

Detroit Stays Solid

August 2023

Rent Growth Outpaces US

Completions Wind Down

Investment Stagnates

DETROIT MULTIFAMILY



Development Steadies Following Outside Growth

In the context of a projected mild recession and high interest rates, Detroit's multifamily performance was a mixed bag during the first half of the year. After some stagnation during the first quarter, rent development recovered to 0.5% on a trailing three-month basis through June, to an average of \$1,248. Growth was 10 basis points above the national rate. Economic uncertainty contributed to less movement and an 80-basis-point year-over-year drop in the nationwide occupancy rate in stabilized assets, to 95.0% as of June. In Detroit, the rate dropped 150 basis points, to 94.8%.

The metro's unemployment rate reached 3.6% as of May, according to preliminary data from the Bureau of Labor Statistics. In the 12-month period ending in April, Detroit added 13,900 jobs—a 1.3% expansion of the labor pool and 160 basis points behind the national rate. Education and health services led growth, with 10,600 jobs added, or a 3.5% expansion. Despite experiencing a slower rate of growth than what was recorded last year, Detroit's employment growth is expected to improve between 2023 and 2027, a study from the University of Michigan shows.

Development activity slowed down in the metro, as completions totaled 894 units during the first half of the year, down 33.6% year-over-year. A total of 3,885 units were under construction and an additional 27,000 units in the planning and permitting stages.

Market Analysis | August 2023

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Recent Detroit Transactions

Oak Park Manor

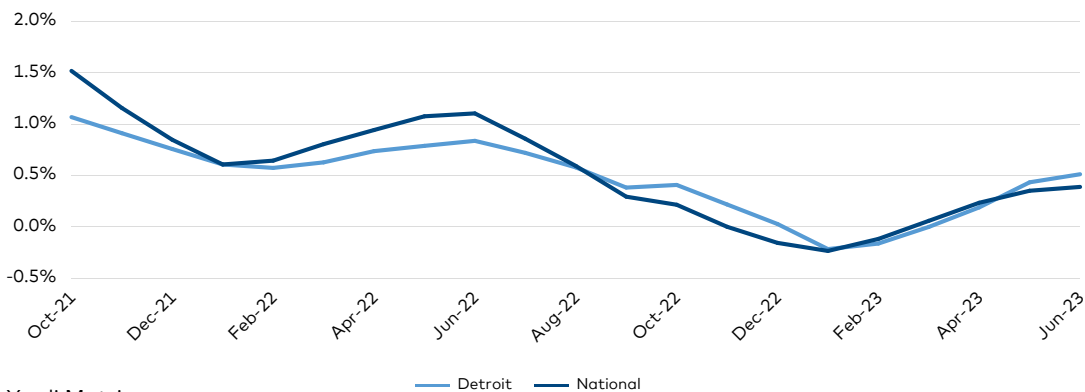


City: Oak Park
Buyer: Pepper Pike Capital
Partners
Purchase Price: \$47 MM
Price per Unit: \$159,132

RENT TRENDS

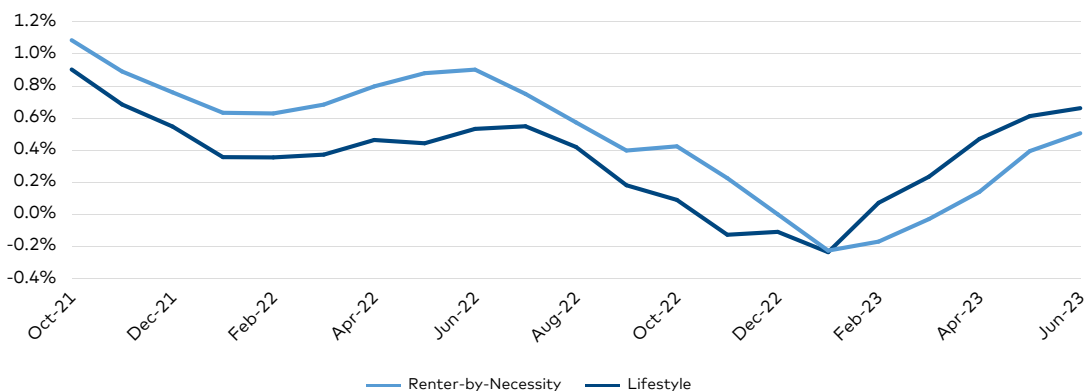
- ▶ Detroit rents were up 0.5% on a trailing three-month (T3) basis through June, 10 basis points higher than the U.S. rate. Rent development started to recover after a sluggish first quarter but was still behind the highest point of 2022 (0.8%). In June, T3 growth exceeded the national average for the first time in more than a year. On a year-over-year basis through June, Detroit rents were up 2.8%, 100 basis points higher than the U.S. rate. Yardi Matrix expects year-over-year rent development in Detroit to reach 2.9% by December.
- ▶ The metro's average rent stood at \$1,248, significantly below the national figure of \$1,726. Lifestyle figures were up 0.7%, to \$1,887, on a faster recovery track than the RBN segment—which was up 0.5%, to \$1,197.
- ▶ Overall occupancy for stabilized assets dropped 150 basis points year-over-year, to 94.8% as of June, in line with national trends. The U.S. rate dropped 80 basis points, to 95.0%. Both of Detroit's quality segments experienced a 150-basis-point contraction, with RBN occupancy at 94.8% and Lifestyle at 94.5%.
- ▶ Rent growth across Detroit's 45 submarkets was led by Holly/White Lake—up 28.4% year-over-year, to \$1,397 as of June—and Livonia/Redford—up 10.3%, to \$1,276. A few submarkets exceeded the \$1,000 mark for the first time, including Taylor (up 7.9%, to \$1,020), Warren (up 7.6%, to \$1,006) and Dearborn Heights/Inkster (up 3.5%, to \$1,011).

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 was 3.6% as of May—10 basis points lower than the U.S. rate—according to preliminary BLS data. The figure dropped 130 basis points from January and was 10 basis points below the state average.
- Over the 12-month period ending in April, Detroit added 13,900 jobs. This represented a 1.3% expansion of the labor pool year-over-year, 160 basis points below the U.S. rate. Job growth slowed down significantly from last year, when the metro's growth ranged from 2.7% to 5.2%.
- Gains were led by education and health services, with 10,600 new jobs, or a 3.5% expansion. Other sectors that saw significant growth were leisure and hospitality (up 5,000 jobs, or 2.9%) and government (up 3,900, or 2.1%). Some sectors recorded losses—financial activities lost 4,300 jobs (3.4%), followed by manufacturing, which lost 1,800 positions (0.7%).
- The city of Detroit is projected to grow despite the current nationwide economic challenges, a new study by the University of Michigan shows. Researchers expect employment in the city to grow annually between 2023 and 2027 and exceed pre-pandemic levels, with 2,200 to 2,700 new positions each year.

Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	311	15.5%
70	Leisure and Hospitality	179	8.9%
90	Government	190	9.5%
60	Professional and Business Services	400	19.9%
50	Information	30	1.5%
80	Other Services	72	3.6%
40	Trade, Transportation and Utilities	379	18.9%
15	Mining, Logging and Construction	80	4.0%
30	Manufacturing	244	12.1%
55	Financial Activities	123	6.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Although the metro lost some 20,000 residents in 2021, Detroit's population is still well above pre-pandemic levels. Despite some oscillation, a decade-long demographic growth arc is still underway.

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

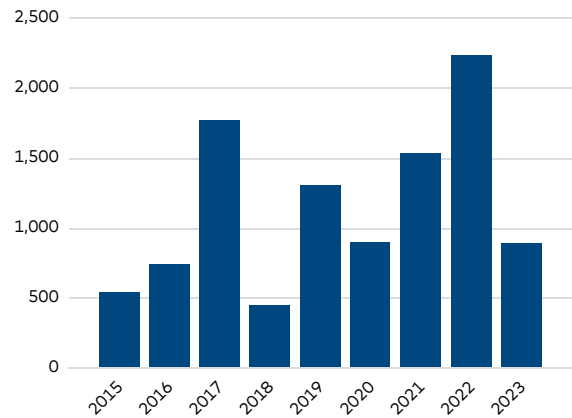
SUPPLY

- ▶ In the first half of the year, developers completed 894 units across four properties—down 33.6% from the deliveries recorded during the first half of 2022. Completions represented 0.4% of existing rental stock, 40 basis points behind the U.S. figure. Completions were on a downward trend following 2022's performance, when 2,242 units came online, a rebound from pandemic-induced slowdowns. On average, developers added 1,284 units to Detroit's rental stock annually over the past five years. Yardi Matrix expects completions to cross the 2,000-unit mark for the entire year.
- ▶ As of June, Detroit had 3,885 units under construction. More than two-thirds of these were in Lifestyle properties, while 5.5% were in fully affordable projects. An additional 27,000 units were in the planning and permitting stages.
- ▶ During the first half of the year, 838 units broke ground in the metro—on par with the 833 units that broke ground last year during the same period. After last year's outsize performance, development activity returned to pre-pandemic levels and is on track to remain steady.
- ▶ Central and Northern submarkets comprised a significant part of the development pipeline.

Downtown Detroit had the most units underway (1,188), followed by Rochester Hills (479), Royal Oak/Oak Park (431), Detroit-Midtown (390) and Detroit-New Center (306).

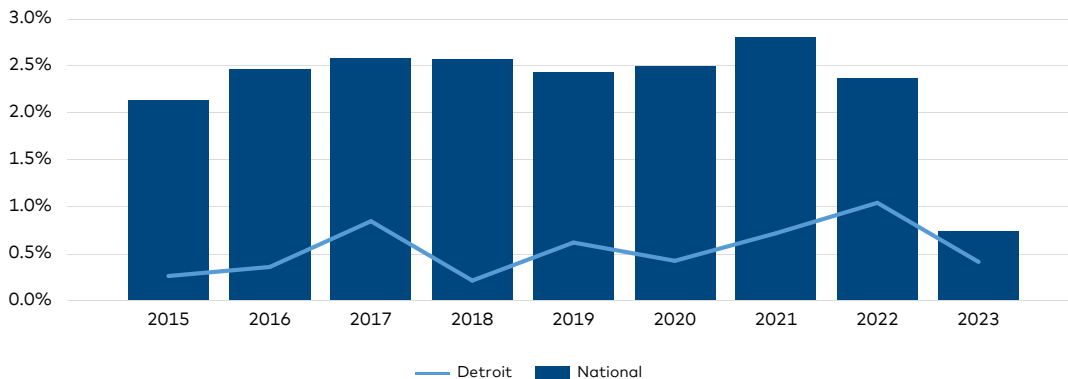
- ▶ The largest property under construction was in Downtown Detroit. Sterling Group is constructing the 496-unit The Residences at Water Square, which is expected to come online in 2024.

Detroit Completions (as of June 2023)



Source: Yardi Matrix

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

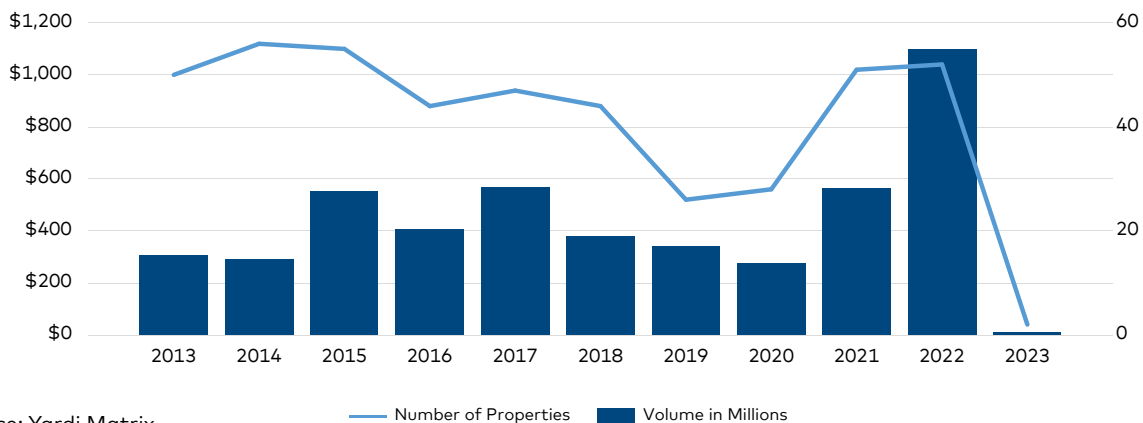


Source: Yardi Matrix

TRANSACTIONS

- ▶ Year-to-date through June, there were only two sales recorded involving properties of 50 units or more, amounting to \$8.3 million. The average price per unit this year was \$87,240, well below the \$182,694 national average. Investments in Detroit dropped significantly from last year, when the market saw a cycle-high in multifamily investment. Sales volume reached \$1.1 billion in 2022, well above the previous two years combined.
- ▶ In 2022, the average price per unit in Detroit reached \$138,836, a year-over-year uptick of 1.7%. The price per unit for Lifestyle assets increased 56.9% during that time, to \$336,266, while RBN properties recorded an uptick of 1.6%, to \$137,641.
- ▶ The largest sale recorded in the 12 months ending in June was the \$66.4 million acquisition of The Addison at Southfield by DRA Advisors from Bayshore Properties. Busey Bank provided a \$48 million loan.

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



Source: Yardi Matrix

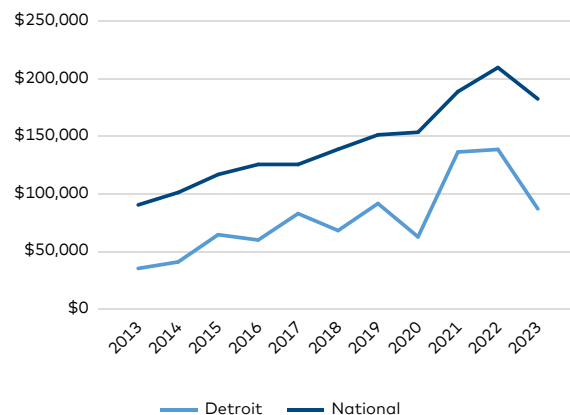
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Royal Oak/Oak Park	\$73
Southfield	\$66
Clinton Township-West	\$62
Warren	\$28
Westland	\$17
Madison Heights	\$15
Detroit-Downtown	\$10

Source: Yardi Matrix

¹ From July 2022 to June 2023

Detroit vs. National Sales Price per Unit



Source: Yardi Matrix

10 Most Affordable US Markets

By Anca Gagiuc

Before the health crisis, metros located farther from gateway cities offered more attainable rents. Then the work-from-home trend morphed into a new way of living. Eliminating daily commutes enabled people to re-design their lives and suddenly, housing affordability improved, as long as relocation was considered.

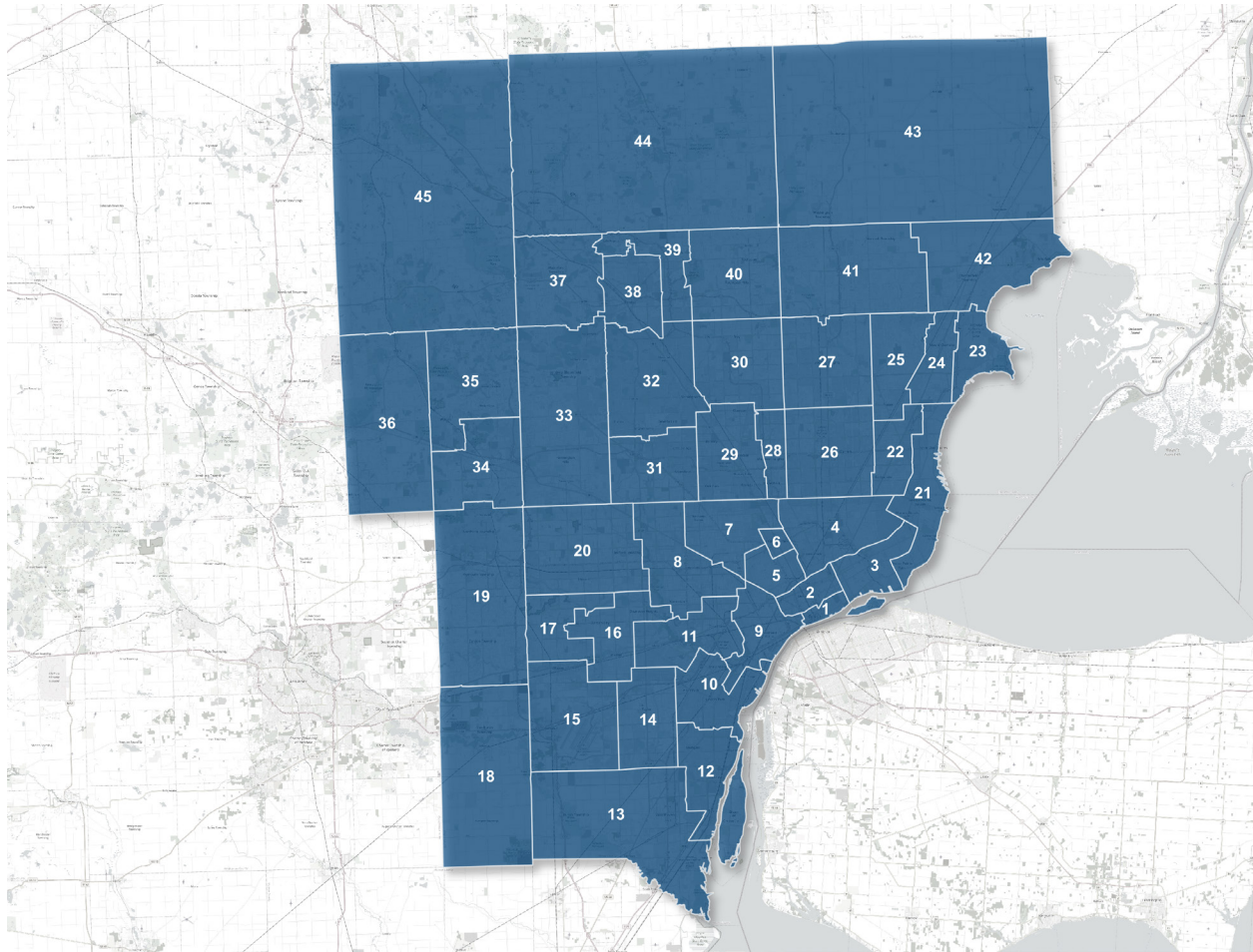
Rank	Metros	Average rent RBN Segment	Rent Growth T3% RBN	Rent Growth RBN % March 2022 vs March 2023
1	Kansas City	\$1,031	1.5%	8%
2	St. Louis	\$1,055	0.3%	5.9%
3	Houston	\$1,060	1.1%	5.4%
4	San Antonio	\$1,078	-0.2%	5.2%
5	Indianapolis	\$1,093	1.7%	9.1%
6	Columbus	\$1,143	1.6%	7.2%
7	Cincinnati	\$1,151	2.1%	8.8%
8	Albuquerque	\$1,157	-0.4%	8.2%
9	Detroit	\$1,179	-0.5%	3.3%
10	Pittsburgh	\$1,198	1.5%	6.3%

Detroit

Detroit remained among the most affordable multifamily rental markets, with the average RBN rent at \$1,179, down 0.5% on a T3 basis through April. On a year-over-year basis, rents in the metro rose just 3.3%, the lowest rate among the metros in this ranking. Rent payment accounted for 24% of the metro's median income, the third largest ratio among the markets in this ranking. Detroit's multifamily stock expanded by 68 units in 2023 through April, up 0.1%, the lowest expansion in this group.



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.

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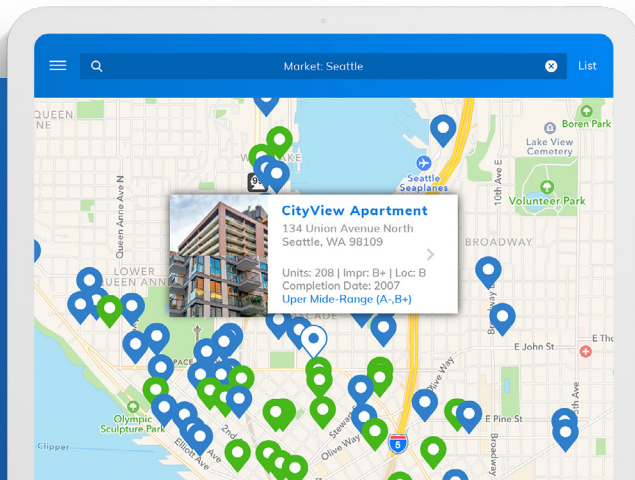
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