

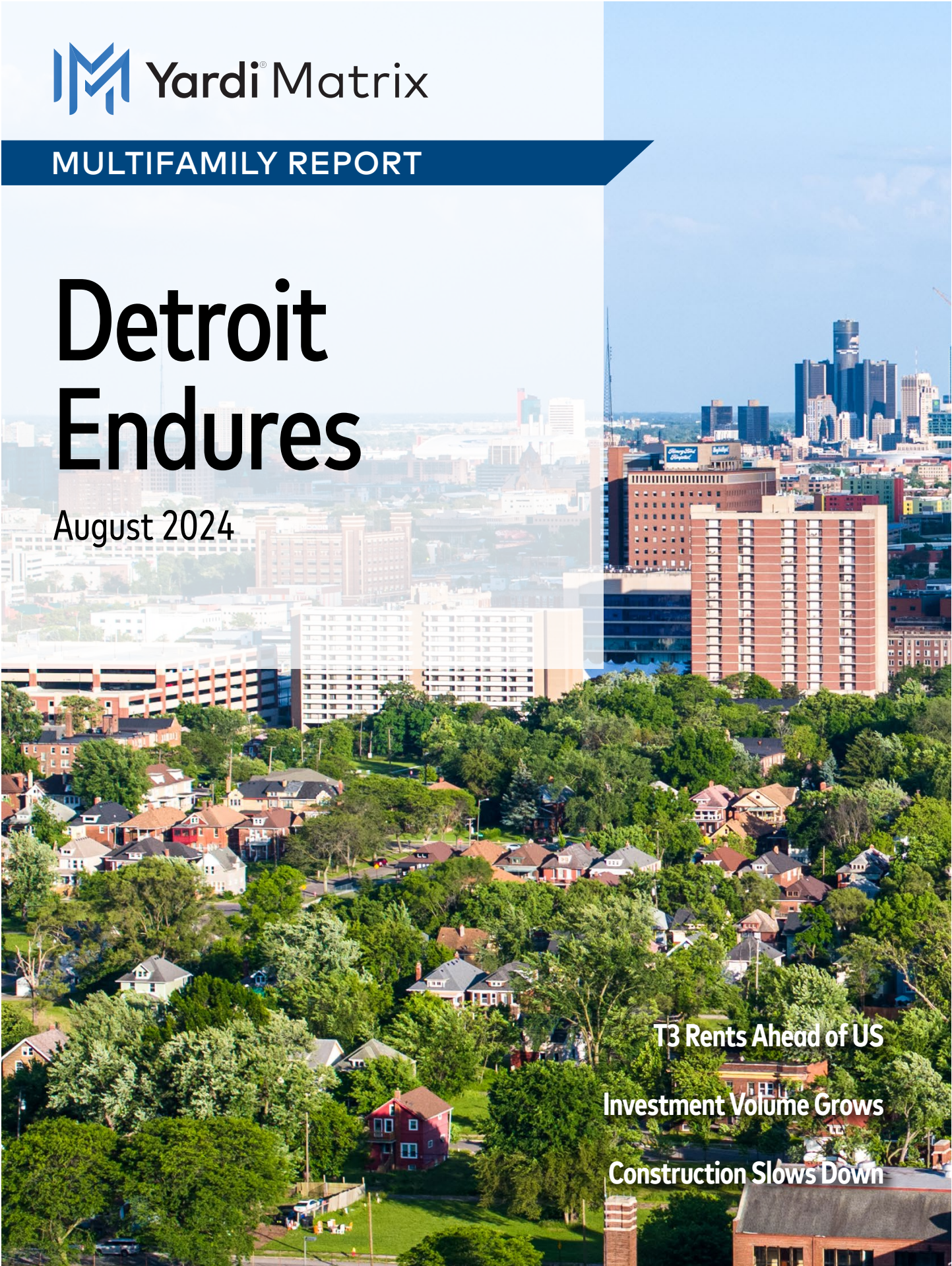
Detroit Endures

August 2024

T3 Rents Ahead of US

Investment Volume Grows

Construction Slows Down



DETROIT MULTIFAMILY



Balanced Rental Market Amid Overall Slowdown

Detroit's multifamily fundamentals stabilized in the first half of 2024. Average advertised asking rents were up 0.6% on a trailing three-month basis through June, to \$1,277, faring better than the 0.3% U.S. rate. The overall occupancy for stabilized assets clocked in at 94.4% as of May, down 30 basis points year-over-year and only 10 basis points below the 94.5% national figure.

The metro's employment market expanded by just 0.1% in the 12 months ending in April, adding 2,900 net jobs. The rate was 130 basis points below the national average. Unemployment stood at 5.2% as of May, 120 basis points higher than the U.S. rate, according to preliminary data from the Bureau of Labor Statistics. The \$1.5 billion District Detroit development is now slated to begin construction in early 2025. The project includes office and residential buildings, as well as hotels.

A total of 1,065 units came online in the first six months of 2024, which represented a 0.5% expansion of existing stock and was 60 basis points below the national rate. Construction starts have also declined, with only one project breaking ground in the first half of the year. Investment showed signs of picking up again, as \$130 million in assets changed hands, which came close to the \$157 million total recorded for all of 2023.

Market Analysis | August 2024

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Recent Detroit Transactions

The Crossings



City: New Hudson, Mich.
Buyer: Dietz Property Group
Purchase Price: \$73 MM
Price per Unit: \$238,513

Kensington at Beverly Hills



City: Southfield, Mich.
Buyer: The Solomon Organization
Purchase Price: \$24 MM
Price per Unit: \$113,054

Cambridge House



City: Sterling Heights, Mich.
Buyer: Abro Property
Purchase Price: \$17 MM
Price per Unit: \$86,097

Riverside Townhomes

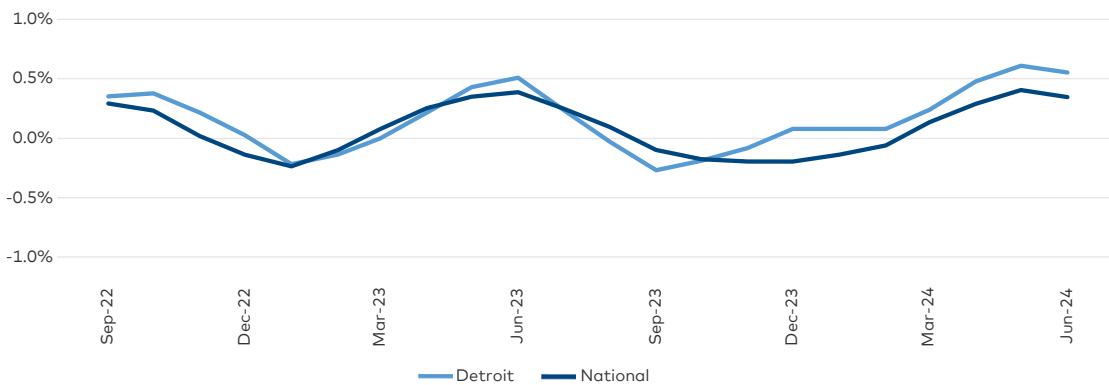


City: Gibraltar, Mich.
Buyer: Arco Construction
Purchase Price: \$17 MM
Price per Unit: \$125,919

RENT TRENDS

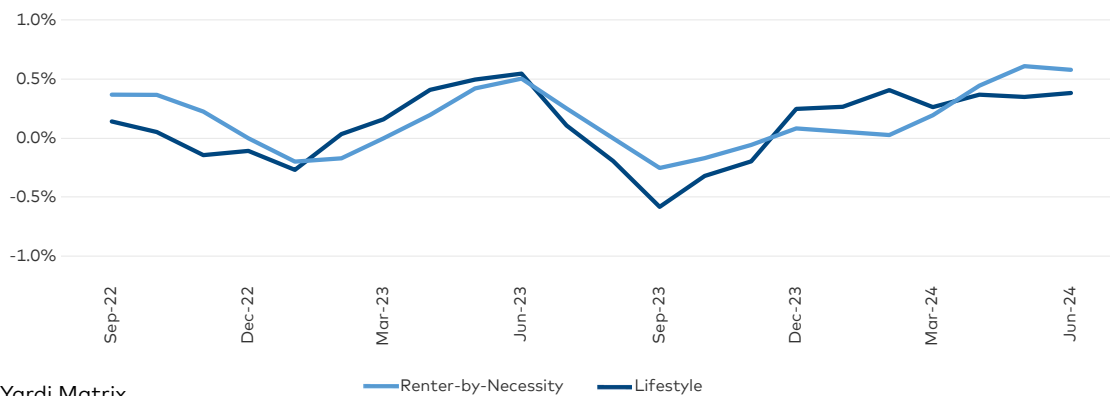
- ▶ Detroit advertised asking rents were up 0.6%, to \$1,277, on a trailing three-month (T3) basis through June, 30 basis points higher than the U.S. figure. Rent development turned positive in December 2023 and remained ahead of the national rate. Year-over-year, rents were up 1.8%, with Detroit ranking 10th nationwide among the major metros tracked by Yardi Matrix. Meanwhile, the national figure clocked in at 0.6%.
- ▶ Working-class Renter-by-Necessity advertised asking rents were up 0.6%, on a T3 basis, to \$1,219. Lifestyle rates recorded slower development, up 0.4%, to \$1,922. Both quality segments have posted positive growth since December, after a brief period of contraction in the last four months of 2023.
- ▶ The metro's overall occupancy rate in stabilized properties stood at 94.4% as of May, down 30 basis points year-over-year and only 10 basis points below the 94.5% national figure. The Lifestyle rate was down 100 basis points, to 92.7%. Meanwhile, occupancy in RBN assets was down 20 basis points, to 94.6%.
- ▶ Advertised asking rent growth was highest in a few core submarkets. Detroit–Downtown posted a 0.9% uptick to \$1,502, while the rate in Detroit–Midtown was up 7.1%, to \$1,360.
- ▶ Advertised asking rents for Detroit's single-family rental sector were up 0.7% year-over-year through June, lagging the national rate by 40 basis points. Occupancy was up 1.1%, 70 basis points ahead of the U.S. figure.

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's labor pool expanded only 0.1% in the 12 months ending in April, 130 basis points lower than the U.S. rate. This accounted for 2,900 total net jobs added. Mining, logging and construction led job growth with 8,800 positions. Education and health services (7,800 jobs), as well as government (4,000) and trade, transportation and utilities (3,900) also contributed to employment growth. Professional and business services led losses, shedding 13,800 jobs, followed by leisure and hospitality (-3,600).
- ▶ The metro's unemployment rate stood at 5.2% as of May, 120 basis points higher than the U.S. figure, according to preliminary data from the Bu-

reau of Labor Statistics. The rate increased 120 basis points year-over-year. Meanwhile, Michigan's unemployment rate was 3.9% as of May.

- ▶ A partnership of The Related Cos. and Ilitch Organization's Olympia Development of Michigan has updated the timeline and construction plan for its \$1.5 billion District Detroit development. The first two of the 10 planned buildings will comprise an 18-story, 261-unit residential tower, along with either a new 14-story, 290-key hotel or the conversion of a 10-story office building into a 177-key hotel. Developers need to break ground in 2025 to remain eligible for a \$615 million, 35-year tax capture.

Detroit Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	90.9	4.5%
65	Education and Health Services	323.1	15.8%
90	Government	193	9.5%
40	Trade, Transportation and Utilities	385.2	18.9%
80	Other Services	76	3.7%
50	Information	29.5	1.4%
55	Financial Activities	122.6	6.0%
30	Manufacturing	251.8	12.4%
70	Leisure and Hospitality	182.1	8.9%
60	Professional and Business Services	384.3	18.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Metro Detroit lost a total of 7,228 residents from 2021 to 2022, accounting for a 0.2% drop year-over-year, while the U.S. population expanded 0.4%.
- ▶ In the 10 years ending in 2022, the metro's population grew by almost 71,000 new residents.

Detroit vs. National Population

	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Detroit Metro	4,317,848	4,317,384	4,382,832	4,375,604

Source: U.S. Census

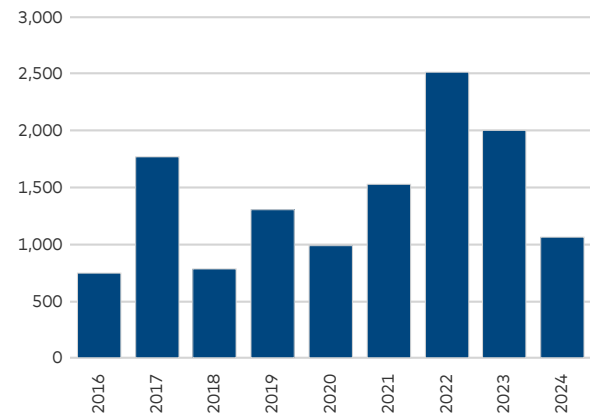
SUPPLY

- ▶ Detroit added 1,065 units in the first six months of 2024, for a 0.5% expansion of existing stock, 60 basis points below the national rate. All five properties that came online were in the Lifestyle segment. On average, developers completed 1,454 units annually from 2016 to 2023, with the peak recorded in 2022 when the 2,511 apartments that came online represented 1.2% of existing stock. The metro remained consistently below the U.S. rate of completions throughout this period.
- ▶ Detroit had 4,471 units under construction as of June, with an additional 25,000 units in the planning and permitting stages. In line with nationwide trends, a little more than half of all units under construction were in upscale Lifestyle projects. The metro had a sizable RBN pipeline, at 21%, while the remaining 20% were units in fully affordable projects.
- ▶ A single, 79-unit project broke ground in the first half of the year. This was a significant drop in construction starts, as last year, developers began work on 1,880 apartments across 14 projects during the same time frame.
- ▶ The most active submarkets for construction include Rochester Hills with 478 units underway,

followed by Detroit–Midtown (447 units) and Detroit–Downtown (431 units).

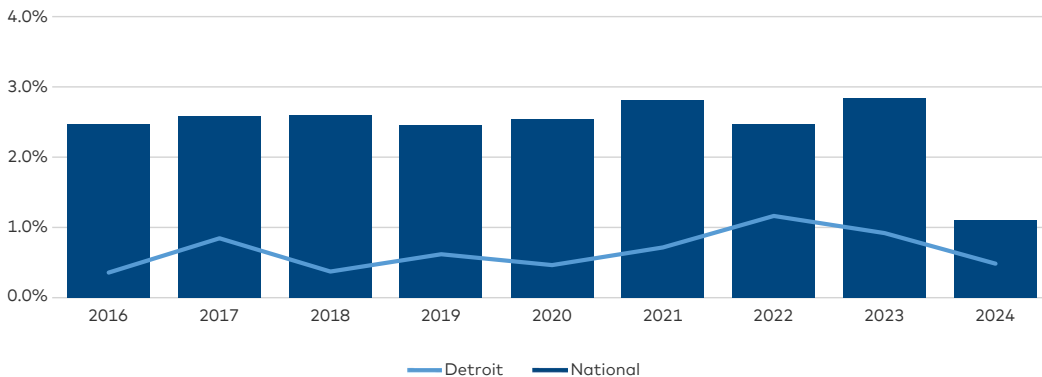
- ▶ Rochester Hills also had the largest project underway. Goldberg Cos. is building Legacy Rochester Hills, a 359-unit upscale community. Construction began in 2020, and in 2021, the developer obtained a \$63.5 million construction loan funded by KeyBank. The community is slated for completion by the end of this year.

Detroit Completions (as of June 2024)



Source: Yardi Matrix

Detroit vs. National Completions as a Percentage of Total Stock (as of June 2024)



Source: Yardi Matrix

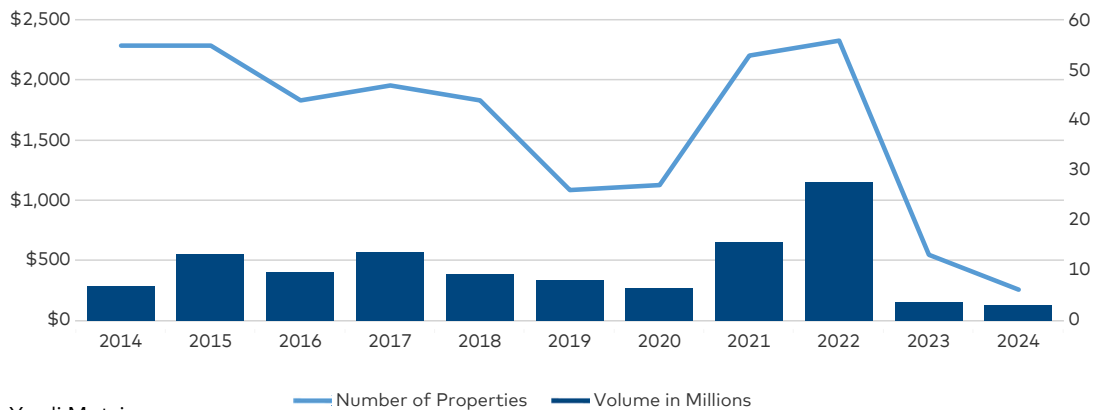
TRANSACTIONS

- ▶ Investments in the first half of the year totaled \$130 million, a significant increase from the \$29 million recorded in the first six months of 2023. This year's total was already close to 2023's entire volume—\$157 million—indicating that activity is picking up again. On average, Detroit's sales volume amounted to \$476 million annually from 2014 to 2023, although this figure was influenced by 2022's high total.
- ▶ Investors favored RBN assets, which accounted for five out of the six properties that traded in

the metro through June. The average price per unit clocked in at \$153,815, higher than the \$87,633 recorded last year, but still below the \$180,183 U.S. figure.

- ▶ The South Lyon/Milford submarket had the largest transaction volume in the metro over a 12-month period ending in June (\$73 million), followed by Woodhaven/Brownstown (\$49 million) and Warren (\$48 million).

Detroit Sales Volume and Number of Properties Sold (as of June 2024)



Source: Yardi Matrix

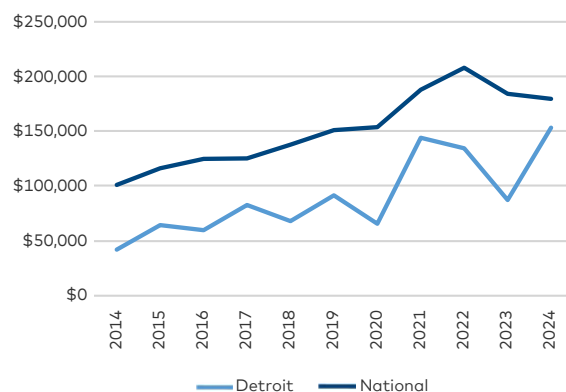
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
South Lyon/Milford	73
Woodhaven/Brownstown	49
Warren	48
Southfield	44
Sterling Heights	38
Pontiac	6
Detroit-West	2

Source: Yardi Matrix

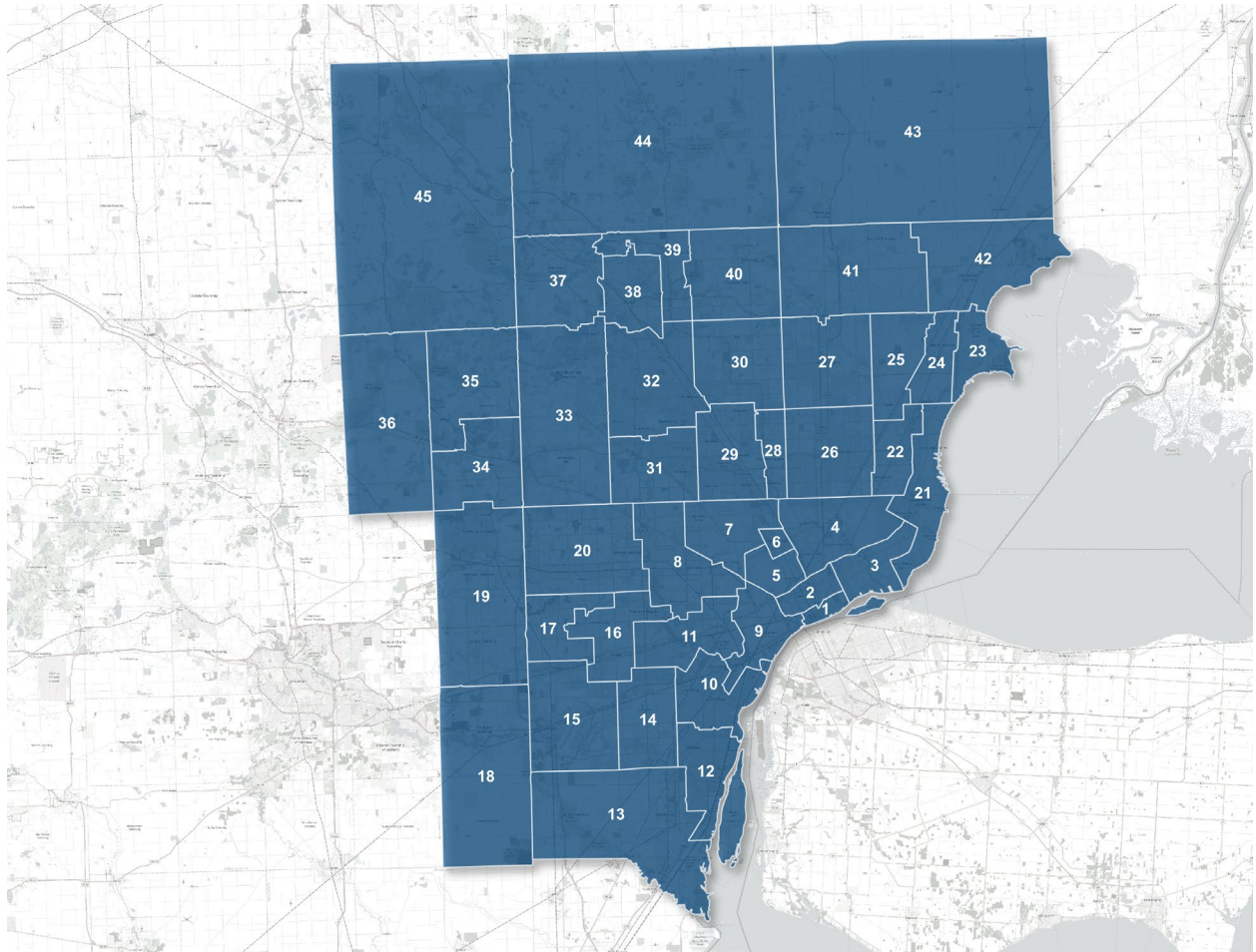
¹ From July 2023 to June 2024

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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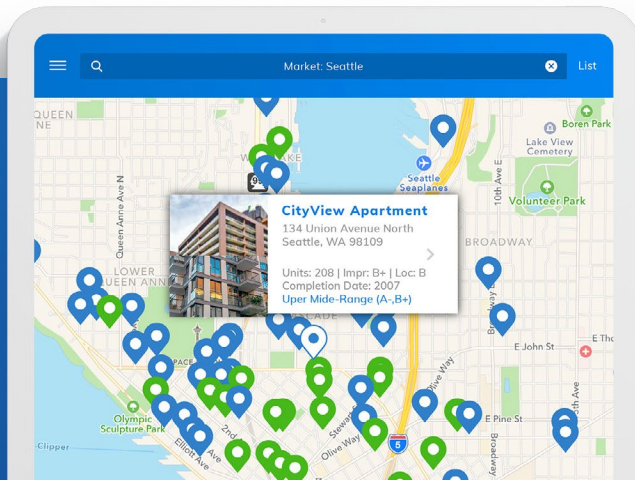
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