

Detroit Shifts Down A Gear

December 2023



Short-Term Rent Movement Negative

Occupancy Near US Average

Construction Slowdown

DETROIT MULTIFAMILY



Rents, Pipeline Shaky Amid Volatility

Detroit multifamily largely followed nationwide trends going into the last quarter of 2023, with rent growth slightly in the red and occupancy close to the national average. Rents were down 0.2% on a trailing three-month (T3) basis through October, 10 basis points below the U.S. pace. Year-over-year, rate growth was on par with the national average, up 0.4%, to \$1,239, but still below the \$1,718 U.S. figure as of October.

Detroit unemployment dropped to 3.8% in September, on par with the U.S. and very close to the state's rate. In the 12 months ending in August, Detroit gained 13,900 jobs, marking just a 1.2% expansion, only half the national pace of growth. The education and health services sector led gains, with 6,000 jobs added, closely followed by government (5,300 positions) and leisure and hospitality (4,000 positions). Meanwhile, education and research are making strides, with the University of Michigan breaking ground on a \$250 million Center for Innovation with help from Olympia Development and Related Cos.

Development slowed in the Detroit area, as completions amounted to just 1,065 units in the first 10 months of 2023, down more than 50% year-over-year. However, metro Detroit still had 5,444 units under construction as of October 2023, as well as some 26,000 units in the planning and permitting stages.

Market Analysis | December 2023

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Recent Detroit Transactions

Carnegie Park

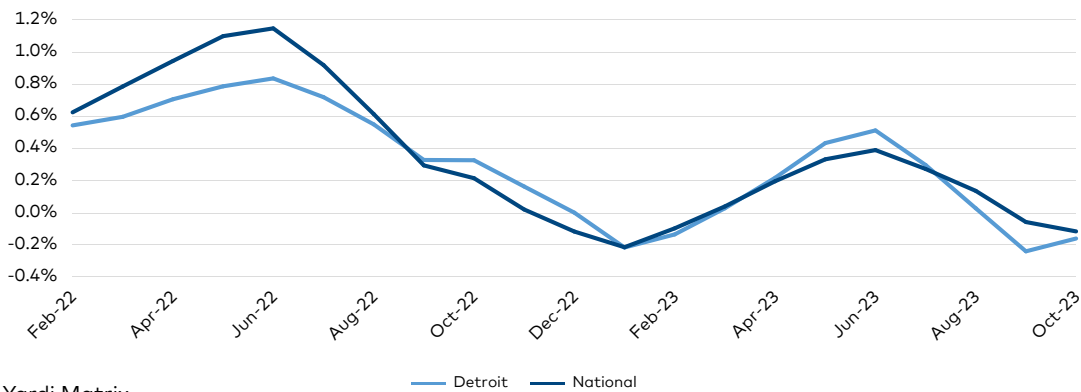


City: Southfield, Mich.
Buyer: Rockwell Property
Purchase Price: \$21 MM
Price per Unit: \$117,074

RENT TRENDS

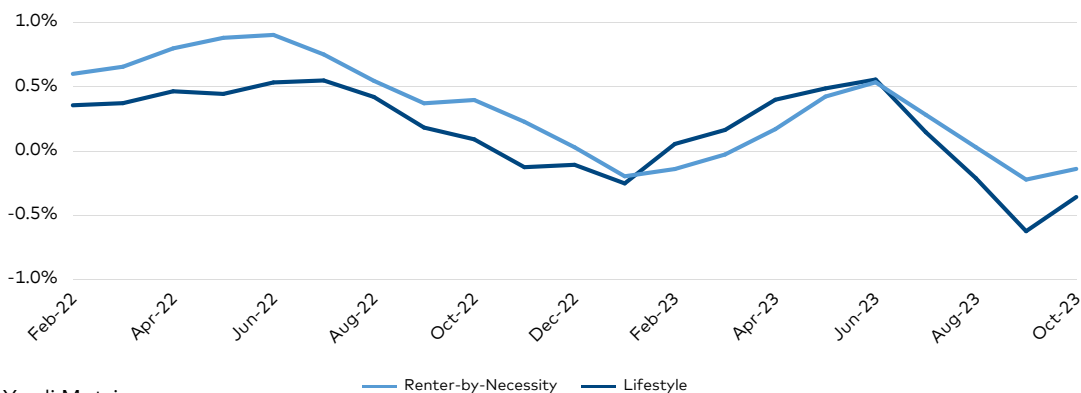
- ▶ Detroit rents fell 0.2% on trailing three-month (T3) basis through October, marking a slightly sharper decline than the U.S. rate, which slid 0.1%. Year-over-year, Detroit rent growth matched the national figure, with both at 0.4%. Detroit's average rent clocked in at \$1,239, well below the U.S. average, at \$1,718 in October.
- ▶ Lifestyle rates slid at a sharper pace across Detroit, down 0.4% on a T3 basis through October, to \$1,843. Meanwhile, working-class Renter-by-Necessity figure declined just 0.1%, to \$1,189. On an annual basis, the difference between the segments is more palpable: Lifestyle rents were down 0.2%, while RBN rates improved 0.3%.
- ▶ Overall occupancy in stabilized assets stayed near the U.S. figure, with the Detroit rate down 110 basis points over 12 months, to 94.7%. Occupancy in Lifestyle properties fell 70 basis points to 94.5%, while the RBN segment saw a steeper decline, falling 110 basis points to 94.7%.
- ▶ Year-over-year, rent growth was positive or flat in 27 of the 45 submarkets tracked by Yardi Matrix. The Livonia/Redford submarket recorded the largest gains, with rents up 10.6% year-over-year, to \$1,295. The submarket was also the only one to register a double-digit increase. At the other end of the spectrum, rents in the Detroit – East submarket were down 6.1%, reaching \$1,123.
- ▶ Bloomfield Hills/Birmingham (up 6.5% to \$1,846) and Troy (down 2.3% to \$1,509) were the priciest submarkets as of October.

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 inched down to 3.8% as of September, according to BLS data. The metro's jobless rate fluctuated during 2023—at 4.2% in January, 2.0% in April and everywhere in between as of the end of the third quarter.
- ▶ Detroit added 13,900 net jobs during the 12-month period ending in August, a 1.2% expansion and just half the 2.5% U.S. average. Job gains were led by the education and health services sector, with 6,000 positions added for a 2.0% expansion. On the other end, four sectors contracted—manufacturing, financial activities, construction and information—shedding a total of 5,000 positions.
- ▶ The University of Michigan is breaking ground on its Center for Innovation, with construction of the \$250 million, 200,000-square-foot research and education center expected to wrap up in three years. Olympia Development and Related Cos., co-developers of the \$1.5 billion District Detroit project, aided with implementation. Olympia donated the roughly 2-acre site, while Stephen Ross, founder & chairman of The Related Cos., donated \$100 million toward the construction of the project. Nearby, Wayne State University also plans to develop an 80,000-square-foot building for its law school, with help from a \$30 million state grant.

Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	308	15.2%
90	Government	193	9.6%
70	Leisure and Hospitality	186	9.2%
60	Professional and Business Services	398	19.7%
80	Other Services	74	3.7%
40	Trade, Transportation and Utilities	379	18.8%
50	Information	29	1.4%
15	Mining, Logging and Construction	85	4.2%
55	Financial Activities	123	6.1%
30	Manufacturing	245	12.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Metro Detroit lost 20,543 residents in 2021. However historically, the area remains on a general growth path, albeit a slow one. Since 2010, Detroit's population has expanded by 1.7%, with the metro gaining nearly 74,000 residents.

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

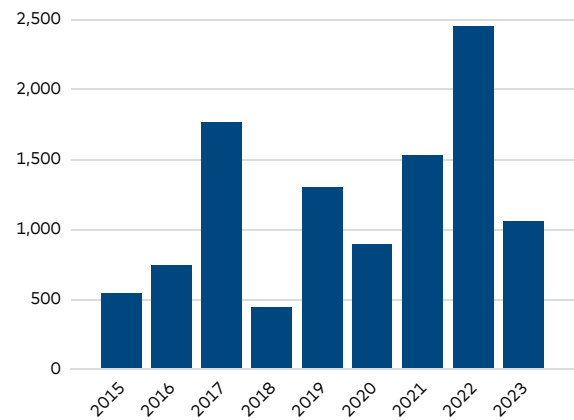
Source: U.S. Census

SUPPLY

- ▶ The metro had 5,444 units under construction as of October 2023, with some 26,000 units in the planning and permitting stages. The under-construction pipeline has more than 16% of its projects in the fully affordable category. Meanwhile, the majority of communities underway are upscale Lifestyle properties. Still, one-fifth of units under construction are in Renter-by-Necessity projects.
- ▶ In the first 10 months of 2023, Detroit developers completed 1,065 apartments, amounting to 0.5% of existing stock, less than one-third of the national rate. Yardi Matrix expects 1,918 new units to be delivered in 2023, and almost the same level—1,997 new apartments—will come online in 2024.
- ▶ Development has its hot spots, with only 15 of the 45 submarkets tracked by Yardi Matrix having at least one project of more than 50 units underway. Core and northern submarkets are taking the lion's share, with Downtown having 1,564 units under construction, the most consistent pipeline by far. The three submarkets with the most notable construction activity, Rochester Hills, Royal Oak/Oak Park and Sterling Heights, had a combined 1,340 units combined underway.

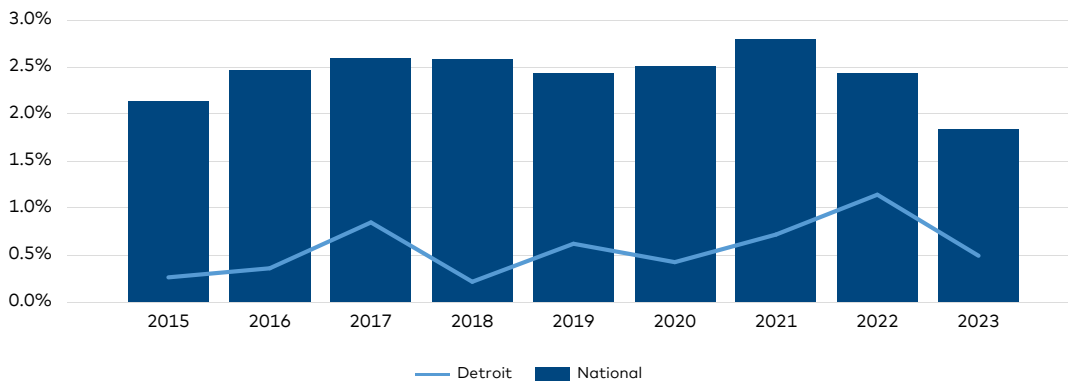
- ▶ Downtown Detroit also had the largest project underway as of October 2023. Sterling Group broke ground last summer on the 496-unit Residences at Water Square. The developer secured a \$112.3 million construction loan financed by Ullico to complete the 25-story high-rise, anticipated to come online in early 2024.

Detroit Completions (as of October 2023)



Source: Yardi Matrix

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



Source: Yardi Matrix

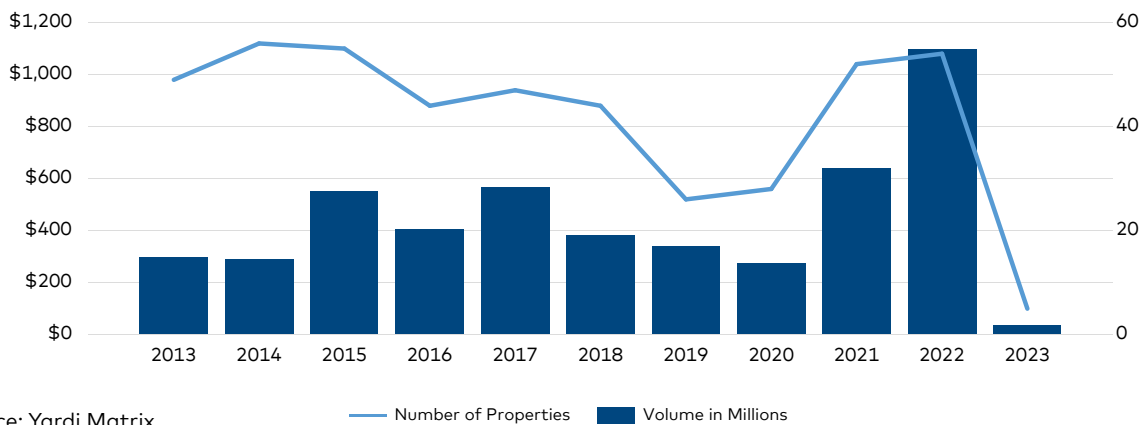
TRANSACTIONS

- ▶ Year-to-date through October, Detroit recorded merely \$36 million in confirmed multifamily sales, a far cry from the more than \$1 billion during the same period of 2022. Transaction activity has slowed considerably even compared to the average volume recorded during the decade ending in 2022, which stood at \$484 million.
- ▶ During the 10 years ending in 2022, the metro's per-unit price was on an overall ascendant path, up from \$35,906 in 2013 to almost \$140,000 in

2022. Even so, Detroit's per-unit prices remained well below the U.S. average, which clocked in at \$209,007 in 2022. In 2023 as of October, however, Detroit's per-unit price reached just \$84,276, based on a small sample size.

- ▶ Amid the overall deceleration, one notable deal of 2023 was the \$20.6 million sale of the 176-unit Carnegie Park. Rockwell Property acquired the 1987-completed property from SG Real Estate with help from a \$23.4 million bank loan.

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



Source: Yardi Matrix

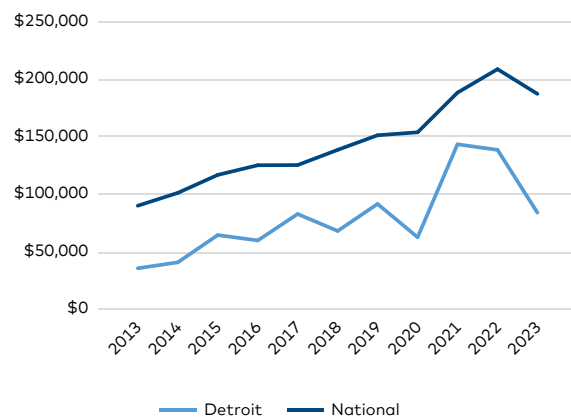
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Royal Oak/Oak Park	47
Southfield	21
Westland	17
Madison Heights	15
Detroit – Downtown	10
Clinton Township – West	8
Warren	5

Source: Yardi Matrix

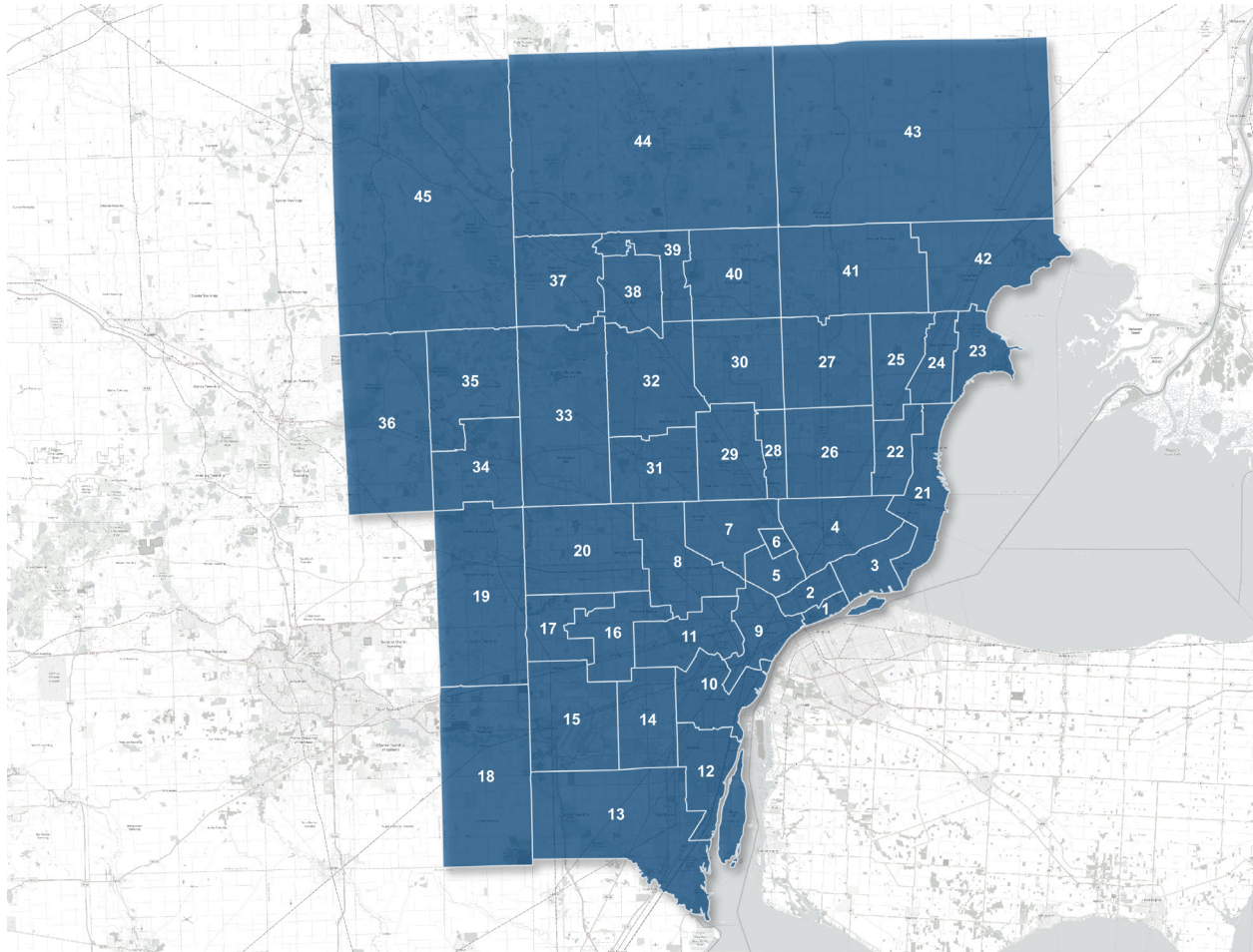
¹ From November 2022 to October 2023

Detroit vs. National Sales Price per Unit



Source: Yardi Matrix

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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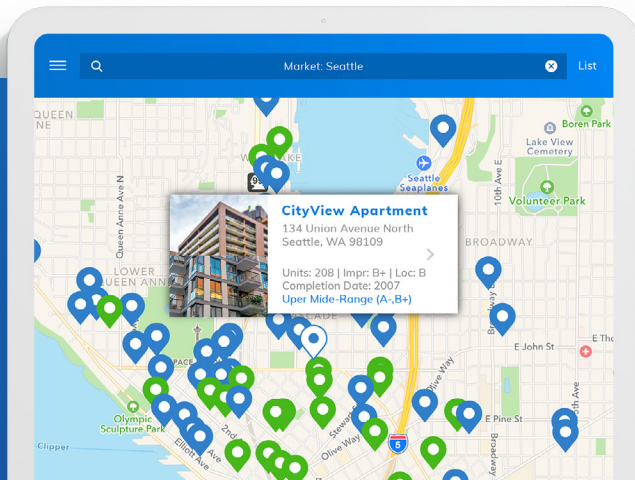
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