Yardi®Matrix

Detroit Winds Down

December 2022

Construction Starts Decline

Occupancy Slightly Decreases

Rent Growth Becomes Sluggish

IM Yardi Matrix

Detroit Market's Mixed Performance

Detroit's multifamily fundamentals slowed down after the third quarter, following a similar pattern observed in most major metros. Rent expansion decreased to 0.3% on a trailing three-month (T3) basis through October, after lagging the U.S. average rate for most of the year, now exceeding it by just 10 basis points. On a year-over-year basis, rents grew 7.3% to $1,251—below the nation's $1,727.

The job market was in good shape, as unemployment, at 3.3% as of September, was below both the U.S. average, as well as the state. Over the 12-month period ending in August, Detroit regained 77,700 jobs, a 4.7% expansion and 40 basis points higher than the national average. Besides leisure and hospitality, which led gains with 16,300 jobs added, the metro's largest sectors saw the greatest number of jobs regained—trade, transportation and utilities, and manufacturing both grew by 16,000 positions. New details emerged about Olympia Development and Related Cos.' $1.5 billion District Detroit project; this development is expected to create 12,000 construction jobs and an additional 6,000 permanent jobs upon completion.

Development activity was on par with the previous year's performance: developers brought 1,572 units online this year. However, new construction starts totaled only 415 units across two properties, signaling a slowdown. Meanwhile, investment activity totaled $727 million, up 64.5% year-over-year.

Market Analysis | December 2022

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Recent Detroit Transactions

Southfield

City: Southfield
Buyer: DRA Advisors
Purchase Price: $66 MM
Price per Unit: $167,551

Troy Place

City: Troy
Buyer: Pepper Pike Capital Partners
Purchase Price: $32MM
Price per Unit: $190,476

The Harrison

City: Royal Oak
Buyer: VennPoint Real Estate
Purchase Price: $25 MM
Price per Unit: $336,267

Lincolnshire

City: Canton
Buyer: Ginosko Development Co.
Purchase Price: $23 MM
Price per Unit: $158,868

RENT TRENDS

➤ Detroit rent development slowed down to 0.3% on a trailing three-month (T3) basis through October, 10 basis points above the U.S. rate. The metro's growth maintained a sluggish rate throughout the year, peaking in May and June, at 0.8%. On a year-over-year basis, rents were up 7.3% as of October, 90 basis points below the national figure.

➤ Detroit's average rent was $1,251, significantly lower than the nation's $1,727 rate. The working-class Renter-by-Necessity segment continued to be favored by renters, with rates up 0.4%, to $1,192. Meanwhile, Lifestyle figures decreased 0.1%, to $1,891.

➤ Overall occupancy for stabilized assets decreased by 80 basis points year-over-year, to 96.2% as of September—50 basis points higher than the U.S. average. Occupancy for RBN properties decreased at a faster pace, also by 80 basis points, to 96.2%, while the Lifestyle segment recorded a 20-basis-point drop, to 96.2%.

➤ Of the 45 Detroit submarkets, 12 saw rents increase by 10% or more year-over-year. Holly/White Lake had the largest gains, with rates up 23.1% year-over-year, to $1,427 as of October. It was followed by Detroit-North (up 16.7%, to $936), Royal Oak/Oak Park (16.2%, to $1,329), Waterford (14.5%, to $1,069) and Taylor (13.5%, to $1,001). Two submarkets had decreasing rates—Dearborn was down 1.9%, to 1,534, and Detroit-East recorded a drop of 1.7%, to $1,179.

Detroit vs. National Rent Growth (Trailing 3 Months)
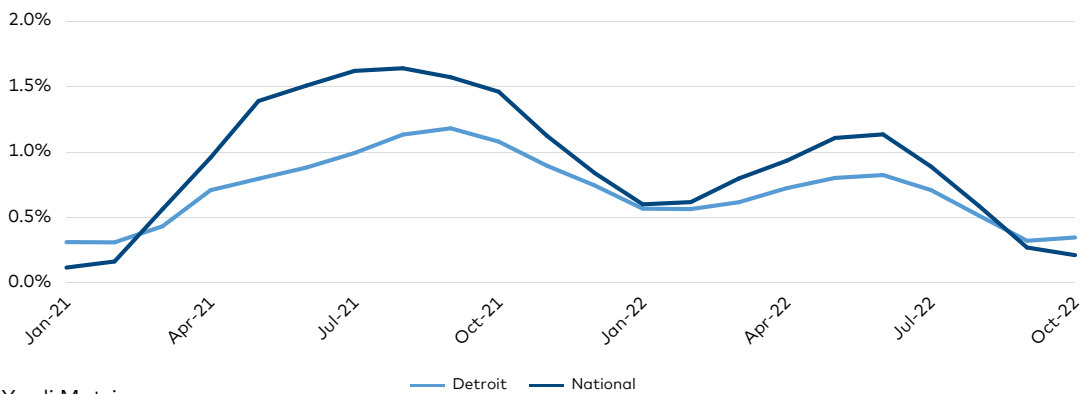
Source: Yardi Matrix

Detroit Rent Growth by Asset Class (Trailing 3 Months)
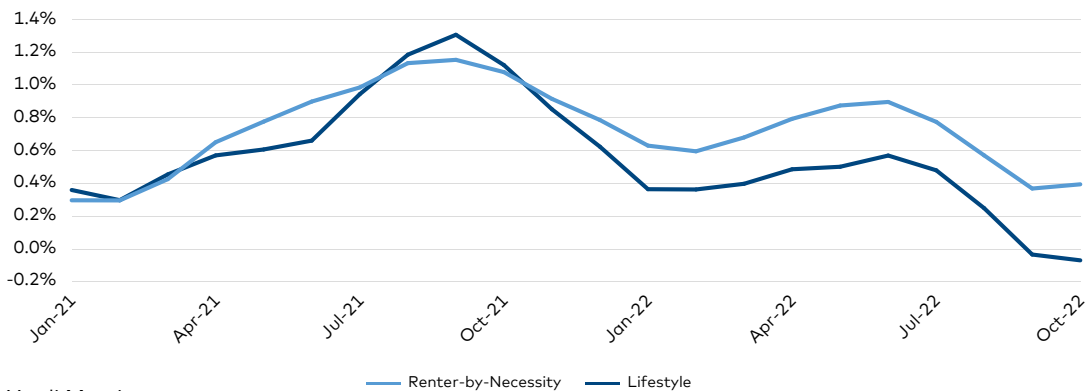
Source: Yardi Matrix

ECONOMIC SNAPSHOT

➤ Metro Detroit's unemployment rate reached 3.3% as of September, according to preliminary data from the Bureau of Labor Statistics, 20 basis points below the national average. The rate fell 180 basis points from January. The metro's rate was also 80 basis points lower than Michigan's.

➤ Detroit added 77,700 jobs in the 12 months ending in August, a 4.7% expansion and 40 basis points above the national figure. Job recovery was led by the leisure and hospitality sector, with 16,300 new jobs, or a 9.4% expansion. Detroit's main sectors followed: trade, transportation and utilities, and manufacturing, each grew by 16,000 positions, or 4.3% and 6.6%, respectively. No sectors recorded losses during the interval.

➤ Efforts are underway to revitalize underused land and old properties in the metro. Olympia Development and Related Cos. announced further details about the upcoming $1.5 billion District Detroit project, situated near Little Caesars Arena. Developers are planning 695 mixed-income units and 1.2 million square feet of office space, along with retail and hotel rooms. It is estimated that the project will generate $500 million in yearly revenue and support more than 6,000 jobs. Its also expected to create 12,000 construction jobs and generate $800 million in salaries.

Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	190	9.4%
30	Manufacturing	257	12.7%
40	Trade, Transportation and Utilities	384	19.0%
60	Professional and Business Services	400	19.8%
65	Education and Health Services	300	14.9%
90	Government	173	8.6%
80	Other Services	73	3.6%
55	Financial Activities	133	6.6%
15	Mining, Logging and Construction	84	4.2%
50	Information	28	1.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

➤ Like other major metros, Detroit lost residents between 2020 and 2021, with population contracting 0.5%. However, the metro still had 48,189 more residents than five years earlier, with population on a general upward trend.

Detroit vs. National Population

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

Source: U.S. Census

➤ Year-to-date through October, developers added 1,572 units to the market. That accounts for 0.7% of existing stock, 100 basis points below the national figure. Completions were on par with 2021's activity over the same period—1,529 units—and slightly below the 1,669 units recorded annually over the previous five years.

➤ As of October, Detroit had 4,218 units under construction. More than three-quarters of this new development was aimed at Lifestyle renters, while 15.3% were RBN units and only 5% were fully affordable. An additional 25,400 units were in the planning and permitting stages. Economic headwinds have contributed to construction starts declining dramatically from the previous year. Year-to-date through October, only two properties broke ground, comprising 415 units—over the same period in 2021, work was started on 10 properties, totaling 1,263 units.

➤ Core urban and northern suburban submarkets recorded the highest number of units under development. Detroit-Downtown had the most active developments, at 772 units, followed by Troy (514 units), Rochester Hills (479 units), Bloomfield Hills/Birmingham (430 units), Detroit-Midtown (425 units) and Clinton Township-West (366 units).

➤ The largest property completed this year was the 381-unit Montclair at Partridge Creek, in the Clinton Township-West submarket. Developer Moceri Cos. completed the project with the help of two separate construction loans of $15.2 million and $41 million, provided by PNC Bank. The company is currently developing a second phase, which will add an additional 250 units, slated for a 2024 completion.

Detroit Completions (as of October 2022)
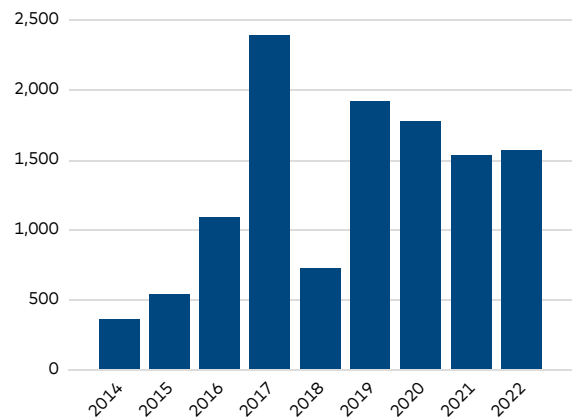
Source: Yardi Matrix

**Detroit vs. National Completions as a Percentage of Total Stock** (as of October 2022)
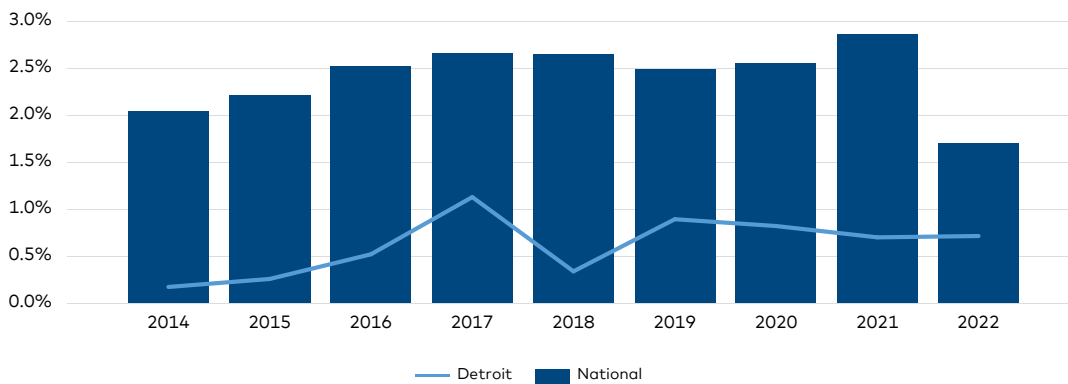
Source: Yardi Matrix

TRANSACTIONS

➤ Detroit's sales volume reached $727 million this year through October, up 64.5% over the same period last year. The amount is also 36.4% higher than 2021's entire annual volume. Investors have previously favored RBN properties, with this year following the same pattern—of the total 37 confirmed sales, 35 were in the quality segment.

➤ The average price per unit rose 1.4% since last year, to $137,875 as of October—36.2% below the U.S. average. For RBN properties, however, the price dropped by 0.3%, to $134,356.

➤ The largest sale of the year occurred in January—GSH Group purchased The Crossings at Canton, at 744-unit property in Canton, for $144 million, or $193,759 per unit. It was followed by another acquisition, totaling $103 million, in Farmington Hills. Upgrades are planned for both properties.

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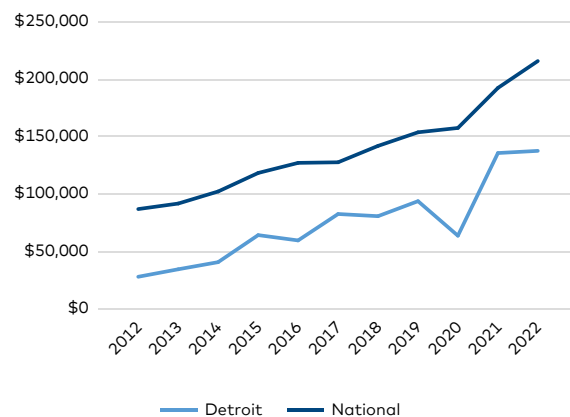

Source: Yardi Matrix

Number of Properties   Volume in Millions
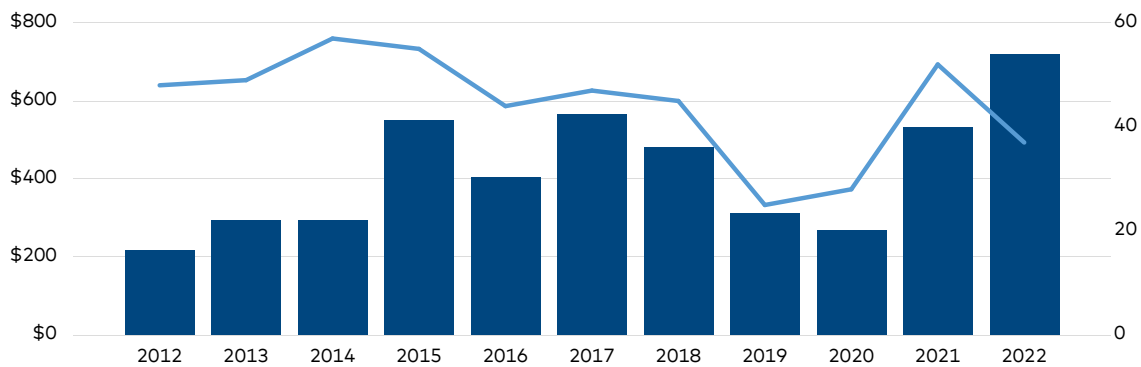
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Canton/Plymouth	$168
Southfield	$110
Farmington Hills/West Bloomfield	$109
Westland	$76
Royal Oak/Oak Park	$56
Auburn Hills	$38
Roseville	$36

Source: Yardi Matrix
[1] From November 2021 to October 2022

Detroit vs. National Sales Price per Unit

Detroit   National

Source: Yardi Matrix
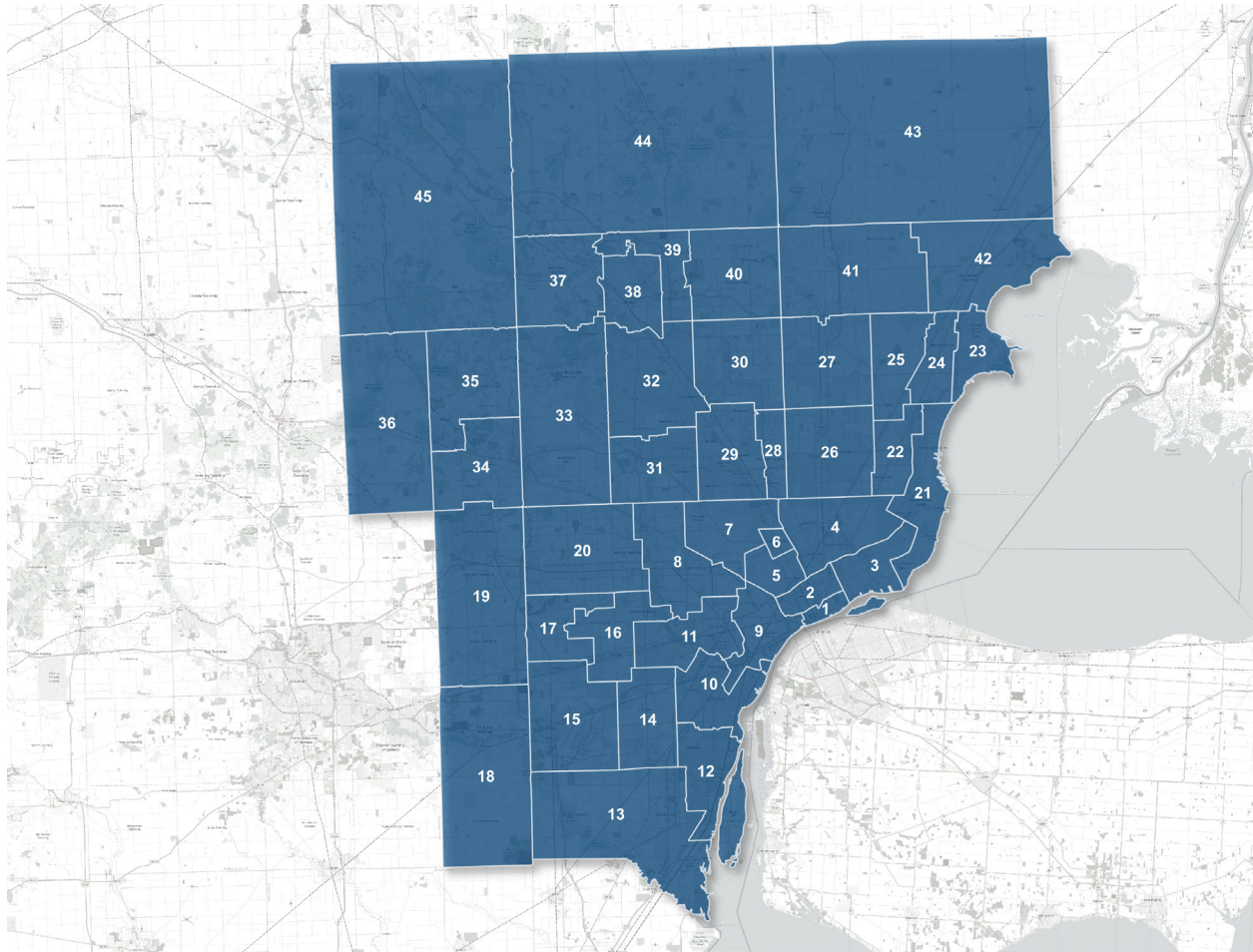
Area No.	Submarket
1	Detroit–Downtown
2	Detroit–Midtown
3	Detroit–East
4	Detroit–Northeast
5	Detroit–New Center
6	Highland Park
7	Detroit–North
8	Detroit–West
9	Detroit–South
10	Lincoln Park/Melvindale
11	Dearborn
12	Southgate/Riverview
13	Woodhaven/Brownstown
14	Taylor
15	Wayne/Romulus

Area No.	Submarket
16	Dearborn Heights/Inkster
17	Westland
18	Belleville
29	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.
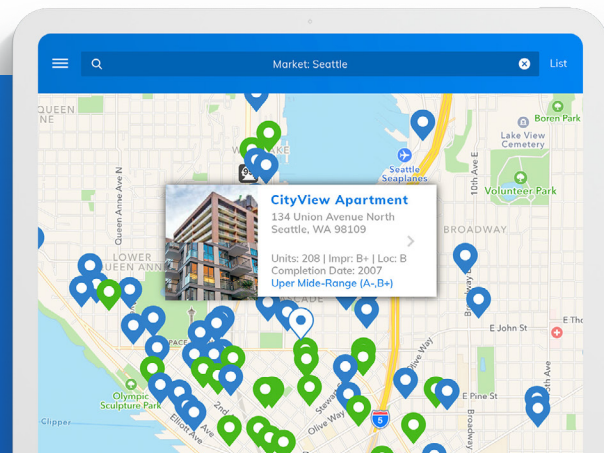
![Yardi Matrix logo]

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MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info

- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps

Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

CityView Apartment
134 Union Avenue North
Seattle, WA 98109

Units: 208 | Impr: B+ | Loc: B
Completion Date: 2007
Uper Mide-Range (A-,B+)

YARDI

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Learn more at yardimatrix.com/**multifamily**

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