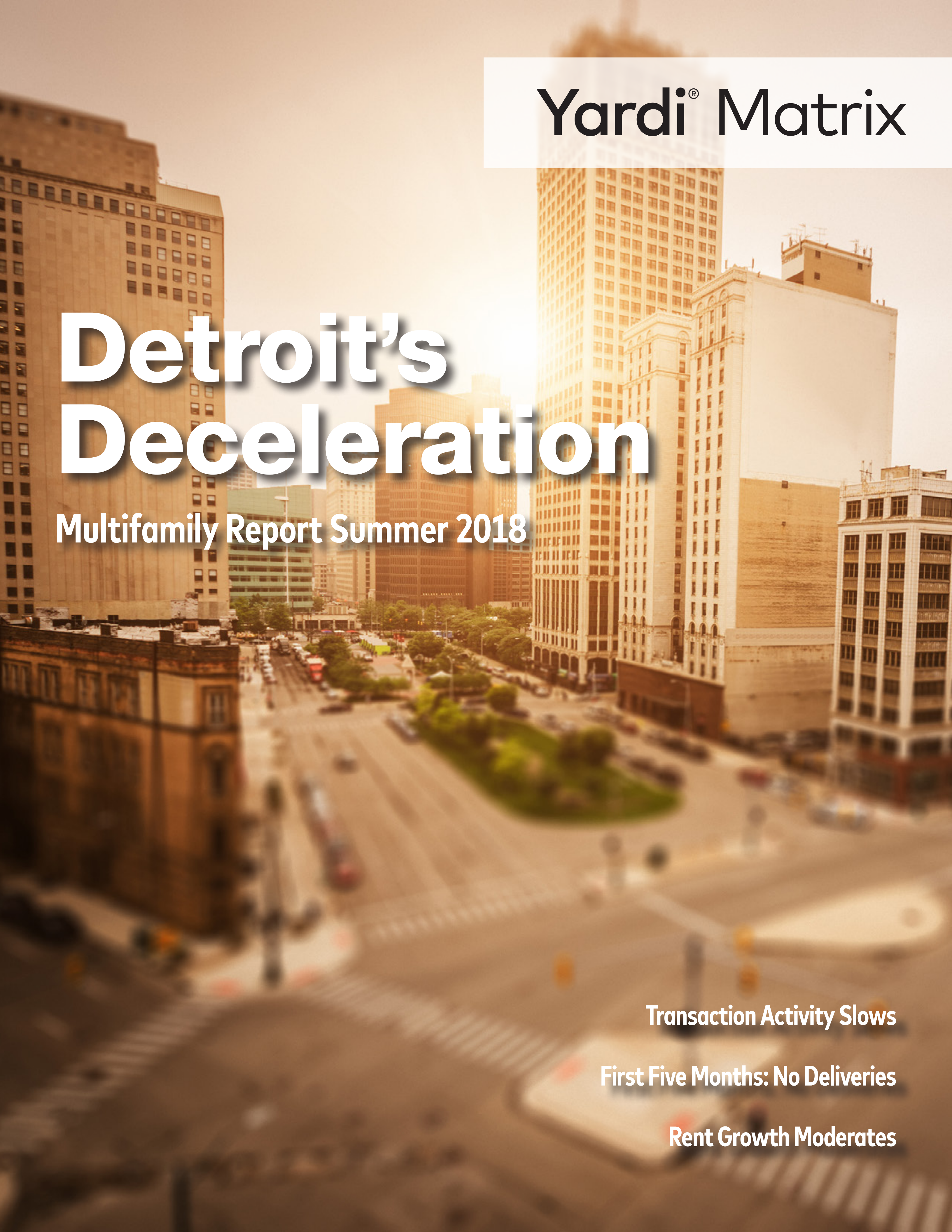


Yardi® Matrix

Detroit's Deceleration

Multifamily Report Summer 2018

Transaction Activity Slows

First Five Months: No Deliveries

Rent Growth Moderates

Market Analysis
Summer 2018

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

Record Supply Takes Its Toll

Detroit is moving forward with its transformation into a modern hub for mobility businesses and tech startups, despite a general slowdown in the process. Transaction volume decreased, as investors continue to look for Class B and C properties commanding higher returns. The high number of units completed in 2017 dampened demand. However, although rent growth moderated, it managed to stay above the national average.

The metro's largest employment sector—professional and business services—continued to add jobs (3,100), even though the largest gains were in leisure and hospitality (8,400). Some of the metro's largest employers announced further expansions: Ford started work at its new Corktown campus, which is slated to house 2,500 employees; after months of speculation, the company confirmed it had purchased the iconic 500,000-square-foot Michigan Central Station to serve this very purpose.

Downtown Detroit remains the most dynamic area for development. Historic structures such as the Albert Kahn Building—formerly an office property—and Park Avenue Building will be converted to residential use, which is expected to add roughly 300 apartments to the market. With no new supply to start the year and relatively steady demand, rent growth should remain fairly strong, finishing 2018 at around 3.0%.

Recent Detroit Transactions

Fairlane Town Center

City: Dearborn, Mich.
Buyer: Forum Real Estate Group
Purchase Price: $41 MM
Price per Unit: $206,400

Sutton Place Apartments

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

The Jeffersonian

City: Detroit
Buyer: Barbat Holdings
Purchase Price: $54 MM
Price per Unit: $131,548

The Retreat at Farmington Hills

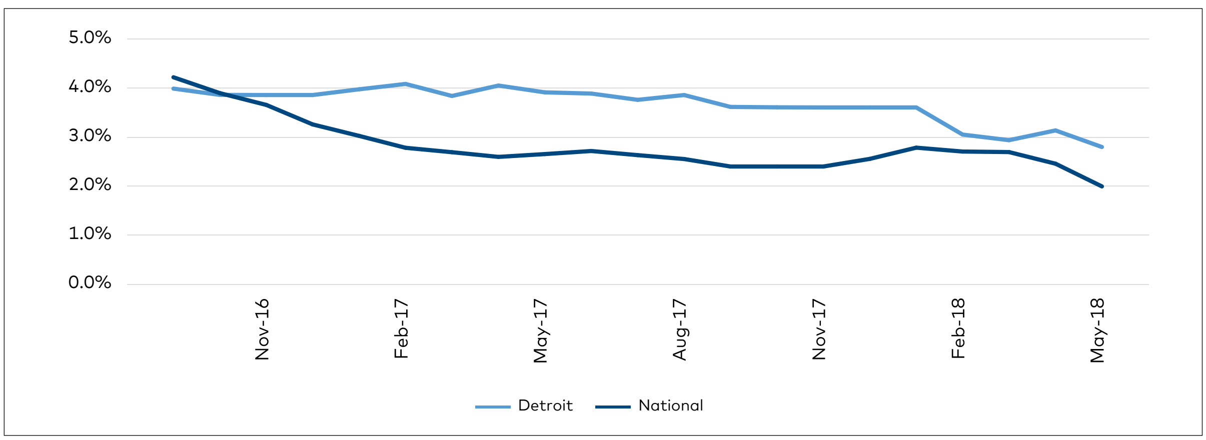
City: Farmington Hills, Mich.
Buyer: APM Management
Purchase Price: $51 MM
Price per Unit: $119,497

On the cover: Photo by franckreporter/iStockphoto.com

Rent Trends

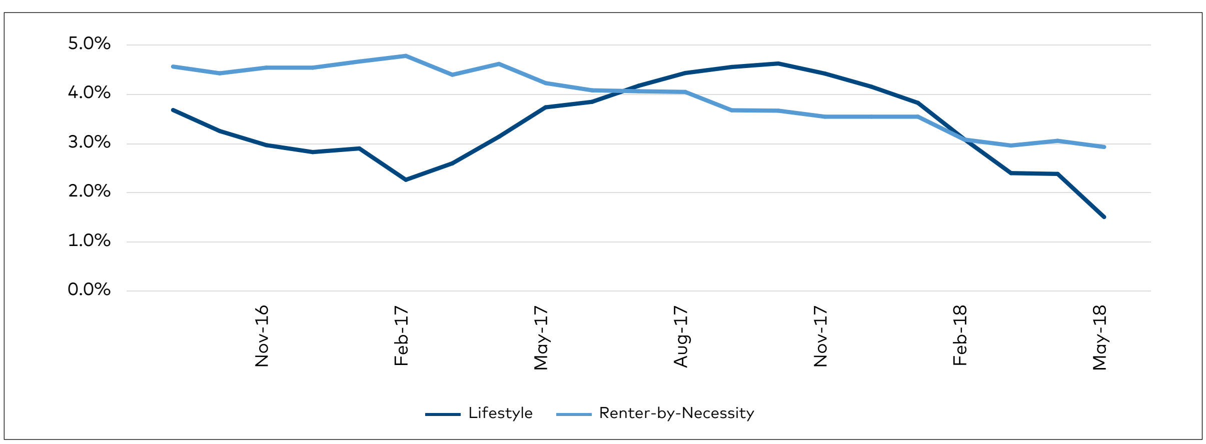
- Detroit rents rose 2.8% year-over-year through May, 80 basis points above the national rate. The average monthly rent reached $956, trailing the $1,381 national value.
- Gains were led by the working-class Renter-by-Necessity segment, with rents up 2.9% through May, reaching $914. As units coming online over the past few years are almost exclusively high-end, rent growth for Lifestyle units moderated to 1.5% for a $1,551 average.
- The Detroit submarkets with the highest monthly rates are Dearborn ($1,359), Bloomfield Hills/ Birmingham ($1,317), Detroit-Downtown ($1,294), Detroit-Midtown ($1,223) and Troy ($1,190). The highest rent growth in the 12 months ending in May was in Detroit-East, where rates surged 16.7% to $1,074.
- Despite the recent rent growth contraction, the market is expected to remain healthy, as the metro is becoming more and more attractive for young professionals. As Detroit continues to see fast-paced development, particularly in core areas where demand is up due to the relocation of major employers from the suburbs, supply and demand are bound to remain in balance. We expect rents to improve 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)

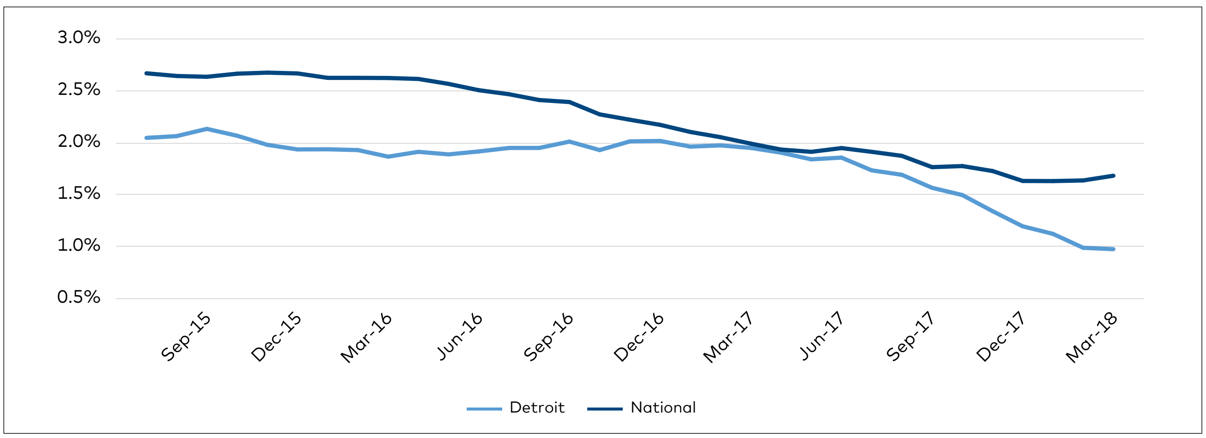


Source: YardiMatrix

Economic Snapshot

- Detroit added 25,300 jobs in the 12 months ending in March for a 1.0% expansion, trailing the 1.7% national average. Gains slowed down significantly compared to the first quarter of 2017, when the metro's growth rate was 100 basis points higher.
- Leisure and hospitality (8,400 jobs) led gains, followed by trade, transportation and utilities (4,900), construction (4,600) and professional and business services (3,100). Detroit continues its focus shift from the traditional automotive industry to a more diversified economy. Meanwhile, the city is moving forward with solving some of its issues: The Detroit Mobility Innovation Initiative, launched in May, reunites local authorities, nonprofits and private investors looking to implement several mobility solutions serving residents, visitors and employers. These include a car-sharing program and a traffic management system, with the first pilot program to be launched by the end of the year.
- The office market continues to perform well, as the metro's largest employment sector—professional and business services—is seeing sustained growth. Ford moved more than 200 employees of its autonomous and electric vehicles business into the newly refurbished The Factory in Corktown. The company also purchased the iconic 18-story Michigan Central Station. Both assets will be included in what is expected to be the 1.2 million-square-foot Ford Corktown campus, set to house 2,500 employees.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
70	Leisure and Hospitality	201	10.0%	8,400	4.4%
40	Trade, Transportation and Utilities	368	18.4%	4,900	1.3%
15	Mining, Logging and Construction	69	3.4%	4,600	7.1%
60	Professional and Business Services	392	19.6%	3,100	0.8%
30	Manufacturing	253	12.6%	1,600	0.6%
90	Government	189	9.4%	1,300	0.7%
55	Financial Activities	115	5.7%	900	0.8%
80	Other Services	76	3.8%	500	0.7%
65	Education and Health Services	312	15.6%	-900	-0.3%
50	Information	27	1.3%	-1,000	-3.6%

Sources: YardiMatrix, Bureau of Labor Statistics

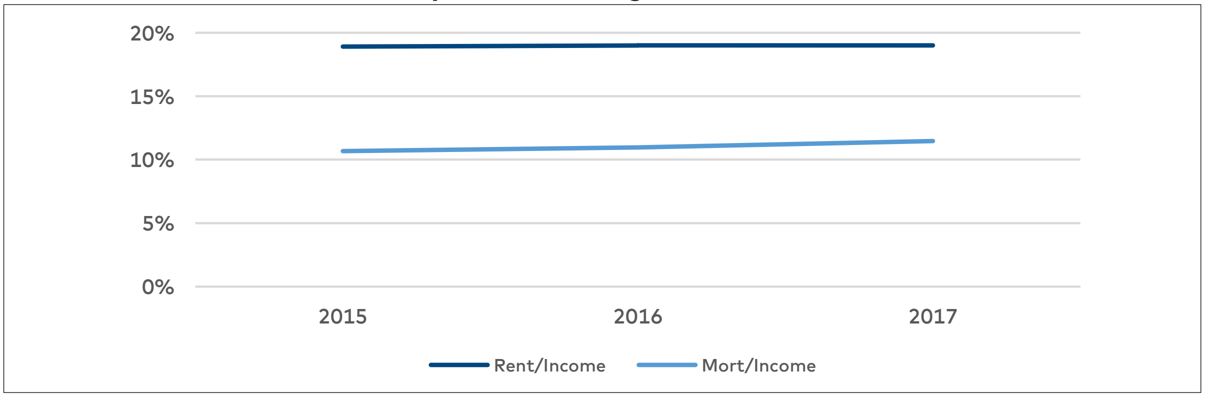
Demographics

Affordability

- Detroit's median home value continued its post-recession growth and reached its highest level in a decade—$147,158—up just 4% for the year, but 81% since 2012, when the market bottomed out. Owning remains more affordable than renting, with the average mortgage payment comprising 11% of the median income, compared to 19% in the case of the average rent.

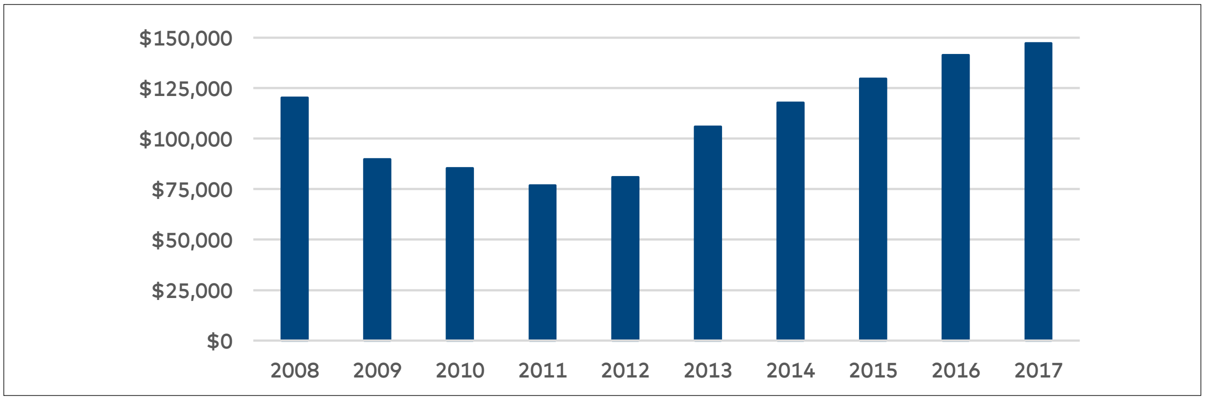
- Local authorities are trying to meet growing affordable housing demand. The city of Detroit will start a $250 million fund to finance the preservation of 10,000 low-income apartments and the building of 2,000 more.

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 gained more than 17,000 residents since 2012.
- Detroit added more than 7,000 people in 2017 for a 0.2% expansion. Although still a tepid rate, it marks the most significant rise over the past seven years.

Detroit vs. National Population

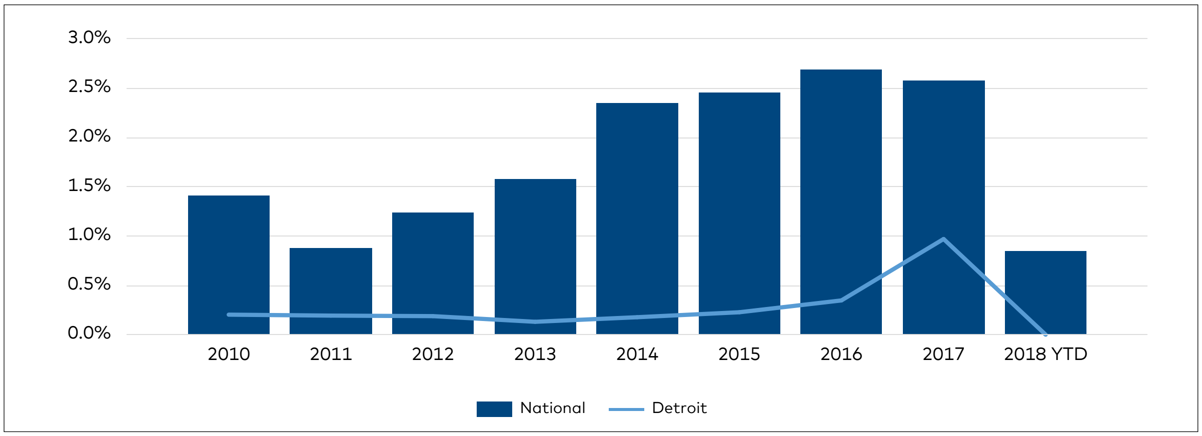
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Detroit Metro	4,298,541	4,303,366	4,302,282	4,305,869	4,313,002

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

Supply

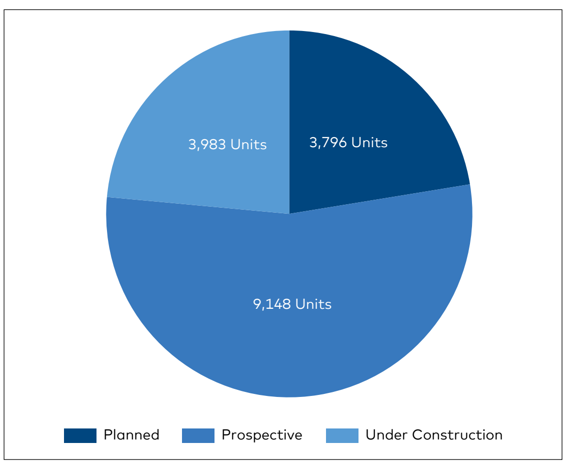
- After more than 2,000 units were completed last year—a strong cycle high and a 180% jump over 2016—development in Detroit is off to a rough start in 2018, with no deliveries in the first five months. However, nearly 4,000 apartments are under construction and more than 1,500 units are expected to come online by the end of the year.
- Supply slightly exceeded demand, leading to negative absorption (-311 units for the 12 months ending in April). Occupancy dropped almost 100 basis points year-over-year through April, to 96.0%.
- Including planned and prospective projects, roughly 17,000 units are in various stages of development in Detroit. Most of the new housing options will be located in downtown Detroit, following the conversion or replacement of several historic buildings. The 288-unit City Club, the largest project underway in the metro core, is replacing the 13-story Statler Hotel, demolished more than a decade ago. The Albert Kahn Building in New Center and the Park Avenue Building have changed ownership recently. Both historic structures are set for conversion to residential use, adding a total of 300 apartments, as well as office and retail space on the ground-level and first floors.

Detroit vs. National Completions as a Percentage of Total Stock (as of May 2018)



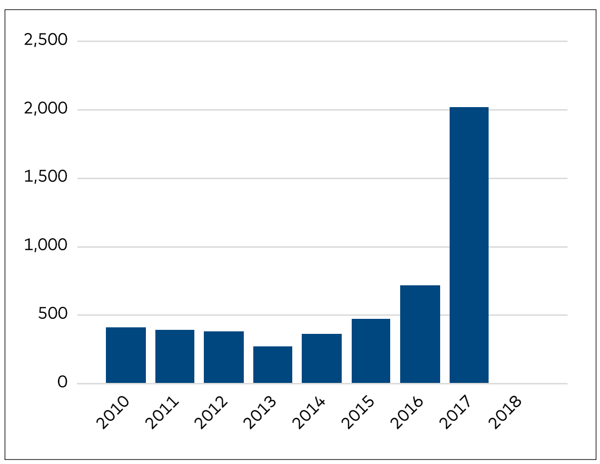
Source: YardiMatrix

Development Pipeline (as of May 2018)



Source: YardiMatrix

Detroit Completions (as of May 2018)

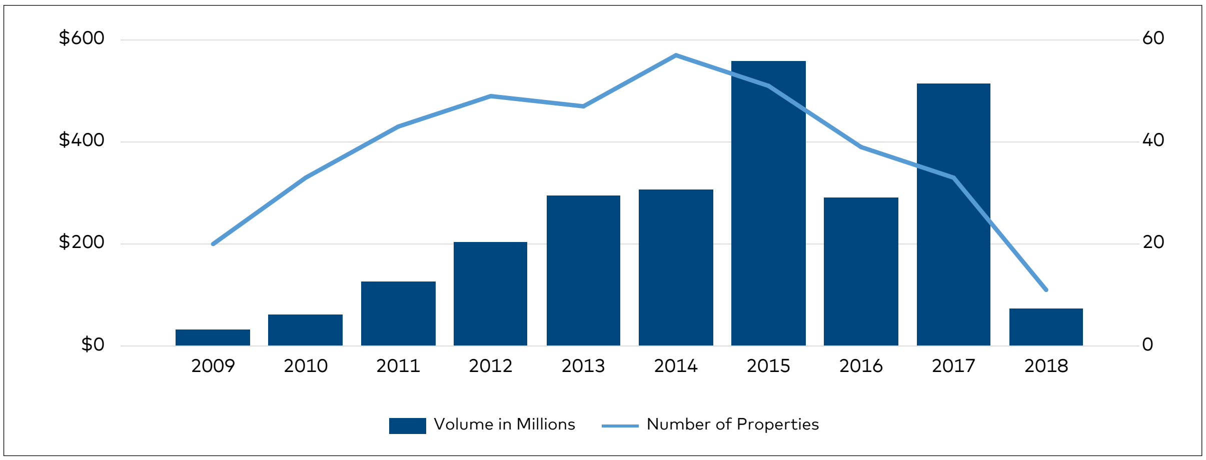


Source: YardiMatrix

Transactions

- Investor appetite decreased in the metro, with transaction volume in the first four months of 2018 totaling just $74 million. In 2017, $514 million in multifamily properties changed hands, second only to the 2015 cycle high. Nonetheless, per-unit prices surged to $108,871, a post-recession record, up 12% for the year and four times the 2010 figure. The Midwestern market continues to attract out-of-state investors looking for high returns. Acquisition yields for stabilized properties are in the 7.0% range for Class A communities and up to 10.0% for Class B and C properties.
- The largest deal of 2018 has been the $41 million acquisition of Fairlane Town Center in Dearborn by Forum Real Estate Group. The property's value increased 27% since it last changed hands, in 2015. The transaction also set the record for highest per-unit price for the 12 months ending in April—$206,400, almost double the metro average.

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



Source: YardiMatrix

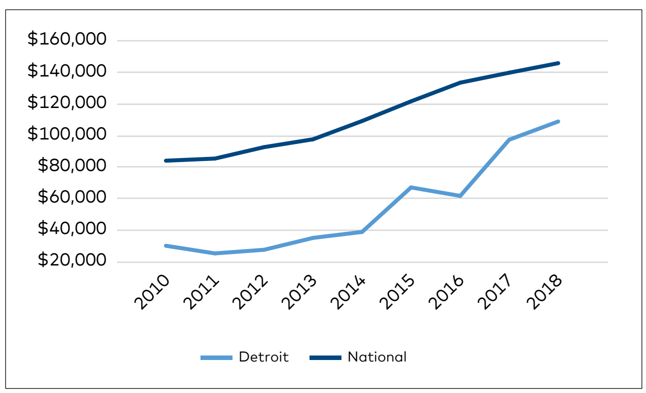
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Canton/Plymouth	127
Southfield	107
Detroit–East	54
Farmington Hills/West Bloomfield	51
Dearborn	41
St. Claire Shores/Gross Pointe	22
Shelby Township	14
Detroit–Midtown	9

Source: YardiMatrix

[1] From May 2017 to April 2018

Detroit vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:

MHN MULTI-HOUSING NEWS

Detroit to Welcome $102M Brush Park Developments

Brush House, Brush 8 and Brush + Watson will bring 367 new residential units to Detroit's historic neighborhood. Thirty-four percent of all housing units will be affordable.

Adaptive Reuse Sparks Opportunity in Detroit

Developers and investors showed attendees at the 2018 ULI Spring Meeting how they are converting vacant or obsolete properties into new uses to spur further investment in the city.

Asset Campus To Manage MI Student Housing

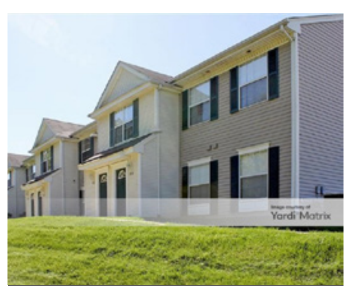
Located a stone's throw from the University of Michigan campus in Ann Arbor, 411 Lofts came under new ownership in February.

Arbor Refinances Michigan Student Housing Community

Glenwood Apartments in East Lansing, Mich., obtained a fixed-rate loan with a 35-year term. Owner DTN Management purchased the student housing community in 2006.

Greystone Provides $36M for MI Asset

Gables of Troy, a 544-unit community in metro Detroit, will receive a HUD-insured Green Rewards refinancing loan. The 35-year mortgage carries a low, fixed interest rate.



Andover Real Estate, M Group Pick Up MI Asset

The buyers financed the acquisition with the help of a $16 million Fannie Mae Green Rewards loan originated by Hunt Mortgage Group.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

Executive Insight

Brought to you by:

MULTI-HOUSING NEWS

How Mission Lenders Fueled Motor City's Comeback

When Detroit's downturn made it almost impossible for developers, business owners or investors to obtain financing from traditional institutions, mission lenders stepped in to provide support for projects that had a positive impact on the community. Loan funds, community development banks, credit unions, philanthropies, and local, state, federal and quasi-government agencies were willing to accept lower rates of return, less or different collateral or higher debt-to-income ratios in order to support communities and stimulate markets that would normally have little access to credit.

Senior Research Associate Brett Theodos, author of the Urban Institute briefs, spoke with Senior Writer Alexandra Pacurar about how mission lenders can help neighborhoods outside Downtown Detroit.

What effect has the work of mission lenders had in Detroit?

Mission-oriented lenders provide capital that seeks a double bottom line of financial and social return. They can make many types of loans, including to consumers, small businesses and developers. We focused on lending for commercial, multifamily and industrial properties. Mission loans of these types allow the purchase, clean-up and/or rehabbing of properties that become grocery stores, affordable apartments, arts centers, offices and more.

One of the briefs indicates that the mission finance ecosystem needs continued support. What does this entail?

The public, philanthropic and corporate sectors are all important in supporting the mission finance ecosystem. Mission lenders and developers need new and expanded forms of patient, low-cost and subsidized capital. Specific supports include creating flexible subordinate

debt and equity financing sources for smaller projects, investing in capacity building and technical assistance for local developers, improving the local regulatory environment, allocating subsidies strategically and supporting efforts to improve collaboration and visibility for the community development industry in Detroit.

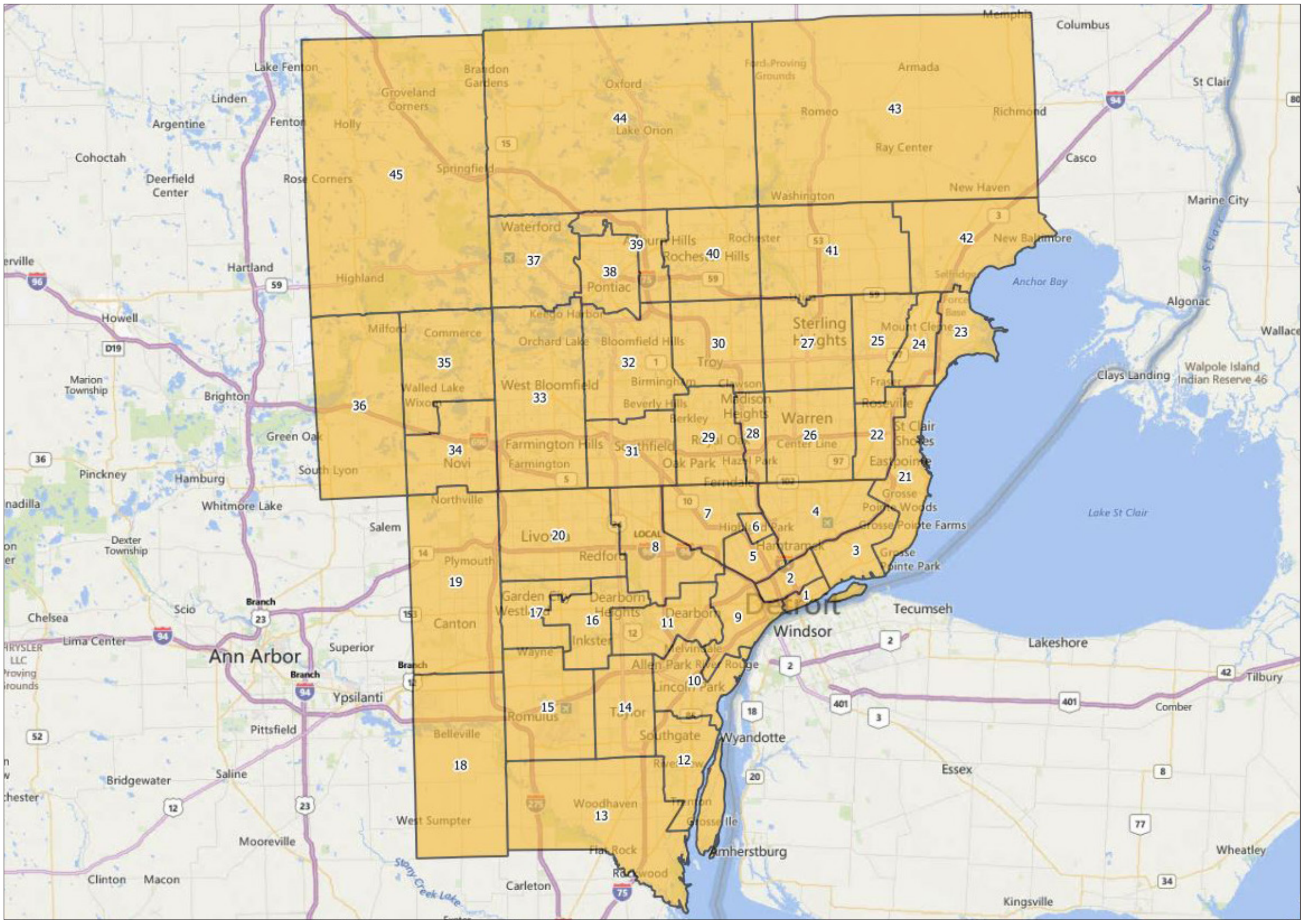
What is the main reason for the discrepancy between downtown Detroit and the outer neighborhoods?

Investment in other neighborhoods faces several challenges, including greater subsidy needs for projects in weaker markets where lower rents are able to cover a smaller share of debt financing. In addition, many types of subsidies that can be employed on larger projects in Downtown and Midtown have high transaction costs and are not viable for smaller projects that neighborhoods need. Beyond this, many neighborhoods do not have experienced developers working in them.

What could local authorities do to support mission lending?

The city needs to do a better job of providing a consistent and predictable regulatory environment that is aggressive about facilitating development transactions. We encourage local government to select targeted areas for a period of intensive investment to stimulate particular neighborhood markets, after which new target areas could be selected. This need not mean that certain neighborhoods are left to fend for themselves, but it does mean providing enough resources in communities where an infusion of development finance could stimulate market demand and create a virtuous cycle of investment.

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.