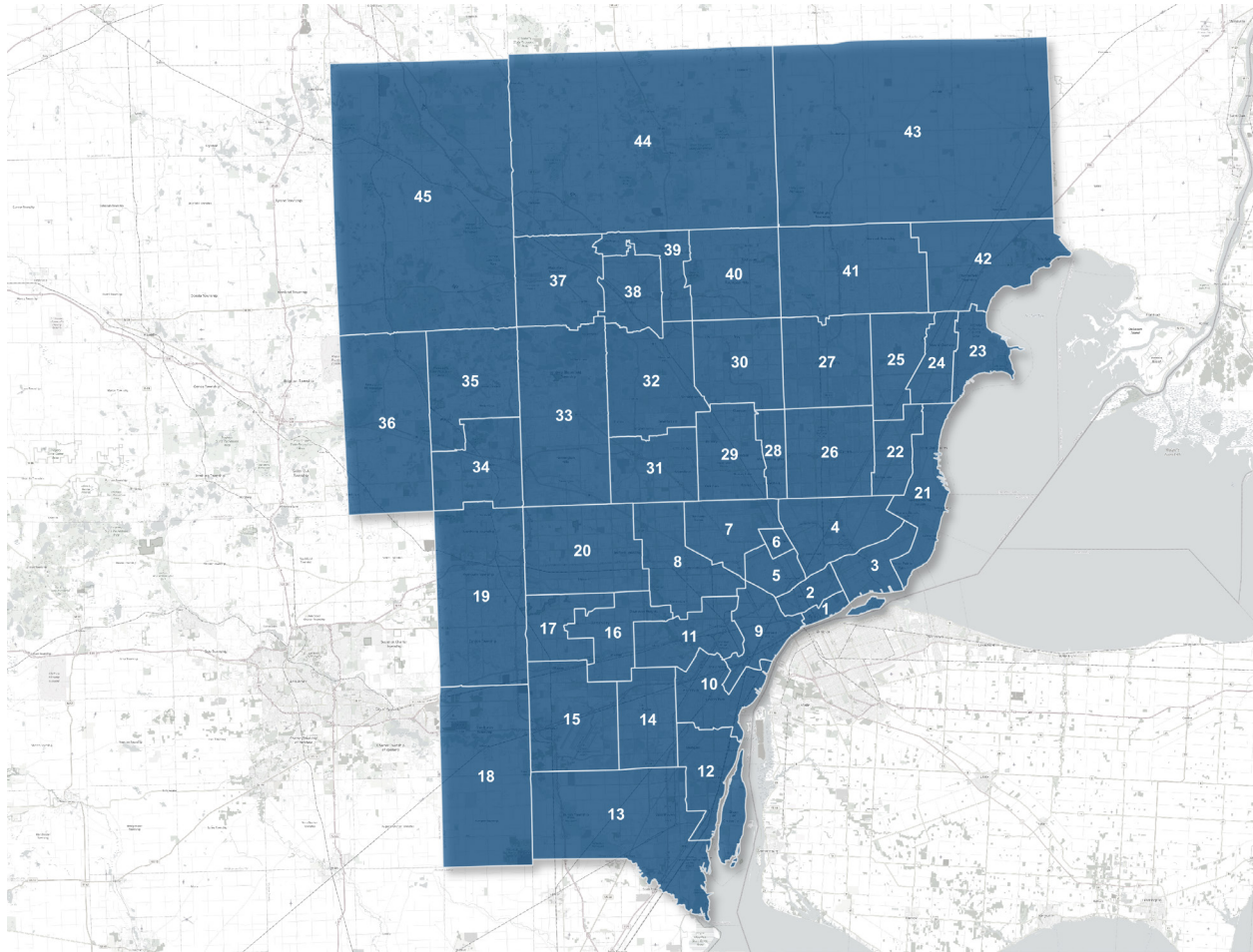
¹ From July 2021 to June 2022

Detroit vs. National Sales Price per Unit



Source: Yardi Matrix

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 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 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, 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 or call Ron Brock, Jr., at 480-663-1149 x2404.



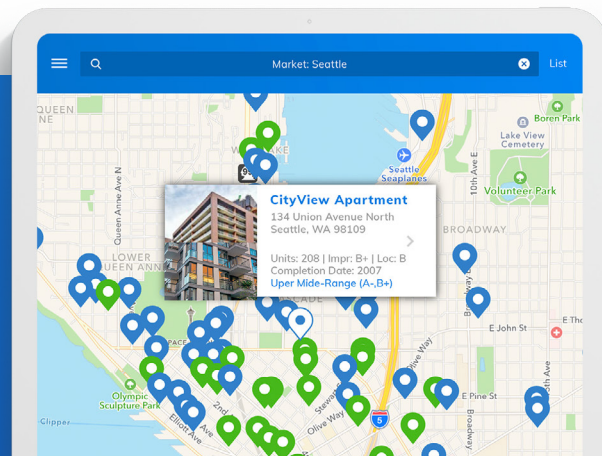
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with the industry's
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- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
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