Yardi® Matrix

Steady Detroit

Multifamily Report Fall 2018

Rent Growth Falls Below National Rate

Development Activity Slows Following 2017 Surge

Investors Target Suburban Communities

Market Analysis

Fall 2018

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Motor City Keeps Its Composure

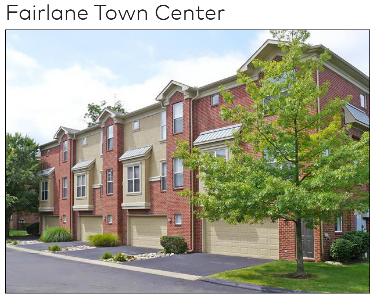
Detroit is following national trends for rent growth and occupancy, as rates remained fairly stable against 2017's surge of new stock. Investment activity has waned, but the focus continues to be on suburban Class B and C assets, with acquisition yields going up to double digits. With no deliveries in the first nine months, Detroit is bound to have a busier couple of quarters due to the 4,800 apartments underway as of September.

The metro added 28,000 jobs in the 12 months ending in July, more than half of which were in the leisure and hospitality (11,200) and construction (4,000) sectors. Both grew more than 5.0% year-over-year, the fastest expansion across employment sectors. Detroit continues to attract auto suppliers and manufacturers, boosting demand for office and industrial space. General Motors is relocating the Cadillac headquarters to the metro's suburbs and German auto supplier Kostal Kontakt Systems is planning a $58 million expansion in Rochester Hills.

For the first time in the past couple of years, Detroit's rent growth rate fell below the U.S. average, as the metro absorbed the 2017 supply surge. However, demand is expected to remain healthy during the ongoing resurrection of the city's core, keeping rent growth roughly on par with the U.S. figure for the foreseeable future.

Recent Detroit Transactions

Fairlane Town Center



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

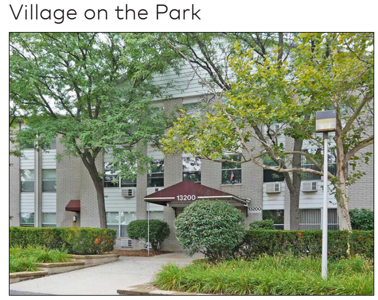
Northville Woods

City: Northville, Mich.
Buyer: M Group
Purchase Price: $38 MM
Price per Unit: $138,978

Village Green of Waterford

City: Waterford, Mich.
Buyer: RESSCO
Purchase Price: $31 MM
Price per Unit: $77,695

Village on the Park



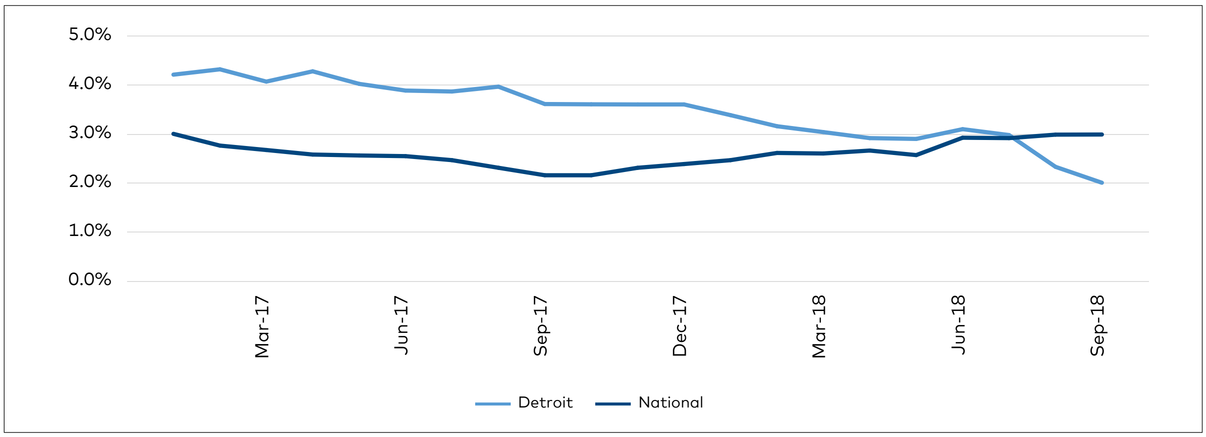
City: Southgate, Mich.
Buyer: RESSCO
Purchase Price: $24 MM
Price per Unit: $65,642

On the cover: Photo by ehrlif/iStockphoto.com

Rent Trends

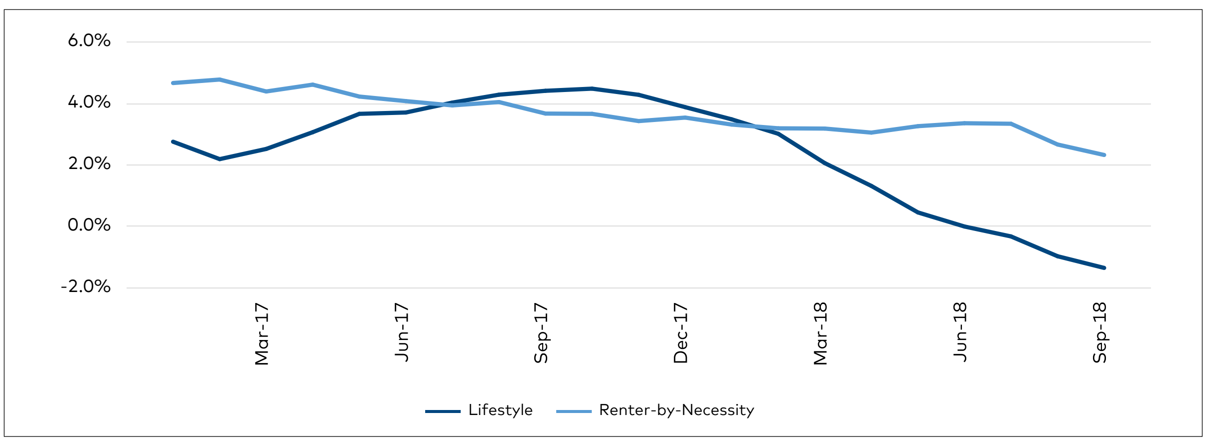
- Detroit rents rose 2.0% year-over-year through September, lagging the 3.0% national average. This is the first time in the last two years that the metro's growth rate fell below the U.S. figure. The average monthly rent increased to $966, continuing to trail the $1,412 national rate.
- The working-class Renter-by-Necessity segment led gains, with rents up 2.3% to $924. Growth in the Lifestyle sector decelerated quickly in 2018, entering negative territory in July and contracting by 1.3% year-over-year as of September, to $1,540. The drop is mainly due to last year's supply boom, which took its toll as the new stock, mostly upscale, was absorbed.
- Dearborn ($1,327 average rent), Bloomfield Hills\Birmingham ($1,343), Downtown Detroit ($1,283) and Troy ($1,256) remain the metro's most expensive submarkets. With rents up 13.3% to $1,056, Detroit-East recorded the highest year-over-year hike as of September.
- The metro's growing economy is expected to attract more talent looking for modern units in urban areas, with good transit connections and attractive amenities. At the same time, company relocations and expansions in suburban areas are likely to further fuel housing demand across Detroit's outer submarkets. We expect rent growth to stay close to the U.S. average in the foreseeable future.

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)

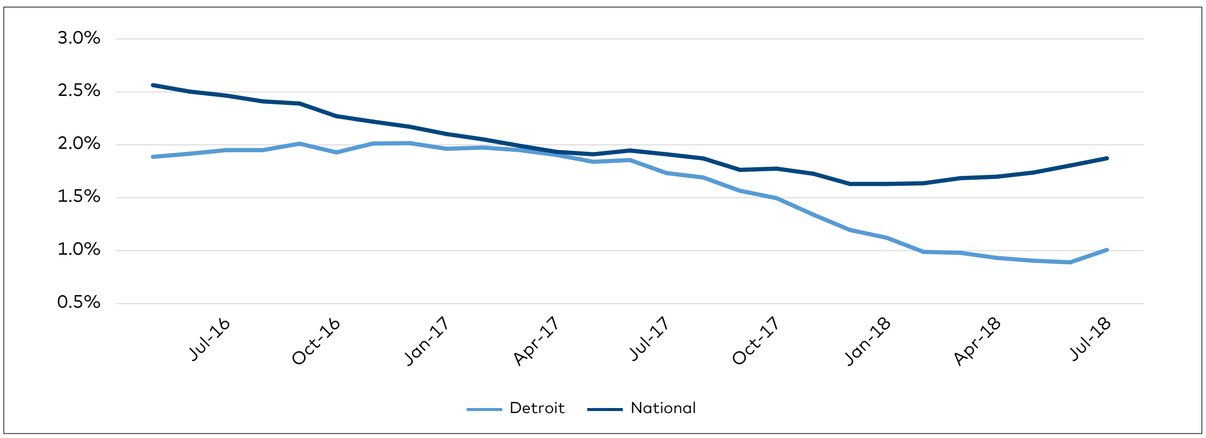


Source: YardiMatrix

Economic Snapshot

- Detroit added 28,000 jobs in the 12 months ending in July for a 1.0% expansion, trailing the 1.9% national average. The employment growth rate remained flat throughout the year, with variations in the 10-basis-point range.
- Leisure and hospitality (11,200 jobs added) and manufacturing (7,900) accounted for more than two-thirds of total gains, followed by education and health services (4,200), construction (4,000) and trade, transportation and utilities (4,000). Fueling the city's staple sector, auto companies continue to relocate or expand in Detroit. General Motors is moving the Cadillac headquarters to the metro, while German auto supplier Kostal Kontakt Systems is planning a $57.8 million expansion in Rochester Hills.
- Although professional and business services and information lost a collective 3,600 jobs in the 12 months ending in July, the city continues to have a solid office pipeline. Detroit had 2.3 million square feet of office space underway as of mid-November, almost three-quarters of it located in or very near to downtown. This resurgence of the city core is closely mirrored by the multifamily pipeline: Almost 1,600 units came online within three miles of downtown since the beginning of 2016, with an additional 1,550 units under construction. Although downtown Detroit's rebound has been more of a mixed bag during the past couple of years, the area remains one of the metro's strong economic points.

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	219	10.8%	11,200	5.4%
30	Manufacturing	253	12.5%	7,900	3.2%
65	Education and Health Services	315	15.6%	4,200	1.4%
40	Trade, Transportation and Utilities	372	18.4%	4,000	1.1%
15	Mining, Logging and Construction	82	4.1%	4,000	5.2%
55	Financial Activities	117	5.8%	400	0.3%
80	Other Services	77	3.8%	-	0.0%
90	Government	174	8.6%	-100	-0.1%
50	Information	27	1.3%	-900	-3.2%
60	Professional and Business Services	389	19.2%	-2,700	-0.7%

Sources: YardiMatrix, Bureau of Labor Statistics

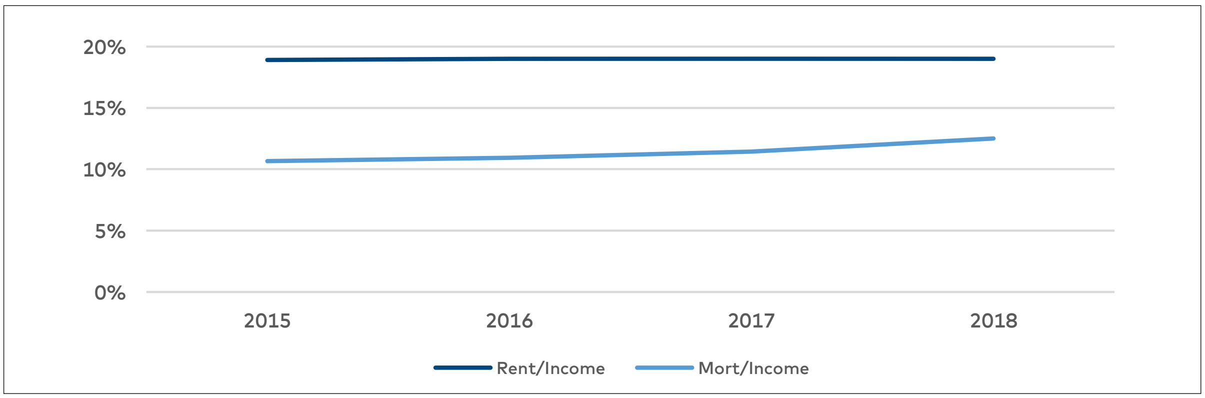
Demographics

Affordability

- The median home price in Detroit peaked this year at $156,720, up 7.0% over 2017 and roughly double the values of 2009 and 2010, when the market bottomed out. Despite constant price hikes, owning remains more affordable than renting. The average mortgage payment accounted for 13% of the area median income in the first half of 2018, while the average rent equated to 19%.

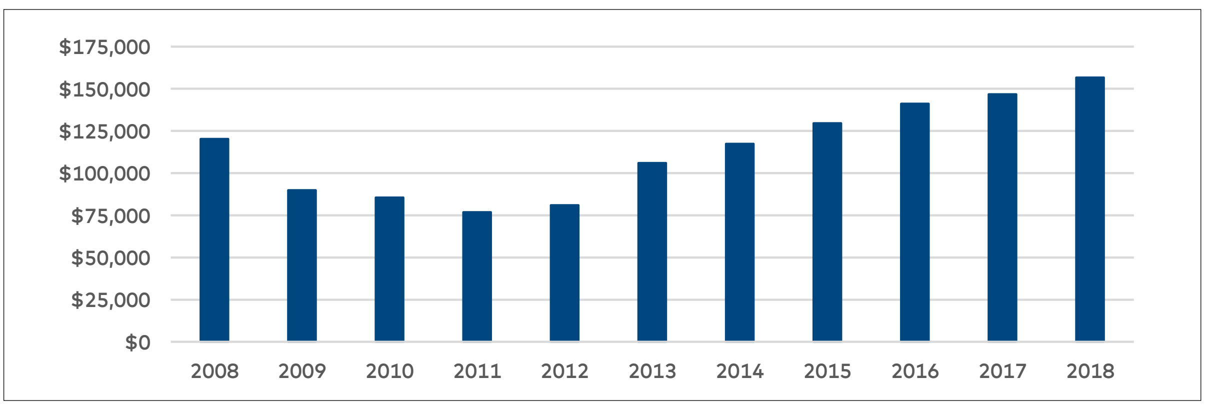
- The gap between affordable housing demand and existing inventory is widening, as new stock is almost exclusively upscale. Meanwhile, affordable properties such as Park Avenue House in downtown Detroit are being repositioned by new owners, putting further pressure on low- and middle-income residents.

Detroit Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Detroit Median Home Price



Source: Moody's Analytics

Population

- Detroit added 15,000 people over the past five years. The slow but steady expansion is partially due to the city's rebounding auto industry.

- The metro's population grew 0.2% last year, trailing the 0.7% U.S. average.

Detroit vs. National Population

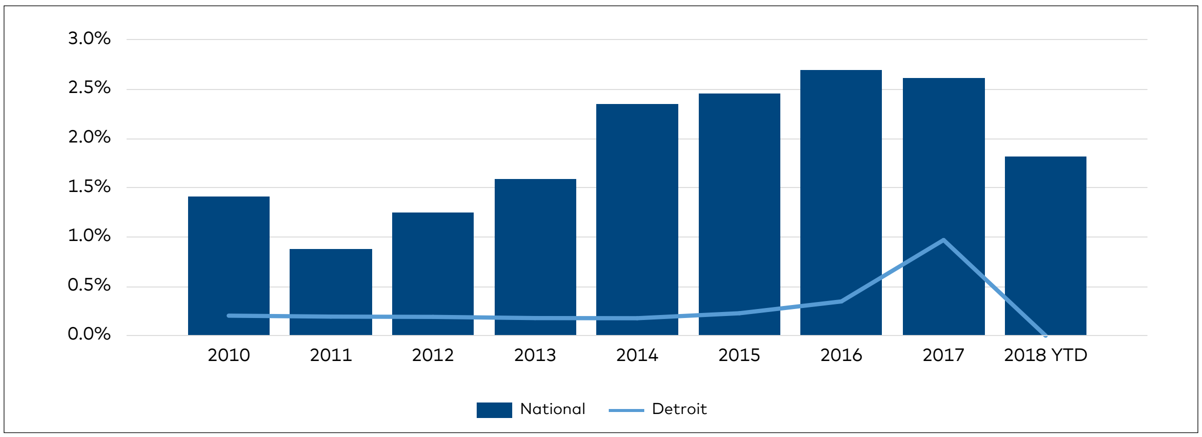
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Detroit Metro	4,298,541	4,303,366	4,302,282	4,305,869	4,313,002

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

Supply

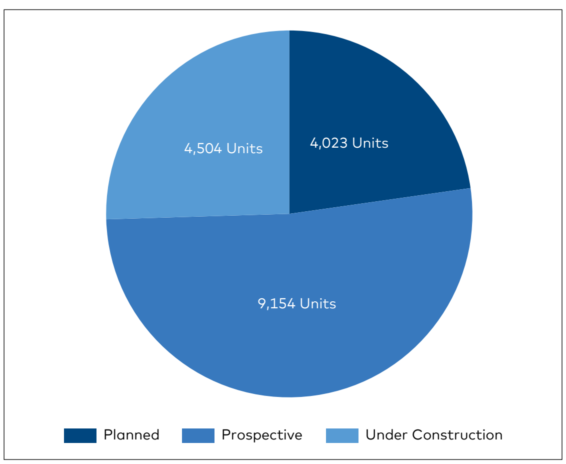
- There were no multifamily deliveries of communities with 50+ units in the first three quarters of 2018. This comes after a 2017 cycle peak, when more than 2,000 apartments came online, a sharp increase following a long stretch of tepid development.
- Despite the 2018 delivery drought, development activity is not stalling, as about 4,500 units were underway across the metro as of September and an additional 13,000 units were in the planning and permitting stages. Mixed-use projects are also trending in Detroit, many of them located within or close to core submarkets. The $830 million Monroe Blocks is a good example: Bedrock's project is slated to include a residential tower, three mid-rise residential buildings and an office high-rise.
- With 664 units under construction, Downtown Detroit remains the most active submarket for new development, followed by Clinton Township–West (613 units) and Detroit–New Center (555 units).
- Demand is still relatively healthy, with about 1,400 units absorbed in the 12 months ending in September. Meanwhile, occupancy in stabilized assets remained in the 96.5% range.

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



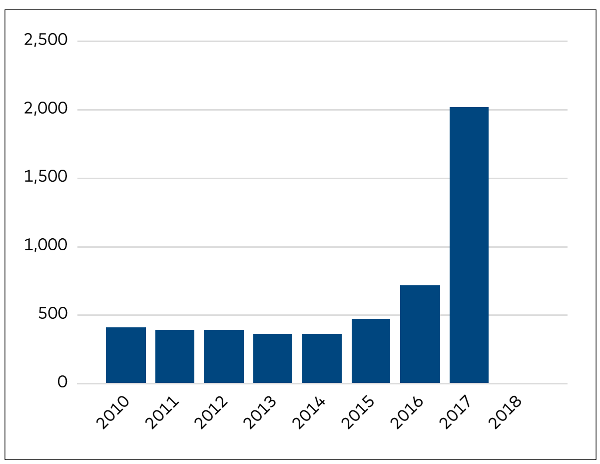
Source: YardiMatrix

Development Pipeline (as of September 2018)



Source: YardiMatrix

Detroit Completions (as of September 2018)



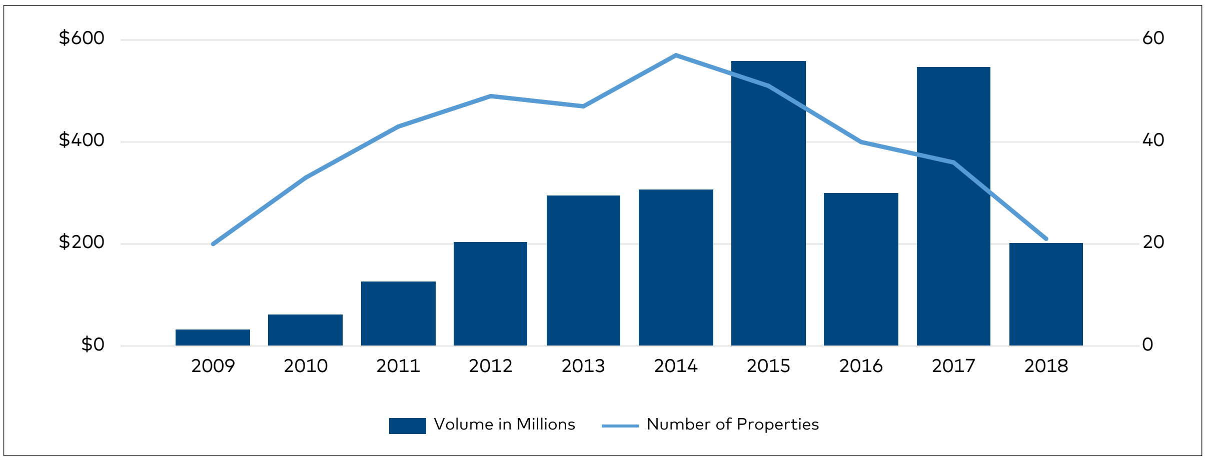
Source: YardiMatrix

Transactions

- Detroit investment activity has shifted down a gear, with $203 million in multifamily assets changing hands in the first three quarters of 2018, about 40% of last year's total volume. Lower investor appetite has also led to a decrease in the average price per unit. At $83,208 for the first nine months of 2018, per-unit prices were down 15% against the 2017 figure. The 21 communities that traded through September were Renter-by-Necessity, nearly all of them located in the suburbs.

- The Detroit market's peculiarities have mostly attracted local investors who know how to navigate the unique environment, with a few out-of-state investors looking to leverage the high rate of returns. Acquisition yields for Class B and C communities fluctuate between 7.0% and 11.0%. Southfield is the leading submarket for transaction volume, with a total of $107 million in the 12 months ending in September.

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



Source: YardiMatrix

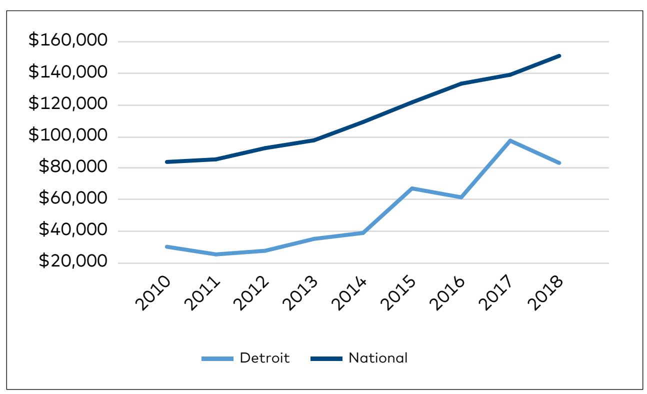
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Southfield	107
Detroit–East	67
Canton\Plymouth	62
Farmington Hills\West Bloomfield	51
Dearborn	41
Waterford	31
Southgate\Riverview	24
St. Claire Shores\Gross Pointe	22

Source: YardiMatrix

[1] From October 2017 to September 2018

Detroit vs. National Sales Price per Unit



Source: YardiMatrix

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MULTI-HOUSING NEWS

Detroit Community Reopens Following $12M Renovation

The Hamilton Midtown, a 105-year-old historic building previously known as Milner Arms, underwent an extensive renovation that lasted for more than a year. The property is owned by Broder & Sachse.

Detroit-Area Community Lands $87M Refi

The new mortgage, held by PGIM Real Estate Finance, pays down a previous $70 million CMBS loan on the 667-unit property. The asset is located in West Bloomfield, Mich.

Detroit-Area Portfolio Sells for $20M

Coseo Properties sold the two communities, totaling 326 units, five years after acquiring them from the Slatkin Corp. for approximately $11.6 million.

Andover Real Estate, M Group Acquire Detroit Community

Carlton Apartments has 144 units and is located in the city's Lafayette Park area. Greystone provided the Fannie Mae Green Rewards financing for the acquisition.

SmartStop Affiliate Closes Equity Raising For Student Housing Portfolio

The Power 5 Conference Student Housing I DST comprises YOUnion @ Columbia, a 760-bed community, and YOUnion @ Ann Arbor, a 345-bed property.

Mixed-Income Development Receives City Council Approval in Detroit

Bedrock Detroit and Woodborn Partners will develop a 900-unit residential neighborhood on the former Frederick Douglass public housing site.

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Detroit's Unique Development Scene

With more than 4,500 units under construction across the metro area, Detroit's developers appear to be anticipating the city's successful economic rebound, recently bolstered by Ford's acquisition of the iconic Michigan Central Station this summer. The city's downtown area is particularly dynamic, with multiple ground-up and adaptive reuse projects underway.

The market has room to grow and companies that understand the new consumer will grow with it. Local developer Jonathan Holtzman, chairman & CEO of City Club Apartments, reveals his view of Detroit's transformation in an interview with Associate Editor Jeff Hamann.

How would you characterize Detroit's current landscape for multifamily development?

Detroit continues to produce fewer new apartments than the market demands. There are challenges to bringing communities to market quickly—construction costs, construction lending, zoning and site plan approval, the speed of getting things approved and a labor shortage. That said, the demand continues to be extremely strong.

In which Detroit submarkets do you see the most optimism for growth over the next few years, and what plays into this?

We are only operating in suburban urban and urban markets where we can focus on our Walkability Index. Whether you are suburban, suburban urban or urban, if you do not have a location in which you have almost a perfect walkability score, you are not going to achieve the rental or occupancy rates that you need. This is a very clear trend everywhere in the U.S.

What sets Detroit's multifamily market apart from the other markets where City Club Apartments has a presence?

Construction of new apartments in Detroit is a relatively new phenomenon. Other Midwest cities like Minneapolis and Chicago have been actively building for the last eight years and are ahead of us. Detroit has not seen the new thinking: resort amenities, time-saving services, technology, green and wellness, luxury finishes. This is a huge opportunity for us.

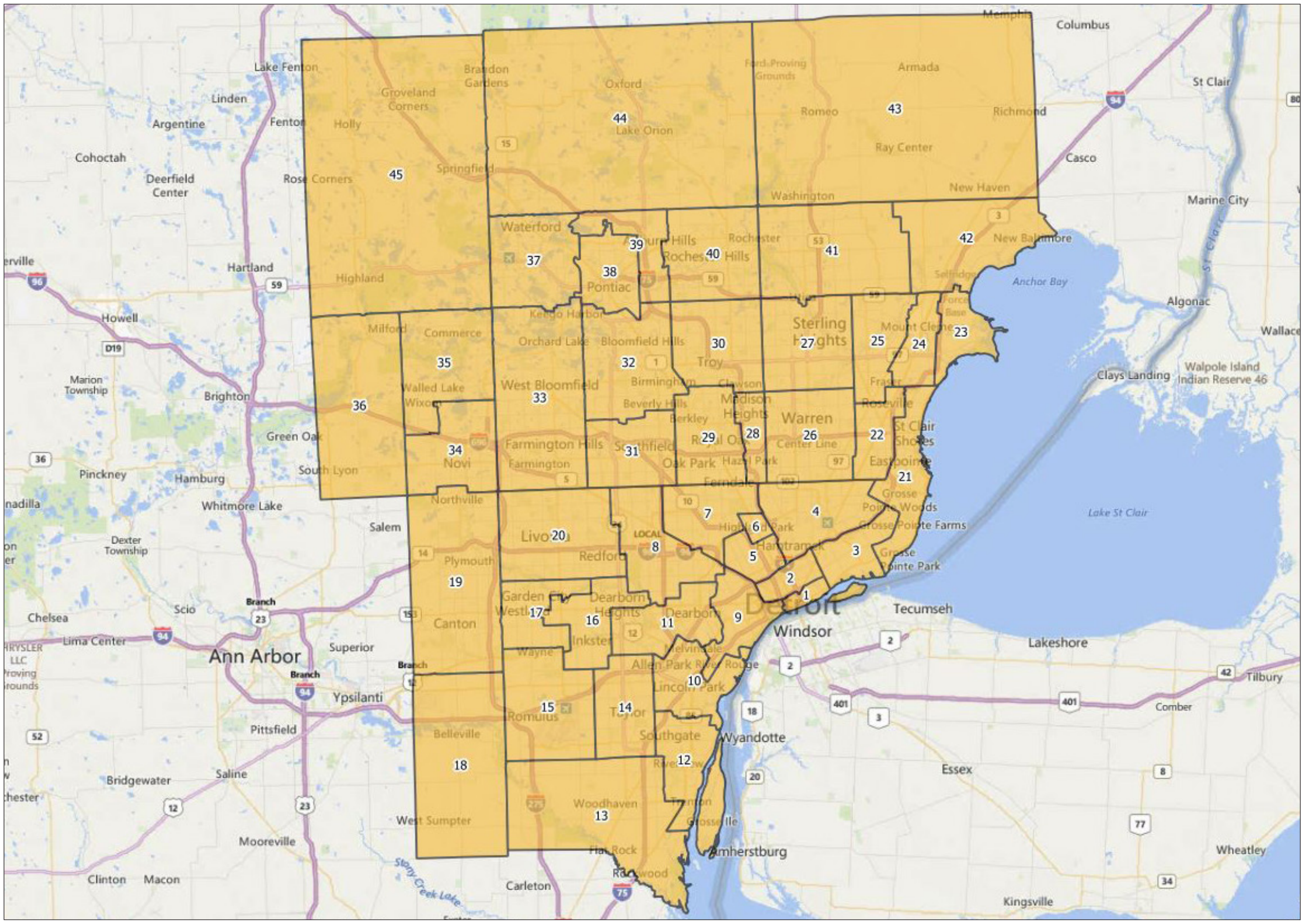
How has recent news, including Ford's announcement of plans to invest $740 million in Corktown, impacted the market?

The Ford announcement is a continuation of a trend we have been seeing in Detroit over the last three to five years. Suburban jobs are moving to the city. Those jobs are creating opportunity in housing, restaurants, entertainment and other services. Developers that understand Detroit's new urban customer and deliver a product that meets the needs of that customer from an amenity, service and walkability standpoint will do very well.

How has recent rent growth deceleration in the metro impacted your business strategy?

Communities in the right location, with the right amenities and services and the right operator have not experienced a deceleration in rents. Those communities will continue to benefit from the investments that their owners and operators have made to meet the needs and wants of their customers.

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.

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