Yardi Matrix

MULTIFAMILY REPORT

Detroit Looks Ahead

March 2023

Investment, Deliveries Mark New Highs

Rent Gains on Par With US

Construction Starts Lag

DETROIT MULTIFAMILY

Yardi Matrix

Slight Dips Across Rents, Occupancy

Detroit fundamentals are in recovery mode, as lingering inflation and recessionary fears build, but the city is poised to withstand a national economic slowdown. Pent-up demand for automobiles has helped revitalize the metro's local economy. Rent movement was on par with the U.S. rate, down 0.3% on a trailing three-month basis through January, to $1,222, well below the $1,701 U.S. figure. Occupancy remained above the 95% mark, despite a 1.0% dip in the 12 months ending in December.

Unemployment stood at 3.2% in December 2022, outperforming pre-pandemic levels and reflecting a relatively quick recovery. This placed Detroit below the 4.3% state and 3.5% U.S. averages. Employment expanded by 3.8%, or 50,700 jobs, in the 12 months ending in November, just 10 basis points below the national average. Since late 2021, the metro's rate has been on par with the U.S. figure. Trade, transportation and utilities—Detroit's second-largest sector—led gains, adding 14,400 positions. The ongoing recovery of the leisure and hospitality sector moved it into second place, with 9,700 jobs.

Just 68 units came online in January, and another 3,453 were underway. This followed the best year in deliveries, with solid volume despite a drop in construction starts. Investment also registered a record year in 2022, at $900 million, for an average price per unit that ticked down 2.4%, to $132,782.

Market Analysis | March 2023

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Recent Detroit Transactions

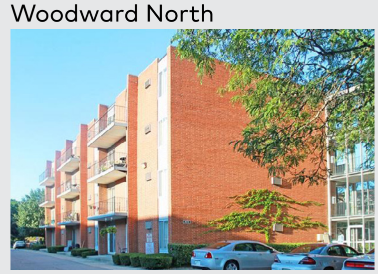
The Addison at Southfield

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

Park on Canal

City: Clinton Township, Mich.
Buyer: The Battery Group
Purchase Price: $54 MM
Price per Unit: $128,571

Woodward North



City: Royal Oak, Mich.
Buyer: TBG Funding
Purchase Price: $39 MM
Price per Unit: $189,744

The Harrison

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

RENT TRENDS

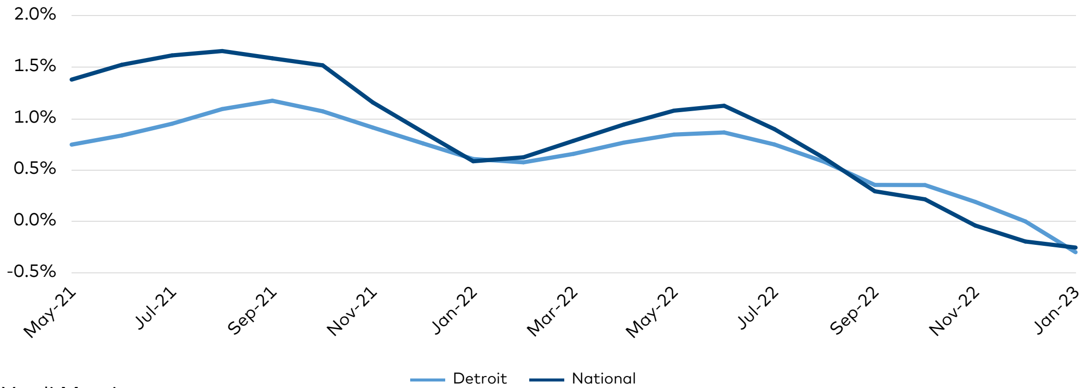
- Detroit rent movement was back on course with the national average—down 0.3% on a trailing three-month (T3) basis through January—following a brief four-month period ahead of the U.S. figure. Year-over-year, the metro's 4.8% rate in January trailed the 5.5% national figure. Still, at $1,222, Detroit remained among the more affordable markets in the U.S., and well below the $1,701 national rate.

- Lifestyle rents led the deceleration trend, down 0.5% on a T3 basis through January, to $1,816, while working-class Renter-by-Necessity rates declined 0.3% to $1,177. Meanwhile, the occupancy rate in stabilized properties painted a different picture—RBN occupancy dropped 100 basis points last year, to 95.7%, while the Lifestyle rate decreased only 50 basis points, to 95.4%. Overall, Detroit occupancy declined 100 basis points, to a still solid 95.7%.

- Annual rent growth was negative in two submarkets—Dearborn (-4.6% to $1,445) and Midtown Detroit (-0.6% to $1,330), while five other areas posted double-digit increases. In addition, the number of submarkets with average rents above the $1,000 mark rose from 30 last year to 35 in January. Bloomfield Hills/ Birmingham (7.1% to $1,638) and Novi (2.9% to $1,502) had the highest average asking prices.

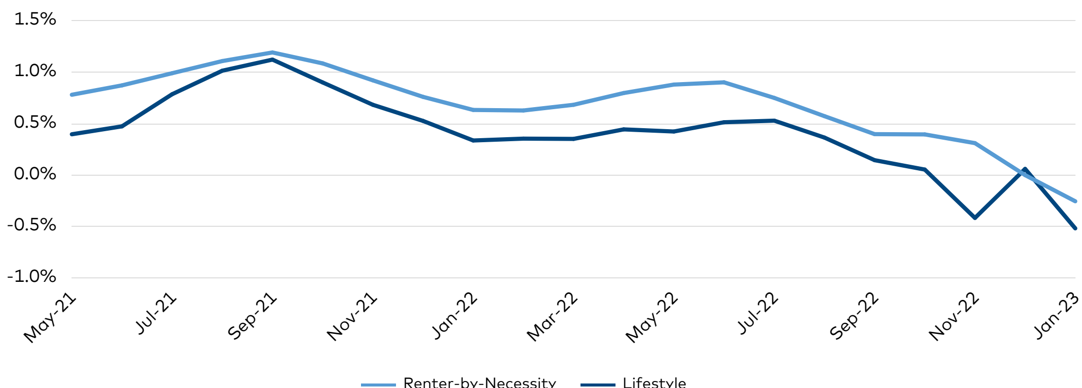
- The single-family rental market's performance mirrored multifamily, with rates contracting 1.3% year-over-year in January while occupancy remained almost unchanged, declining just 0.1% as of December.

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 3.2% in December, a good 160-basis-point improvement from January 2022 and below pre-pandemic levels, marking a significant accomplishment for the market. The metro outperformed both the Michigan (4.3%) and U.S. (3.5%) rates.
- Employment expansion has been nearly on par with the U.S. rate for more than a year, on a moderately decelerating trend. The metro gained 50,700 jobs in the 12 months ending in November, up 3.8%, and 10 basis points behind the U.S. figure. Trade, transportation and utilities led job gains, up by 14,400 jobs, followed by leisure and hospitality, which added 9,700 positions.
- By October 2021, Detroit's workforce had caught up to its pre-pandemic levels, but fluctuations made it difficult to maintain steady progress. However, several large-scale projects underway will help boost the local economy.
- One such project is Ford's renovation of the historic Michigan Central Station—built in 1913—slated for completion this year. The project's appeal grew when Google joined as a founding member, with plans to train and educate people in Detroit for the high-tech jobs of the future. Another upcoming large-scale development is Chemical Bank's new headquarters, which is expected to help revitalize the downtown area.

Detroit Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	394	19.3%
70	Leisure and Hospitality	179	8.8%
30	Manufacturing	257	12.6%
90	Government	192	9.4%
15	Mining, Logging and Construction	85	4.2%
60	Professional and Business Services	398	19.5%
55	Financial Activities	131	6.4%
65	Education and Health Services	303	14.9%
50	Information	29	1.4%
80	Other Services	71	3.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- After a substantial 1.5% population expansion in 2020, Detroit's magnetism cooled down, and the metro lost 20,543 residents in 2021, down 0.5%.
- Since the 2010 census, Detroit has expanded by 1.7%, a good sign but well below the U.S. average.

Detroit vs. National Population

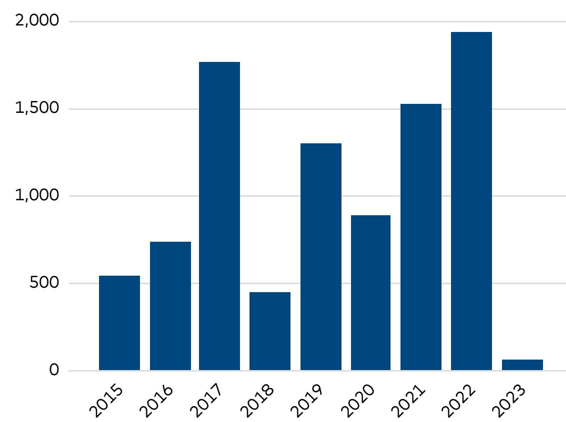
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Detroit	4,323,861	4,319,413	4,385,748	4,365,205

Source: U.S. Census

SUPPLY

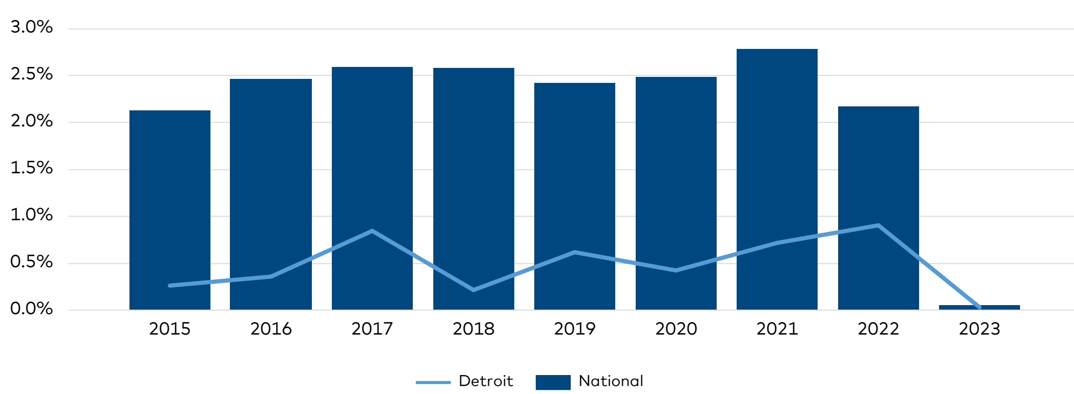
- A single, 68-unit property came online in January, following the metro's strongest year for deliveries. Last year, 1,946 units came online, the equivalent of 0.9% of existing stock. Although the rate is small, less than half the 2.2% U.S. figure, it is above the metro's 0.6% five-year average.
- As of January, the construction pipeline comprised 3,453 units underway and another 27,000 in the planning and permitting stages. Nearly 2,600 new units were slated for completion in 2023, but delays are expected. The metro's inventory expansion will continue to moderate, as only 674 units broke ground in the 12 months ending in January, down from 1,298 units the previous year.
- By asset class, developers were heavily focused on upscale Lifestyle projects, as these accounted for 96% of last year's deliveries. Meanwhile, the current pipeline consists of 71% Lifestyle projects and 29% Renter-by-Necessity properties.
- As of January, development activity was narrowed to just 10 of the 45 submarkets tracked by Yardi Matrix, with Downtown (772 units), Midtown (606 units) and Rochester Hills (479 units) leading by volume.
- The largest project under construction as of January was 24 at Bloomfield, a 430-unit property in Bloomfield Hills, owned by Edward Rose & Sons. This was also the submarket's only project under construction. Last year's largest property delivered was Uptown Square, a 383-unit community in Troy, owned by S.R. Jacobson Cos.

Detroit Completions (as of January 2023)



Source: Yardi Matrix

Detroit vs. National Completions as a Percentage of Total Stock (as of January 2023)

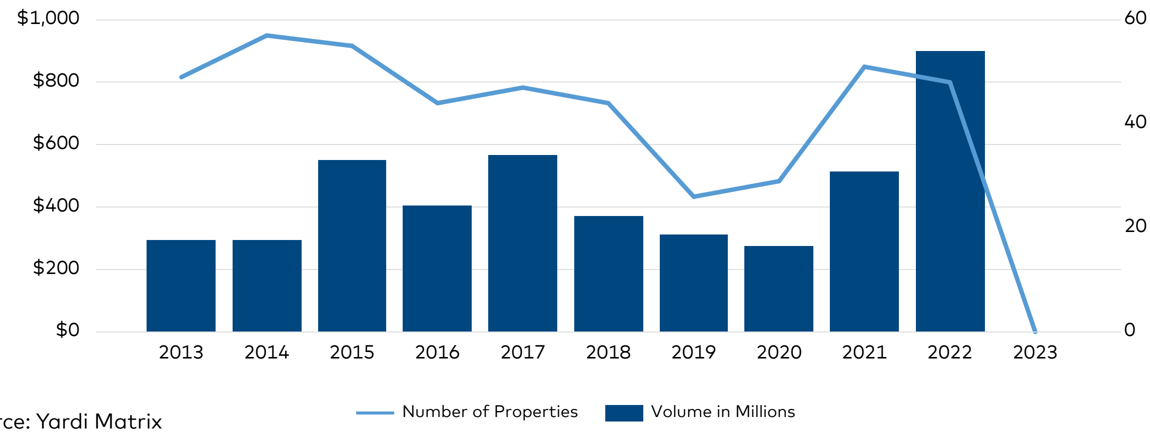


Source: Yardi Matrix

TRANSACTIONS

- Although January sales have not yet been confirmed, last year's investment volume marked an all-time high, at $900 million. That was a robust 70% increase from the second-highest volume of $565 million recorded in 2017.
- Value-add opportunities accounted for more than 90% of last year's transactions, which caused the average price per unit to inch down 2.4% year-over-year to $132,782 last year, well behind the $211,873 U.S. rate. Although the pandemic had initially slammed the per-unit price in the metro, down 33.2% year-over-year in 2020, the rate more than doubled during the past two years.
- The highest price per unit recorded in 2022 was for VennPoint Real Estate's acquisition of The Harrison in Royal Oak. Purchased from a private investor, the 75-unit asset sold for $336,267 per unit, with aid from a $19 million CMBS loan originated by Walker & Dunlop.

Detroit Sales Volume and Number of Properties Sold (as of January 2023)



Source: Yardi Matrix

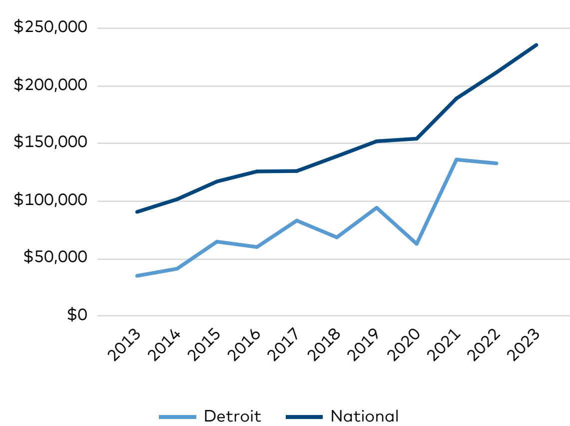
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Royal Oak/Oak Park	143
Southfield	131
Clinton Township - West	54
Auburn Hills	38
Troy	32
Roseville	31
Southgate/Riverview	28

Source: Yardi Matrix

[1] From February 2022 to January 2023

Detroit vs. National Sales Price per Unit



Source: Yardi Matrix

What's Shaping Multifamily Development in the Midwest

By Anda Rosu

Multifamily developers continue to be active in the Midwest, despite the uncertain economic environment. This doesn't mean that they don't have challenges to deal with, but the region's historic resilience and lower cost of doing business are pushing multifamily developers' projects forward. Milhaus Vice President of Development Brad Vogelsmeier weighed in on trends in the region and how the current volatility is impacting the Midwestern multifamily sector.

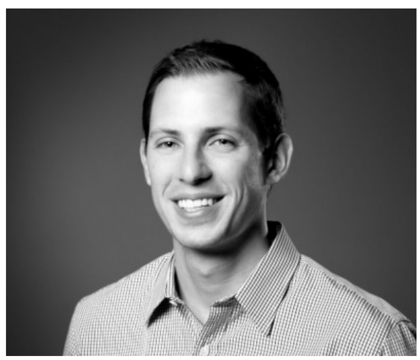
Are Midwestern markets more resilient in the face of adversity than markets in other regions of the country? Why?

Yes, Midwestern markets are generally more resilient, especially during periods of economic uncertainty. Unemployment tends to stay lower in secondary Midwestern markets compared to both the national average and larger gateway markets, which creates a lot more stability, including in the multifamily space.

The cost of doing business here is also more affordable, which plays a large part in driving both job and household growth. These items collectively make the Midwest an attractive place for new investment and development.

Are there any particular development trends you're seeing in the market?

The biggest trend in the last 12 to 24 months has been on densification, particularly in suburban locations. We're seeing this in a lot of Midwestern



markets that are capitalizing on more flexible remote work.

Please expand on the top challenges you're facing today as a multifamily developer in the Midwest.

Capital providers are more hesitant—people are worried about heading into a recession, if we're not in one already, and are looking at safer investment alternatives. This hesitancy, along with exorbitantly high construction costs, means a lot of projects aren't moving forward. With the country's undersupply of housing and the economic growth we are still seeing in many markets, we're working hard to navigate the current climate and find ways to get deals closed and under construction.

Would you like to add anything else about multifamily development in the Midwest?

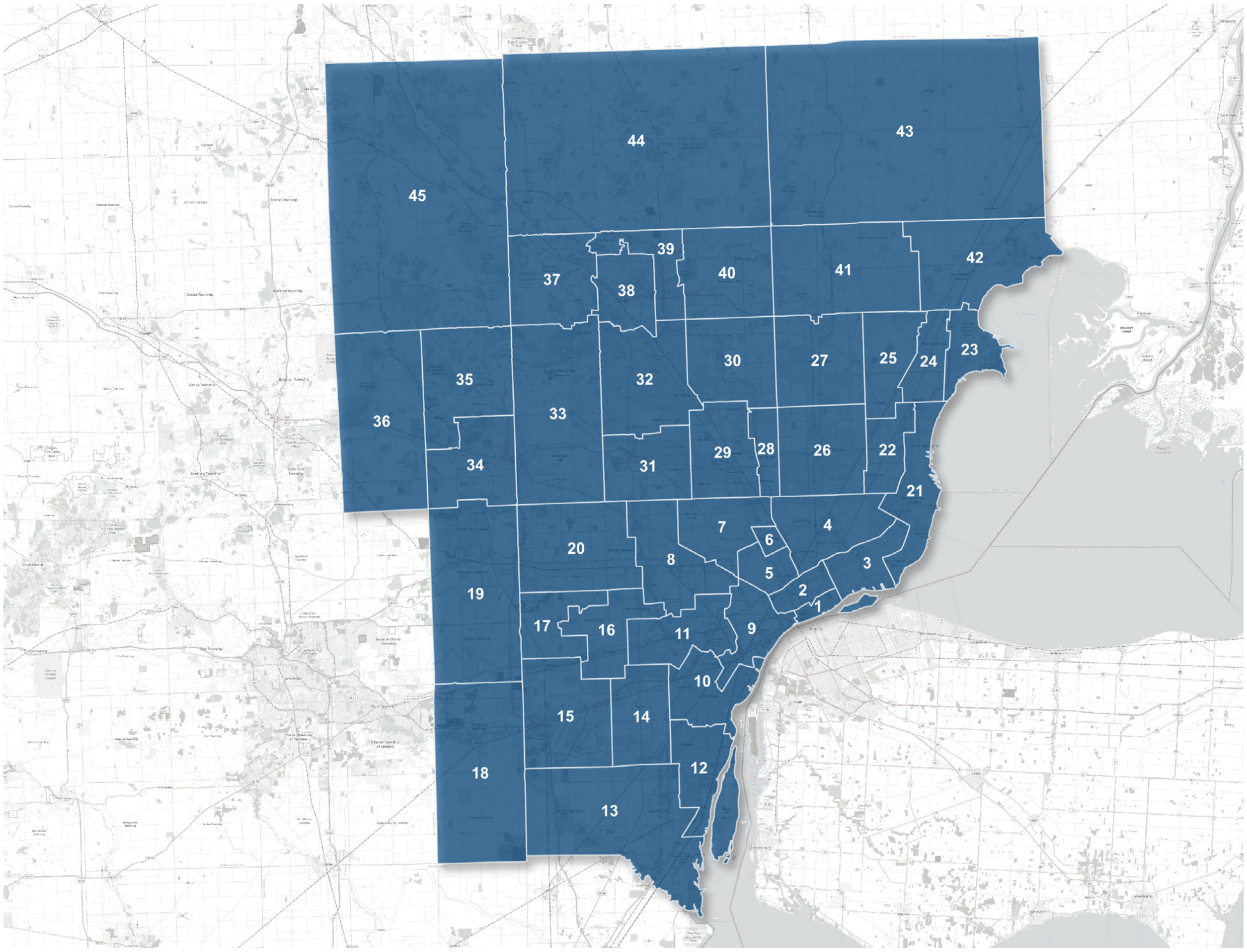
The Midwest has been successful because of our roll-up-your-sleeves attitude at all levels of development. Developers, municipalities, as well as public and private stakeholders alike think more creatively about development in the Midwest.

You don't find this in a lot of major gateway cities, and it's an important element of why these cities, and in turn Milhaus, have seen so much growth over the last decade.

In Midwestern cities, we have the mentality to keep moving forward despite economic uncertainty.

(Read the complete interview on multihousingnews.com.)

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
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

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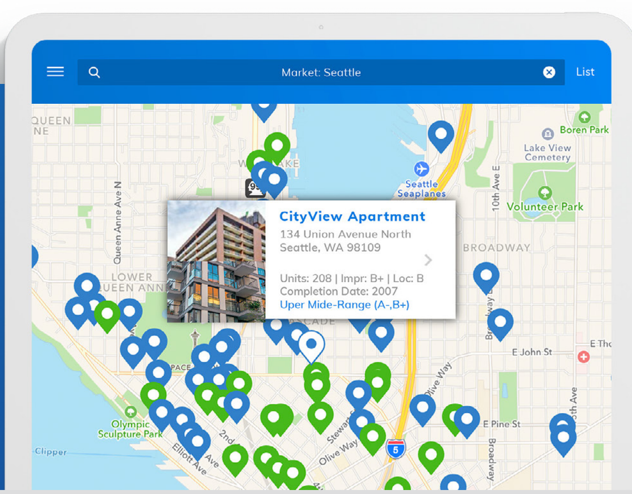
MULTIFAMILY KEY FEATURES

- 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.**

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