

A photograph of the Detroit skyline at sunset. The sky is a clear, light blue. In the foreground, a building with a prominent Gothic-style facade with pointed arches is visible. Behind it, several other skyscrapers rise, including one with a distinctive tower and a globe on top. An American flag is visible on the left side. The overall scene is bathed in the warm, golden light of the setting sun.

Yardi® Matrix

Detroit Shifts Into Higher Gear

Multifamily Report Fall 2017

**Emerging Economy
Attracts Investors**

**Rent Growth
Tops U.S. Average**

**Downtown, Midtown
Drive New Deliveries**

Market Analysis

Fall 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

Motor City's Slow Acceleration

Detroit continues to rebuild its economy brick by brick and business by business, spurring demand for housing and pushing rent growth above the national average. This restoration is reflected in the local multifamily market's improving fundamentals, which are also stimulated by the lowest unemployment rate in 17 years. Although investment has slowed down slightly, due to lingering skepticism about the market's stability, high yields should remain enticing to buyers.

Detroit is widely recognized as an emerging metro that is on the verge of an economic turnaround, due largely to its broad-based employment growth. Helping to advance that narrative is LinkedIn's choice of downtown Detroit for its first new office in 10 years. The city's automotive industry is shifting gears and using its resources to develop modern transportation technology. Ann Arbor-based startup May Mobility and French company Navya are testing self-driving shuttles in the area. Technology in Motion and Detroit Moves, which showcase the metro's innovative mobility technology, are among the startups that are powering the city's auto business. Industrial employment is also expected to grow: Amazon's new facilities in Livonia and Romulus will add 2,600 employees when completed.

Strong demand should lead to healthy absorption of the roughly 1,900 units likely to come online this year. We expect rent growth to be a fairly robust 4.1% in 2017.

Recent Detroit Transactions

The Crossings at Canton



City: Canton, Mich.
Buyer: APM Management
Purchase Price: \$52 MM
Price per Unit: \$70,329

Chimney Hill



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

Apple Ridge



City: Livonia, Mich.
Buyer: SG Capital Group
Purchase Price: \$24 MM
Price per Unit: \$87,912

Waterford West



City: Waterford, Mich.
Buyer: Monarch Investment
Purchase Price: \$17 MM
Price per Unit: \$101,705

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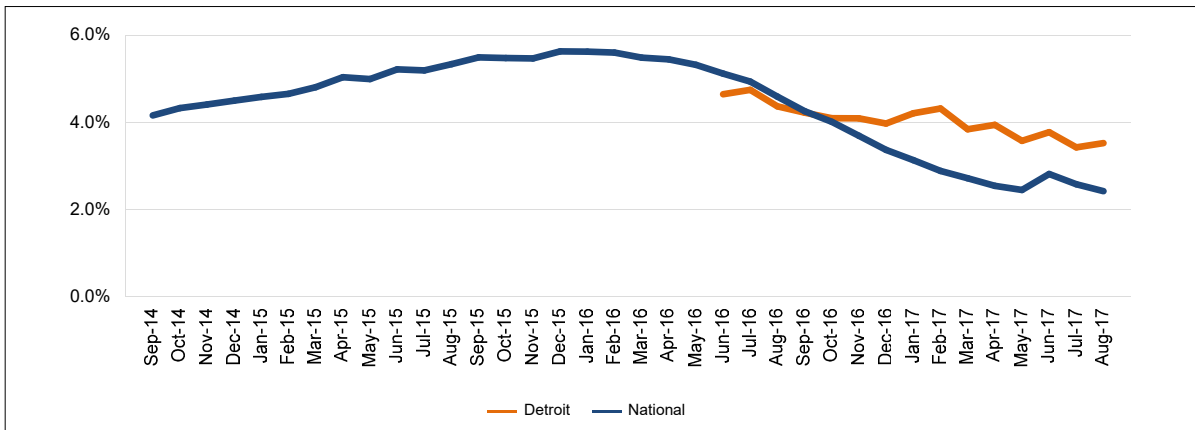
Hollie Zepke

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

Rent Trends

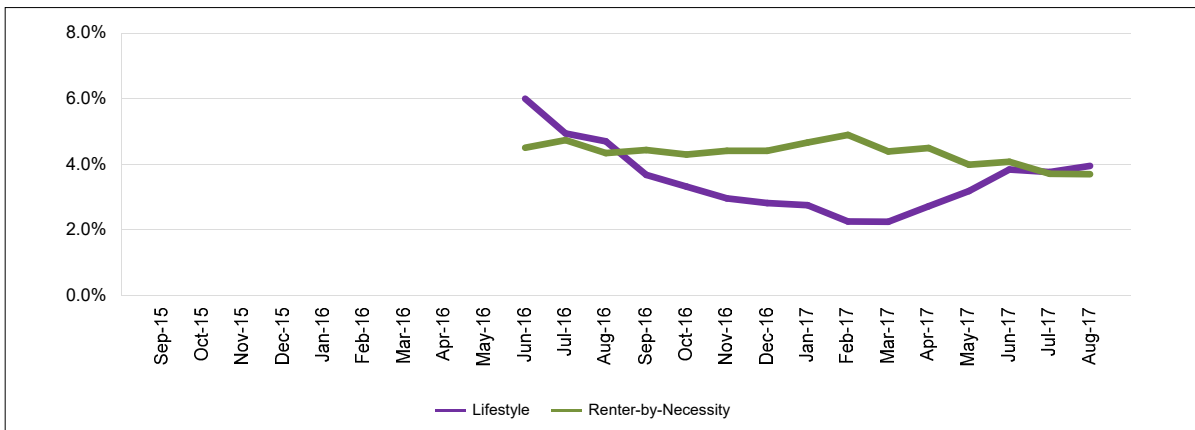
- Rents in the metro were up 3.5% in the 12 months ending in August, 110 basis points above the U.S. trend. At \$939, average rent in Detroit is still well below the national figure of \$1,352.
- Gains were highest in the Lifestyle segment, which saw rents increase by 4.0% to \$1,549, but the working-class Renter-by-Necessity cohort has been catching up, showing an average increase of 3.7% to \$896 in the 12 months ending in August.
- Local authorities are making strides to provide assistance for affordable housing, leading to an increase in supply that has also helped to moderate Renter-by-Necessity rent growth, which peaked at 4.9% in February.
- Detroit–South was the submarket with the highest rent increase—nearly 14% year-over-year through August—followed by Detroit–Midtown (7.5%), Auburn Hills (6.9%), Troy (6.6%) and Detroit–Downtown (6.0%). Rents are highest in Dearborn (\$1,335), Detroit–Downtown (\$1,249), Bloomfield Hills/Birmingham (\$1,239) and Troy (\$1,198). Market fundamentals should remain strong in 2017. High demand is expected to keep rent growth at about 4.1% for the rest of the year and lead to fast absorption of the units slated to come online, particularly in the city’s downtown and Midtown areas, where roughly 1,100 are under construction.

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)

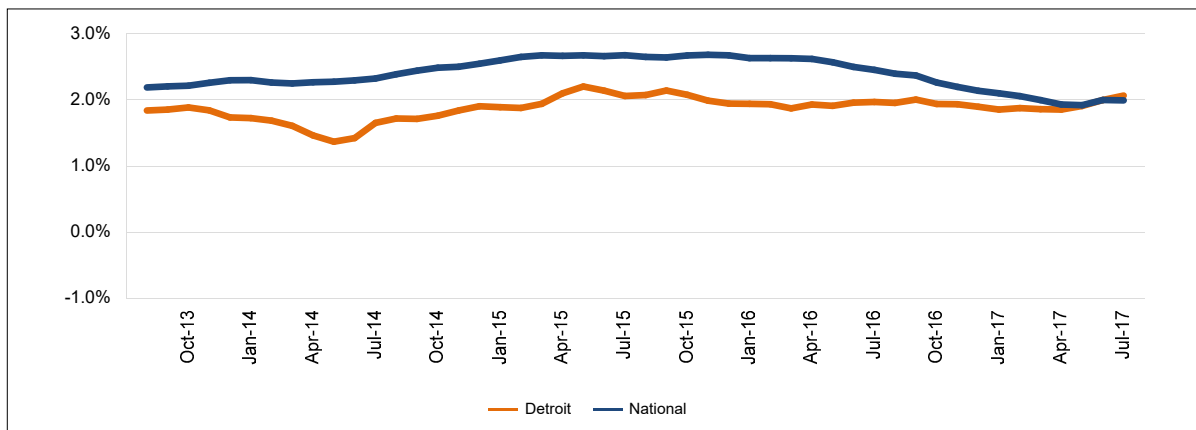


Source: YardiMatrix

Economic Snapshot

- Detroit added 45,100 jobs in the 12 months ending in July, representing a year-over-year growth rate of 2%, in line with the national average. There has been significant improvement throughout the job market, led by professional and business services, which added 17,100 positions, and followed by leisure and hospitality (6,800), construction (6,400) and government (4,400).
- Manufacturing lost 700 jobs, but the dip will be dwarfed by Amazon's planned new distribution center in Livonia which will employ 1,000 workers, and a 1 million-square-foot warehouse in Romulus, scheduled to open in 2018, with a staff of 1,600. Also, the automotive industry continues to feel right at home. Japanese auto supplier Denso plans to invest \$7 million in the expansion of its North American headquarters in Southfield, adding an extra 120 jobs. The state of Michigan will offer the company a grant of roughly \$1 million dollars for the project.
- In the office sector, Detroit is seeing high demand for spaces in its central business district, limiting available space and spurring more conversions and modernizations of historic buildings. Tech businesses are looking to have a presence in the city's core as that area begins its resurgence. LinkedIn announced that it will open an office in Motor City, its first new location in 10 years. Microsoft signed a lease at One Campus Martius in downtown Detroit, while co-working company Bamboo Detroit has already expanded twice this year.

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	409	20.3%	17,100	4.4%
70	Leisure and Hospitality	208	10.3%	6,800	3.4%
15	Mining, Logging and Construction	80	4.0%	6,400	8.8%
90	Government	174	8.6%	4,400	2.6%
40	Trade, Transportation and Utilities	369	18.3%	3,900	1.1%
55	Financial Activities	117	5.8%	3,300	2.9%
65	Education and Health Services	312	15.5%	3,200	1.0%
80	Other Services	77	3.8%	-400	-0.5%
30	Manufacturing	240	11.9%	-700	-0.3%
50	Information	28	1.4%	-700	-2.4%

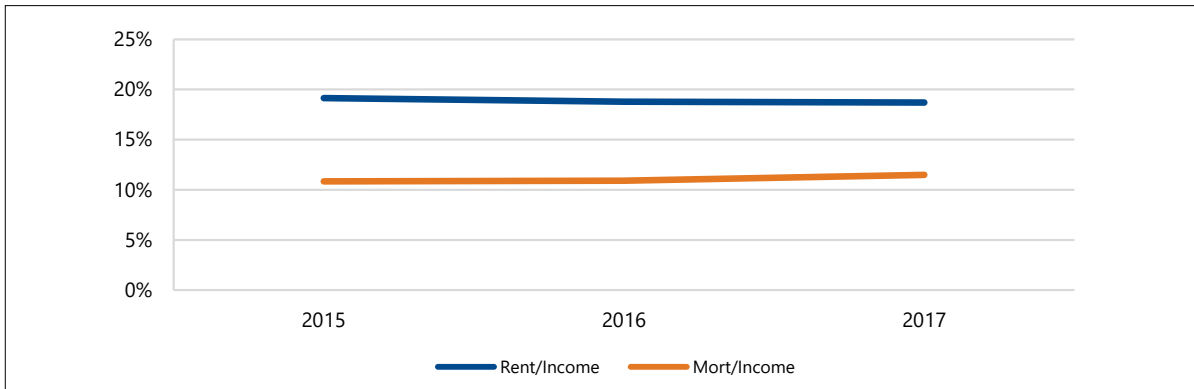
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

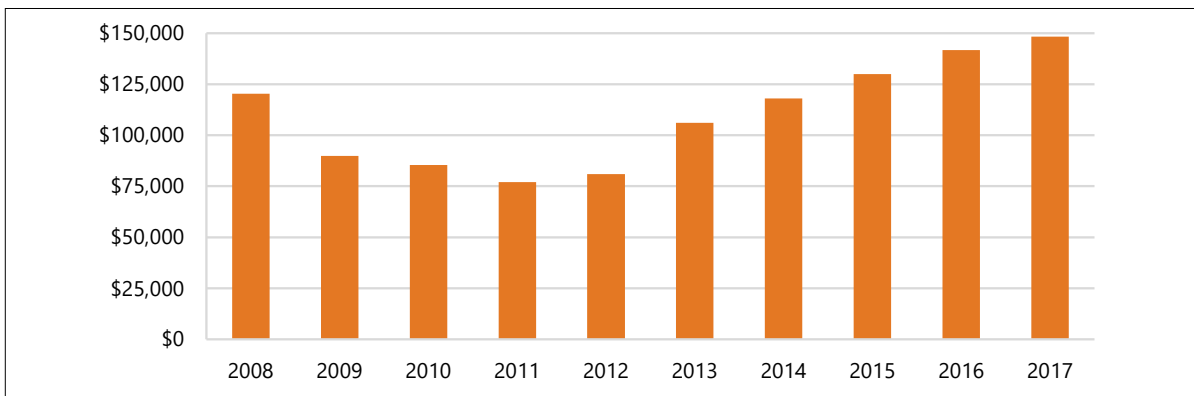
- The median home price in Detroit has grown consistently since the recession, peaking at \$148,425 in 2017, up 5% for the year and nearly double what it was in 2012, the lowest point in the current cycle. Detroit's economy is still recovering, but improving wages have been moderating affordability since 2015. Renting takes up 19% of the median income, while a mortgage payment accounts for 11%.
- Local authorities are partnering with large developers in order to meet demand for affordable housing. Bedrock is committed to creating 700 such units in the coming years, while the city supports four projects that will preserve 271 affordable housing units and add 114 new ones for \$110 million.

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 added fewer than 100 residents in 2016 and slightly more than 10,000 since 2011.
- The metro's growth rate is barely positive, trailing the national average of 0.7%.

Detroit vs. National Population

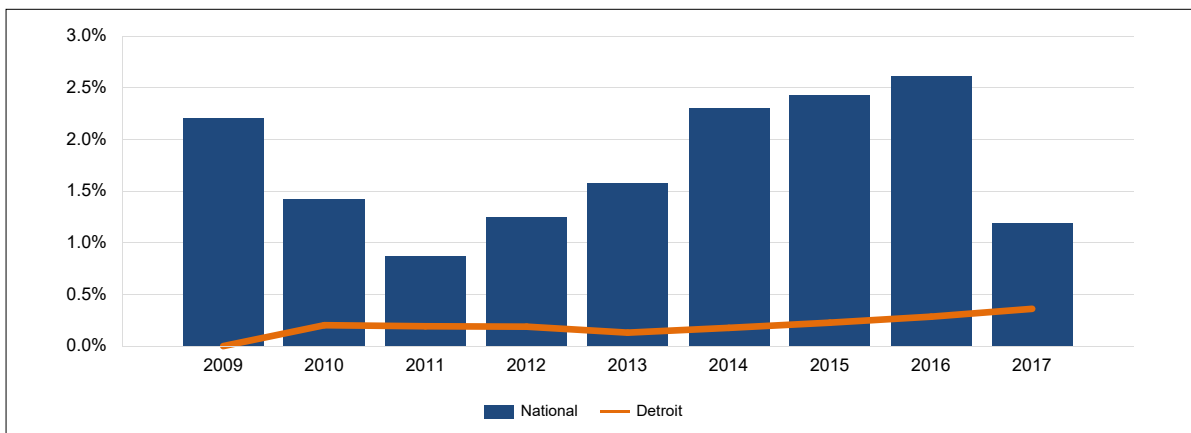
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Detroit Metro	4,293,573	4,295,413	4,299,512	4,297,538	4,297,617

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

Supply

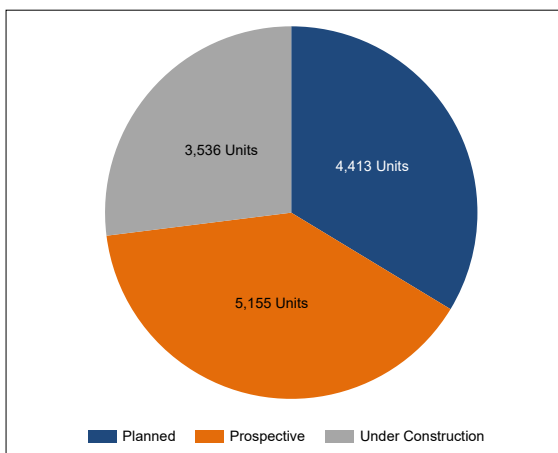
- Development is slowly picking up in Detroit, with 633 units completed year-to-date through August, already an increase in deliveries compared to 2016, and double the amount of units added in 2013 when the market began to slowly bounce back. The metro will likely see an even more substantial number of completions for the year, as roughly 1,800 units are projected to come online.
- More than 3,500 units are now underway, with most of them located in downtown and Midtown, catering to Millennials and downsizing Baby Boomers. One example is the 278-unit Orleans Landing near the Detroit River: the community offers a mix of residential, retail and luxurious amenities that also include a swimming pool. In total, more than 13,000 units are in various stages of development in the metro.
- Affordable housing is still a challenge in Detroit, but there are several initiatives that aim to close the gap. Bedrock's first two ground-up projects, 28 Grand in Capitol Park and mixed-use City Modern in Brush Park, will provide 139 affordable units upon completion. Despite the uptick in completions, development is advancing slowly. The focus is on retrofitting and refurbishing iconic buildings throughout the metro, such as the Hammer and Nail building in Midtown, which will total 72 units and be renamed The Plaza.

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



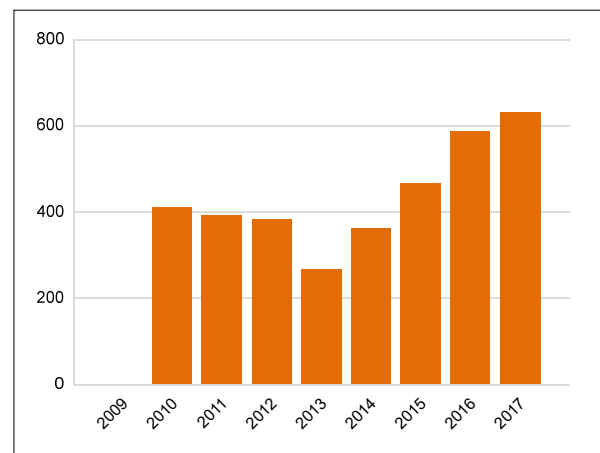
Source: YardiMatrix

Development Pipeline (as of August 2017)



Source: YardiMatrix

Detroit Completions (as of August 2017)

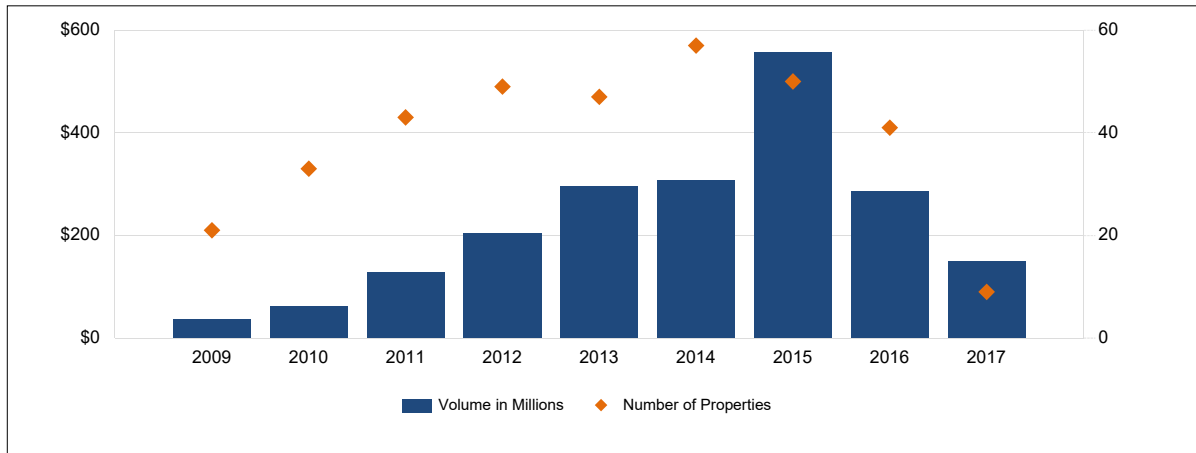


Source: YardiMatrix

Investment Transactions

- Investment activity in Detroit has continued to moderate, with only nine multifamily transactions closed during the year's first seven months, totaling roughly \$150 million. That's less than 30% of the total volume in 2015, when Detroit's transaction totals exceeded \$555 million, the current cycle's high point. Properties located in suburban areas—the metro's Western submarkets, including West Bloomfield, Livonia and Waterford—attracted the most interest from investors.
- Price per unit spiked to roughly \$91,000 as of August, marking a cycle high and a 43% increase compared to the average price in 2016. Despite the surge, the price is still trailing the national average of \$133,537. Rent growth is well above the national rate, and demand remains high, offering significant upside and continued appreciation. Still, the amount of risk in the market is still elevated, with acquisition yields in the 6.5-7.5% range for Class A stabilized properties in Detroit.

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



Source: YardiMatrix

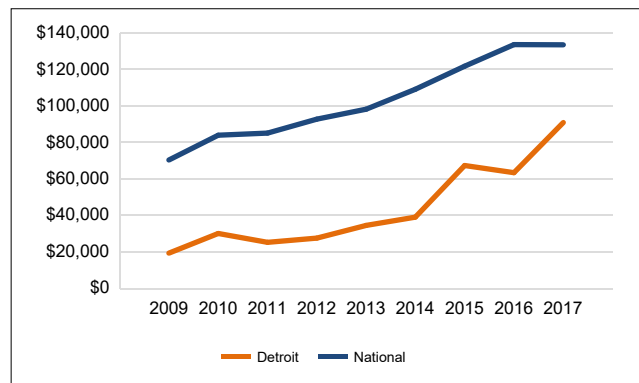
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Farmington Hills/West Bloomfield	61
Canton/Plymouth	52
Livonia/Redford	24
Waterford	17
Southfield	14
South Lyon/Milford	13
Detroit–West	12
Belleville	10

Source: YardiMatrix

¹ From August 2016 to July 2017

Detroit vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Greystone Provides
\$79M FHA Loan
For Michigan Portfolio



Ford Land Taps Mid-America
To Lease Retail Space



Midtown Detroit Gets
New Mixed-Income Community

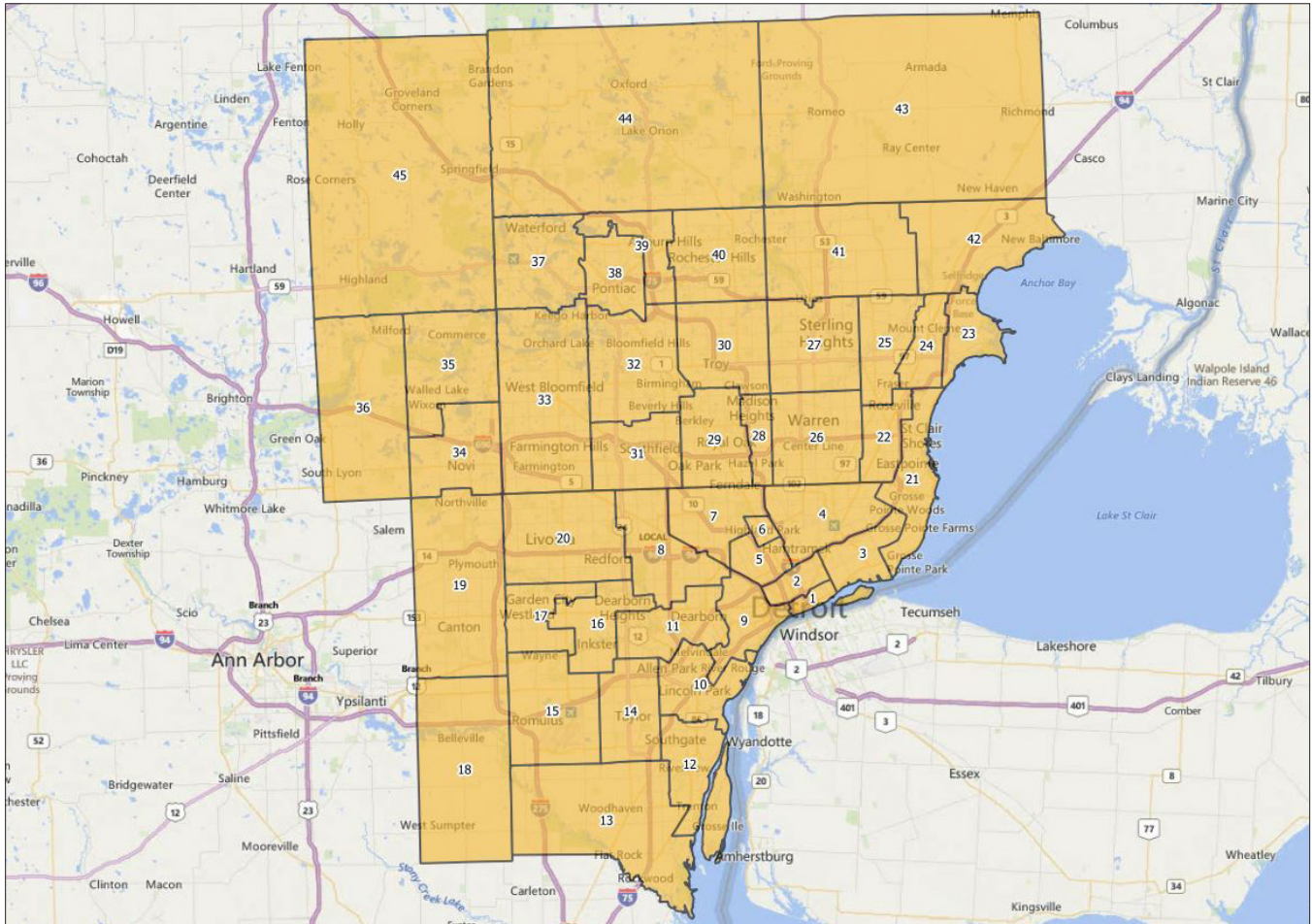


Bedrock Reveals
\$2B, Multi-Project Plan
For Detroit

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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	South Lyon/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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