Detroit Puts Pedal To The Metal

Multifamily Report Winter 2018

Multifamily Investments Surge

Rent Growth Tops National Average

Downtown's Iconic Skyscrapers Reemerge

Yardi® Matrix

Full Throttle in Motor City

Detroit is well into its economic resurgence, attracting investors and young professionals, with the help of startups, technology companies and automotive giants that are exploring the trending mobility industry. Last year, multifamily transaction volume was 50% higher than in 2016, with suburban properties driving growth. The metro's construction boom has yet to impact rent growth, which stayed well above the national average.

The metro is adding jobs in office-using sectors such as professional and business services, which gained 13,400 positions in the 12 months ending in November 2017. Construction jobs were up 6.9% through the same interval, the highest rate among all employment sectors, due to a growing project pipeline. The opening or expansion of several manufacturing facilities in the metro will create even more blue-collar jobs. Flex-N-Gate will fill 400 positions this fall at its new $160 million facility in the city's I-94 Industrial Park, while Sakthi Automotive plans to add 200 jobs at its manufacturing and distribution facilities in southwest Detroit this year, once its $7 million expansion project is completed.

Downtown Detroit is in the midst of a revival, one skyscraper at a time. The projects will add to the metro's expanding housing stock and lead to a slowdown in rent growth. We expect a 3.0% rise in rents for 2018.

Recent Detroit Transactions

Park Place of Northville

City: Northville, Mich.
Buyer: JRK Property Holdings
Purchase Price: $127 MM
Price per Unit: $172,413

Sutton Place Apartments

City: Southfield, Mich.
Buyer: GoldOller Real Estate
Purchase Price: $59 MM
Price per Unit: $113,809

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

Rent Trends

- Rent growth in Detroit is robust—4.3% in the 12 months ending in January, 150 basis points above the national rate of 2.8%. Average rent increased to $955, trailing the national value of $1,362.

- Demand for well-located, amenity-rich apartments has led to a rise in rent values in the Lifestyle segment, up 5.6% to $1,575 as of January. Rents in the working-class Renter-by-Necessity segment rose by 4.2% to $912. With the large wave of new high-end apartments coming online, the gap between the two values is expected to shrink, although the current dynamic is opposite to the nationwide trend. The submarkets with the highest monthly rates are Dearborn ($1,328), Detroit–Downtown ($1,321), Bloomfield Hills/Birmingham ($1,284), Troy ($1,208) and Detroit–Midtown ($1,196). Dearborn, home of the Ford World Headquarters, is likely to maintain its top position as the automotive company is expanding its facility to relocate 600 employees to the area.

- The market is expected to remain healthy due to Detroit's broad-based, above-trend employment growth. With local authorities making efforts to improve quality of life with placemaking projects and with crime rates dropping to historic lows, the metro will continue to attract investors and young residents. However, the large number of units expected to come online should temper rent growth to an estimated 3.0% in 2018.

Detroit vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
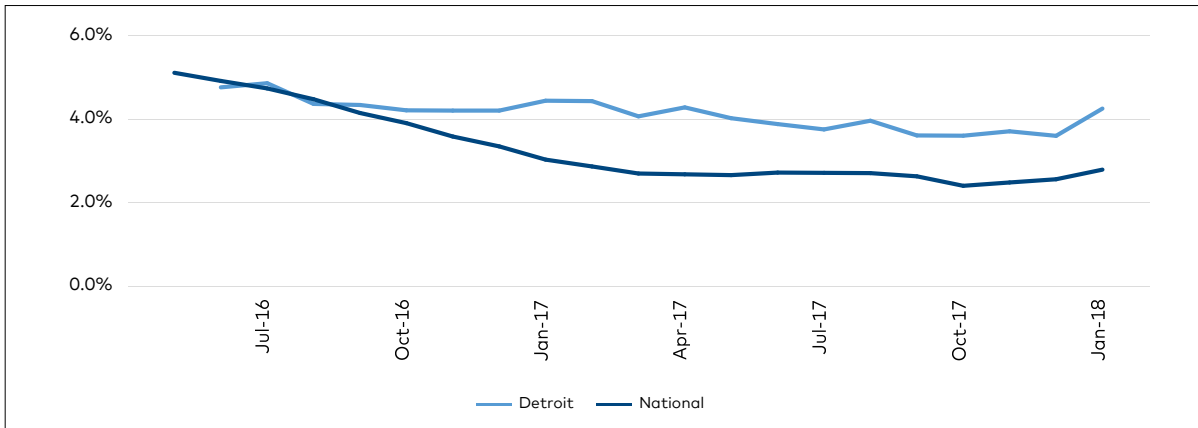
Source: YardiMatrix

**Detroit Rent Growth by Asset Class** (Sequential 3 Month, Year-Over-Year)
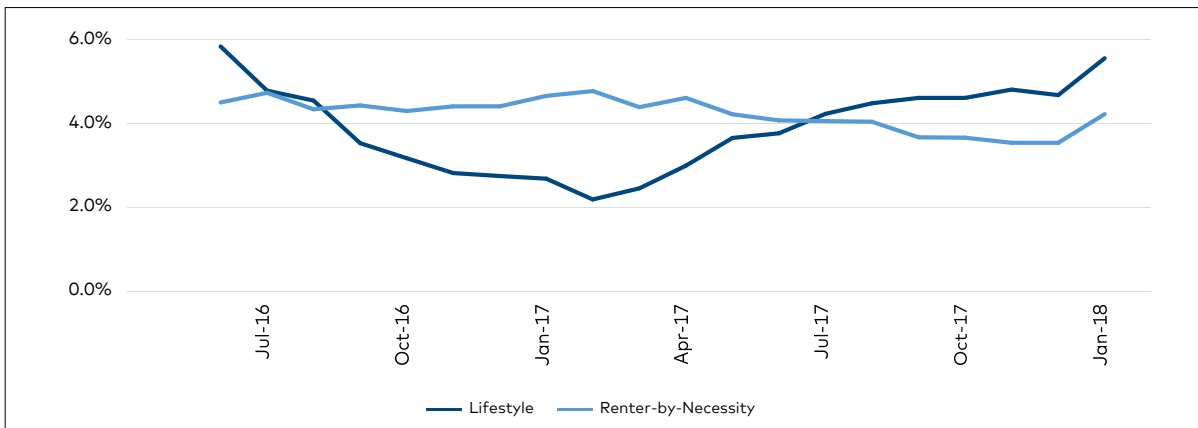
Source: YardiMatrix

Economic Snapshot

- Detroit added 34,400 jobs in the 12 months ending in November 2017, a 1.9% year-over-year growth rate, 10 basis points above the national average. Gains were led by professional and business services (13,400), education and health services (5,100) and construction (5,000). The latter has seen the most significant growth of all major sectors, a direct result of ballooning metro-wide development activity.

- Manufacturing added 2,300 jobs in the 12 months ending in November, but the metro's thriving industrial market should lead to more growth. Global auto supplier Flex-N-Gate announced more than 400 jobs at its $160 million facility, which is set to open this fall in the city's I-94 Industrial Park. Although a revival is finally occurring in the city's much-maligned automotive industry, the impact of recent tariffs placed on outside steel and aluminum may dampen growth for the sector, as some fear the moves will actually result in job losses.

- The metro's suburban office sector continues to show improvement, with significant investment activity. Beaumont Health purchased the 686,000-square-foot First Center building in Southfield, where it will occupy the available 360,000 square feet. Mortgage company United Shore is also expanding and relocating its headquarters from Troy to Pontiac, where it purchased the 600,000-square-foot Hewlett Packard Enterprise building.

Detroit vs. National Employment Growth (Year-Over-Year)
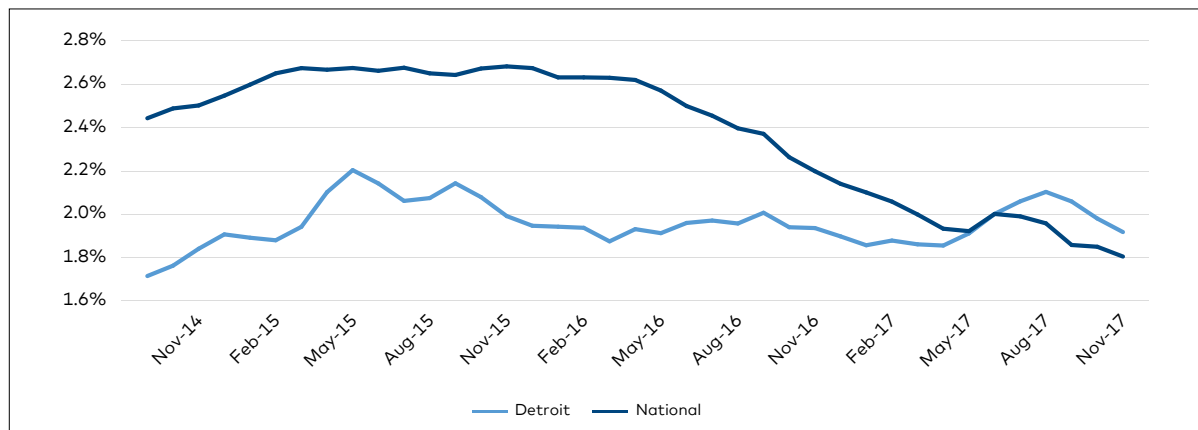
Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Detroit Employment Growth by Sector (Year-Over-Year)

| Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	411	20.2%	13,400	3.4%
65	Education and Health Services	318	15.6%	5,100	1.6%
15	Mining, Logging and Construction	77	3.8%	5,000	6.9%
40	Trade, Transportation and Utilities	375	18.4%	3,700	1.0%
70	Leisure and Hospitality	196	9.6%	2,600	1.3%
30	Manufacturing	249	12.2%	2,300	0.9%
55	Financial Activities	116	5.7%	1,700	1.5%
80	Other Services	77	3.8%	600	0.8%
50	Information	28	1.4%	-100	-0.4%
90	Government	192	9.4%	-300	-0.2%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

- Detroit's dynamic economy has maintained flat affordability rates throughout the last three years. Owning continues to be the less costly option, as the average mortgage accounts for 11% of the median income, while the average rent of $955 equates to 19%.

- The median home price in the metro continued to rise in 2017, though at a slower pace compared to previous years, reaching $147,441—the current cycle peak. The metro is also struggling with a dearth of affordable housing, which has determined the Detroit City Council to pass an ordinance requiring that residential developers who receive benefits from local authorities be mandated to offer 20% of their units to low-income renters.

Detroit Rent vs. Own Affordability as a Percentage of Income
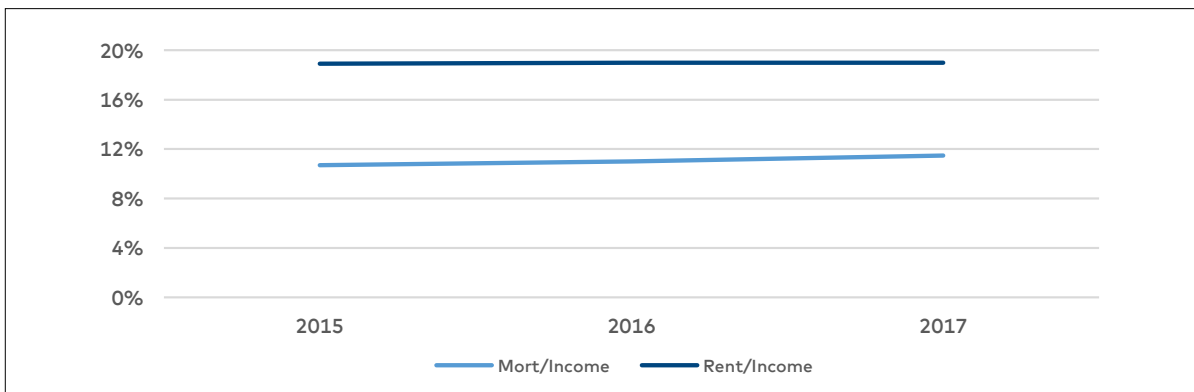
Sources: YardiMatrix, Moody's Analytics

Detroit Median Home Price
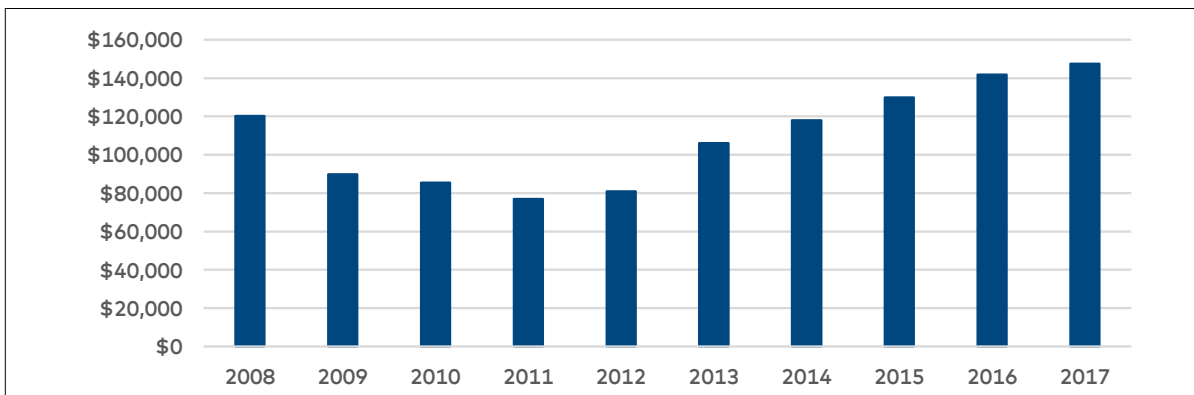
Source: Moody's Analytics

Population

- The metro's population remained virtually unchanged, adding just over 10,000 residents since 2011.

- With a growth rate of under 0.1%, Detroit trails 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

- More than 2,000 units were completed in 2017 in Detroit, almost triple the number of deliveries from 2016, about 1% of total stock. Multifamily development last year was considerably higher than the cycle average of less than 500 units per year.

- The wave of new supply is expected to grow further as roughly 3,100 units were under construction as of January, 900 of which are expected to come online by the end of 2018. Detroit's strong fundamentals led to a development boom, but supply outpaced demand, leading to a negative absorption rate at the end of 2017 (-149 units). Occupancy peaked at 97.0% in the summer of 2017, but dropped to 96.6% by December, following the national trend.

- Another 12,000 units were in various stages of development. Northern suburbs are preferred by developers, but the city's historic districts are also starting to see new projects. Roughly 600 apartments were underway in Detroit's New Center, the first new communities built here in the last three decades. Local developer Bedrock is working on modernizing the iconic Book Tower, the David Stott Building and the Detroit Free Press Building. All include a residential component.

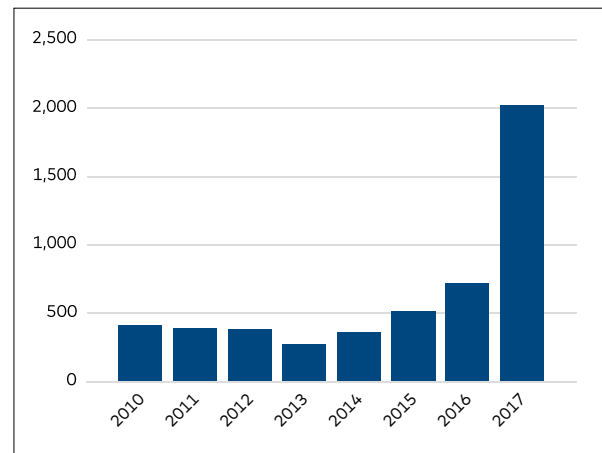**Detroit vs. National Completions as a Percentage of Total Stock** (as of January 2018)
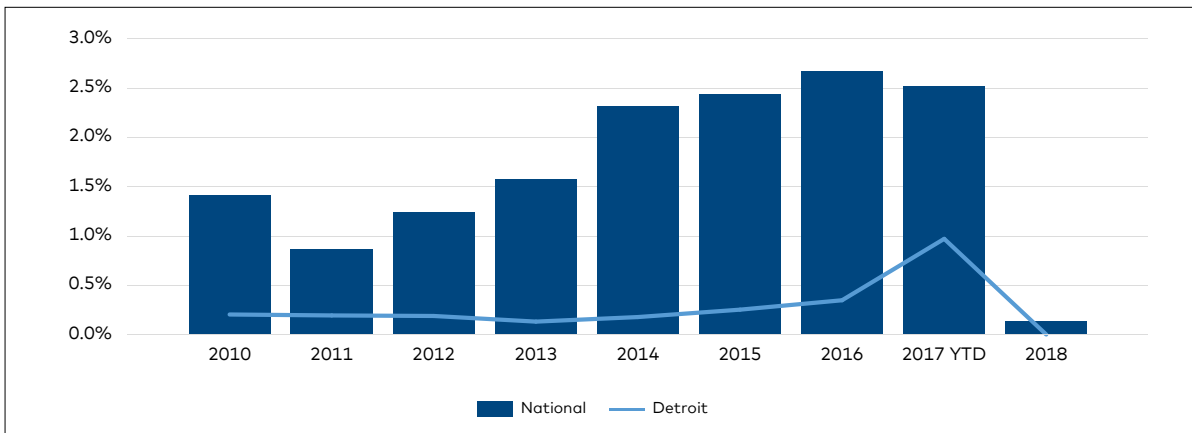
Source: YardiMatrix

Development Pipeline (as of January 2018)
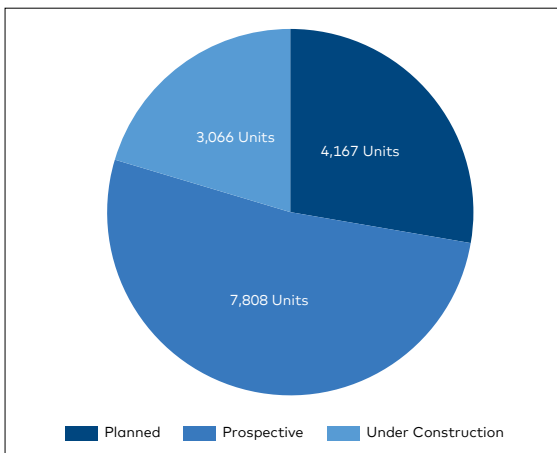
Source: YardiMatrix

**Detroit Completions** (as of January 2018)

Source: YardiMatrix

Transactions

- Following a sluggish 2016, Detroit's total transaction volume in 2017 increased by 50% to nearly $450 million, second only to the 2015 cycle peak ($560 million). Acquisition yields for stabilized properties were in the 7% range for Class A assets, and up to 10% for Class B/C properties. Rising yields are attracting extra interest from institutional investors.

- The price per unit peaked at $96,000 in 2017, the highest post-recession value, and a 50% surge compared to 2016. The per-unit price however continues to trail the national average of $138,166. Suburban Detroit was particularly attractive to investors looking for value-add deals in submarkets located between the city's core and startup hub Ann Arbor. Canton/Plymouth ($179 million), Farmington Hills/West Bloomfield ($103 million), Southfield ($78 million) and Livonia/Redford ($24 million) were the highest-performing submarkets last year. The sale of the 736-unit Park Place of Northville to JRK Property Holdings for $127 million ranks as the largest deal of 2017.

Detroit Sales Volume and Number of Properties Sold (as of January 2018)
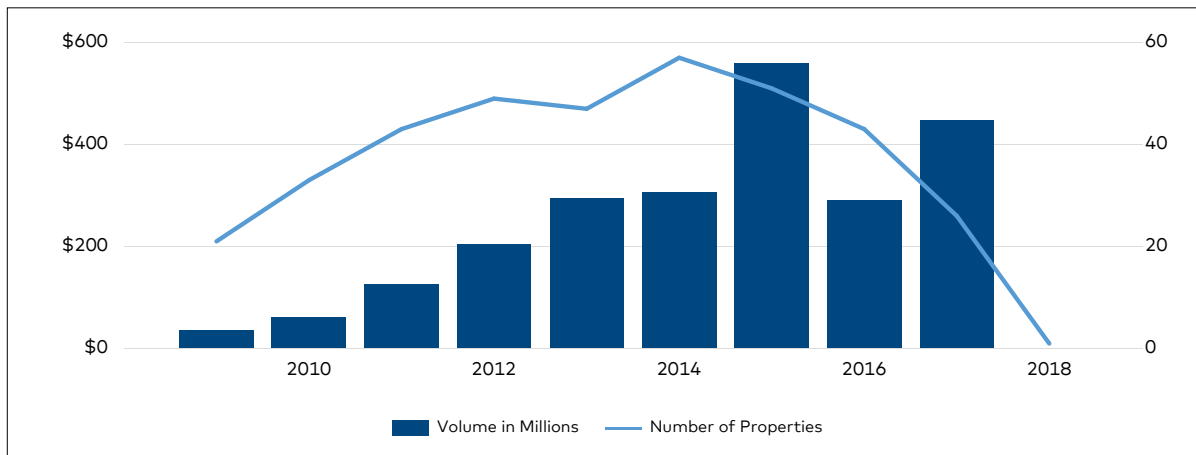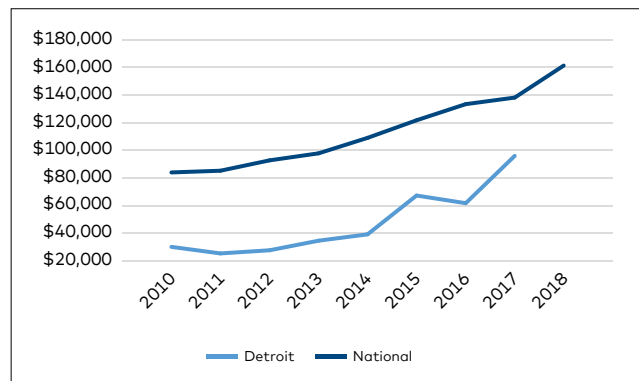

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Canton/Plymouth	179
Farmington Hills/West Bloomfield	103
Southfield	78
Livonia/Redford	24
Waterford	17
Shelby Township	14
Sterling Heights	10
Detroit-Midtown	9

Source: YardiMatrix
[1] From January 2017 to December 2017

Detroit vs. National Sales Price per Unit

Source: YardiMatrix

Read All About It!

Historic Lafayette Park's First Luxury Community in 40 Years

Criminal Justice Center, $1B Mixed-Use Coming to Detroit

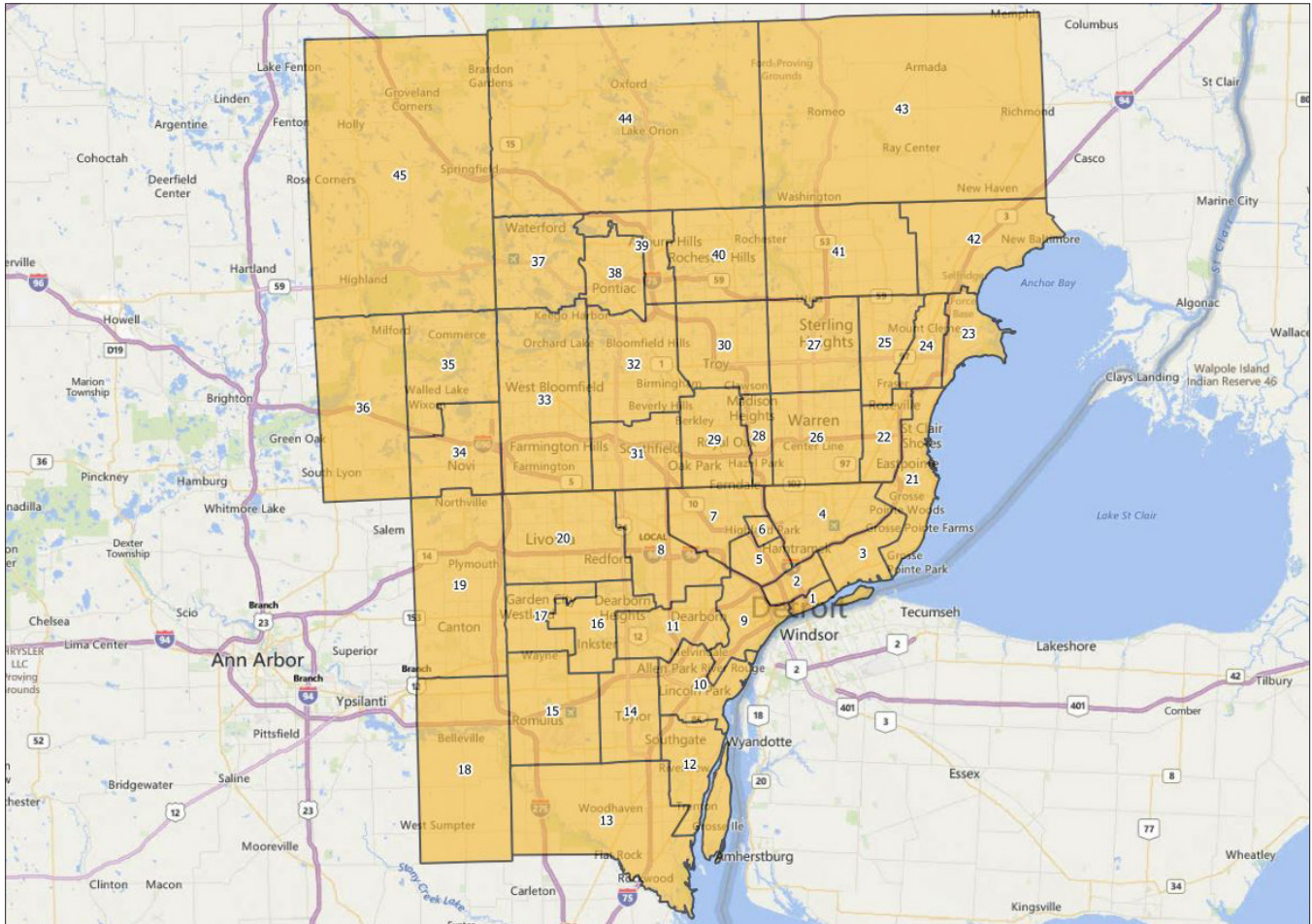**Meridian Arranges CMBS Loan For MI Luxury Property**

Bedrock to Redevelop Former Detroit Police HQ

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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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.