Detroit's Resurgence

Multifamily Report Winter 2019

Deliveries Set for Cycle Peak

Rent Growth Trails US Average

Investors Target Value-Add Assets

DETROIT MULTIFAMILY

Yardi® Matrix

Urban Boom Boosts Demand

Multifamily demand is steady in Detroit, bolstered by household formation and job gains, while occupancy remains above the national average.

Large-scale developments are transforming the city's urban core, attracting businesses and residents alike and increasing construction employment gains to 4,600 jobs in the 12 months ending in November. Monroe Blocks, an $830 million mixed-use destination built by Bedrock LLC, is slated to bring 1.4 million square feet of office, residential, retail and public space to downtown, further boosting the area's revitalization. The company is also developing Michigan's tallest building at the site of the former J.L. Hudson store. Meanwhile, Ford is redeveloping Michigan Central Station in the Corktown neighborhood, the centerpiece of its 1.2 million-square-foot tech campus, which will focus on autonomous and electric vehicles, while housing 2,500 company employees and 2,500 workers from partners and suppliers.

Drawn by the market's low entry costs and attractive yields, multifamily investors primarily targeted Class B and C assets with a value-add component. Following the completion of only 306 units last year, deliveries are bound to hit a cycle high in 2019, with 2,730 units expected to come online. Demand is anticipated to keep up, bolstering a steady rent growth of 2.7% for the year.

Recent Detroit Transactions

Hoover Square

City: Warren, Mich.
Buyer: GSH Group
Purchase Price: $21.8 MM
Price per Unit: $63,743

Carlton

City: Detroit
Buyer: Andover/M Group
Purchase Price: $11.6 MM
Price per Unit: $80,208

Kings Gate

City: Sterling Heights, Mich.
Buyer: Burton Carol Management
Purchase Price: $9.3 MM
Price per Unit: $72,351

Rivercrest of Clinton Township

City: Clinton Township, Mich.
Buyer: Princeton Enterprises
Purchase Price: $3.4 MM
Price per Unit: $50,000

Rent Trends

- Rents in Detroit rose 2.6% year-over-year through January, trailing the 3.3% national rate. The metro's average rent stood at $973, well below the $1,420 U.S. figure. Following the delivery of a modest 306 units in 2018, occupancy in stabilized properties sat in a relatively tight band, at 96.3% as of December 2018—higher than the nation's 95.0%—but may decline in 2019, when a spate of new supply is scheduled to come online.

- Rents in the working-class Renter-by-Necessity segment rose 2.8% to $930, while Lifestyle rates increased 0.7%, to $1,547. Demand is sustained by household formation and steady job growth as new businesses are drawn to the region, especially to the revitalized downtown and Midtown areas.

- Submarkets recording the strongest rent hikes included Dearborn (up 7.3% to $1,346), which now commands the metro's highest rents, as well as Detroit–West (up 7.2% to $641) and Holly/White Lake (up 7.0% to $797). Following Dearborn, Bloomfield Hills/Birmingham ($1,306), Detroit–Downtown ($1,297) and Detroit–Midtown ($1,232) also posted some of the highest rates across the metro.

- The resurgence of Detroit's core is bound to prompt developers to bring more multifamily units to the market. Demand is anticipated to keep up, bolstering a steady rent growth of 2.7% for the year.

Detroit vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
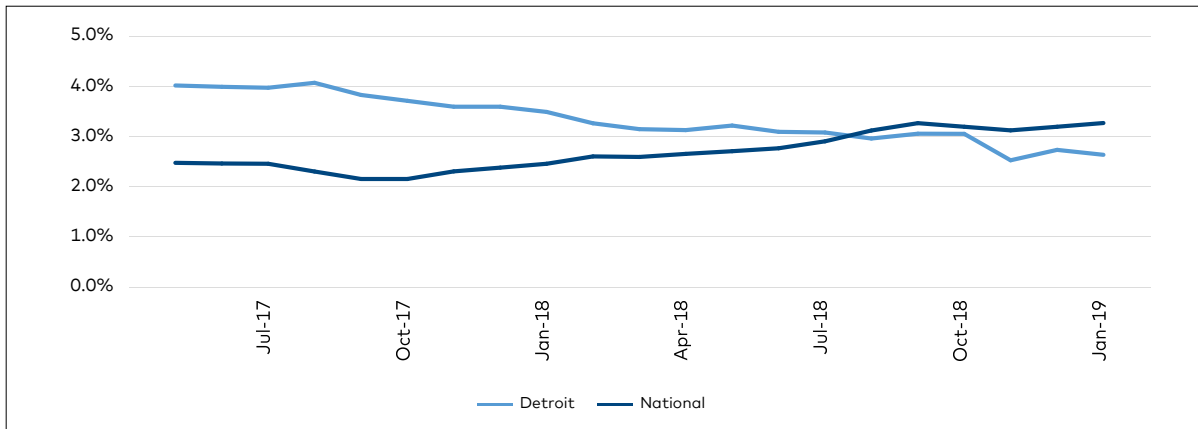
Source: YardiMatrix

**Detroit Rent Growth by Asset Class** (Sequential 3 Month, Year-Over-Year)
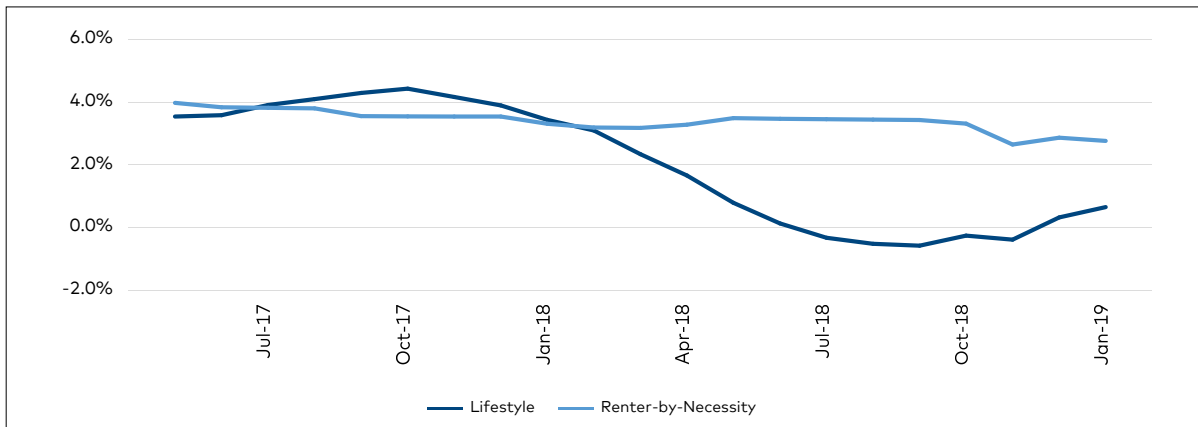
Source: YardiMatrix

Economic Snapshot

- Detroit added 12,800 jobs in the 12 months ending in November for a 0.9% appreciation, trailing the 2.1% national figure. The metro's unemployment rate stood at 4.7% as of November, one of its lowest in recent years but above the 3.5% U.S. rate.

- Gaining 4,600 jobs for a 6.1% expansion, the construction sector led growth, sustained by a flurry of mega-developments going up in and around downtown Detroit. In December 2018, Dan Gilbert's Bedrock LLC broke ground on Monroe Blocks, an $830 million mixed-use destination set to include 847,000 square feet of office space, 482 residential units, 117,000 square feet of retail and 1.5 acres of public open space. At the site of the former J.L. Hudson department store, the company is developing Michigan's tallest building, which will top off at 912 feet and feature hotel, residential and office space as well as retail and event venues by an expected 2022 completion.

- Education and health services added 3,000 jobs, followed by government (2,200) and manufacturing (1,700). At the end of 2018, Ford began work on the $350 million redevelopment of the 105-year-old Michigan Central Station in Corktown, the centerpiece of its $740 million, 1.2 million-square-foot innovation campus, which will focus on developing autonomous and electric vehicles and is set to house 2,500 company employees as well as 2,500 workers from partners and suppliers by 2022.

Detroit vs. National Employment Growth (Year-Over-Year)
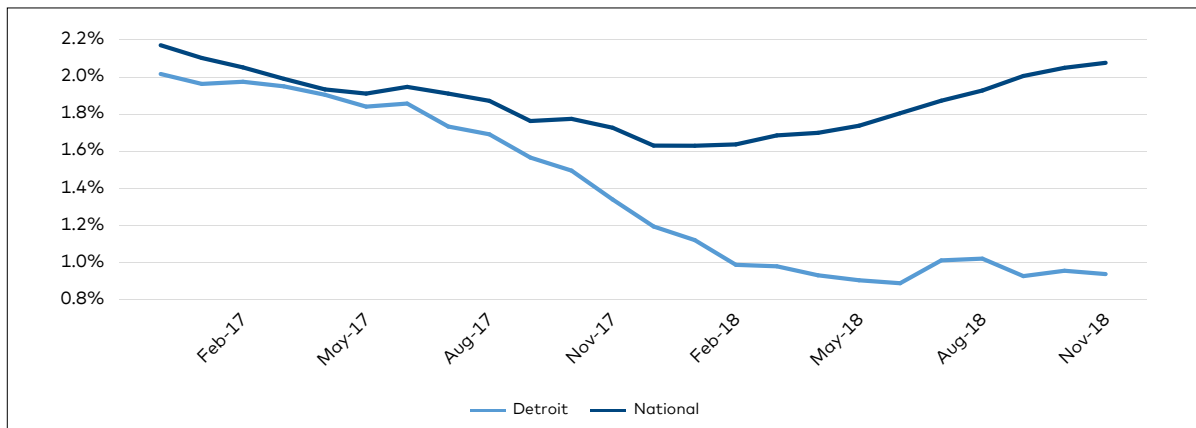
Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Detroit Employment Growth by Sector (Year-Over-Year)

| Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
15	Mining, Logging and Construction	80	3.9%	4,600	6.1%
65	Education and Health Services	318	15.6%	3,000	1.0%
90	Government	193	9.4%	2,200	1.2%
30	Manufacturing	257	12.6%	1,700	0.7%
40	Trade, Transportation and Utilities	380	18.6%	1,600	0.4%
60	Professional and Business Services	395	19.3%	300	0.1%
55	Financial Activities	116	5.7%	100	0.1%
80	Other Services	76	3.7%	-100	-0.1%
70	Leisure and Hospitality	201	9.8%	-300	-0.1%
50	Information	27	1.3%	-300	-1.1%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

- With the metro's housing market still recovering, the median home price rose to a cycle peak of $152,337 last year, up 3.8% since 2017 and 98% above the 2011 level. Last year, the average mortgage payment accounted for 12% of the area's median income, while the average rent equated to 19%.

- To avoid the massive displacement of renters as low-income housing tax credits expire through 2023, the city council has approved nonprofit Detroit Local Initiatives Support Corp. as manager of its $250 million Affordable Housing Leverage Fund, set up with the purpose of preserving 10,000 existing affordable housing units and creating an additional 2,000 units.

Detroit Rent vs. Own Affordability as a Percentage of Income
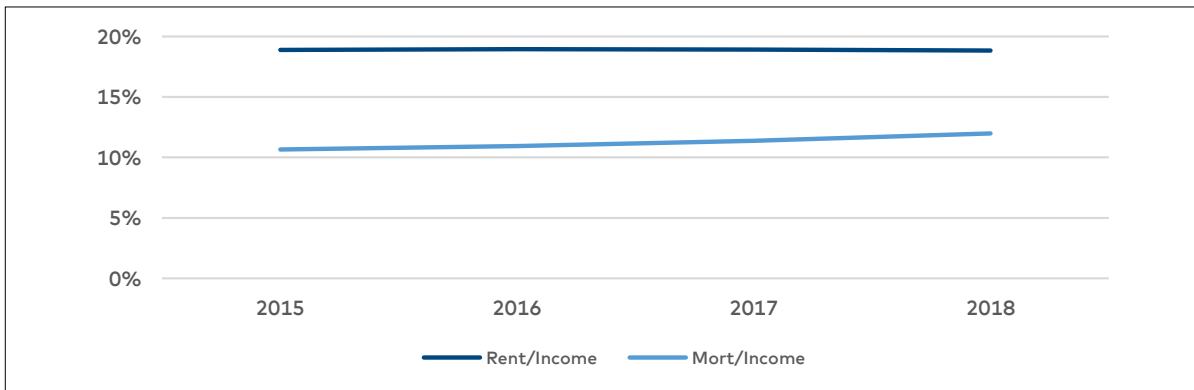
Sources: YardiMatrix, Moody's Analytics

Detroit Median Home Price
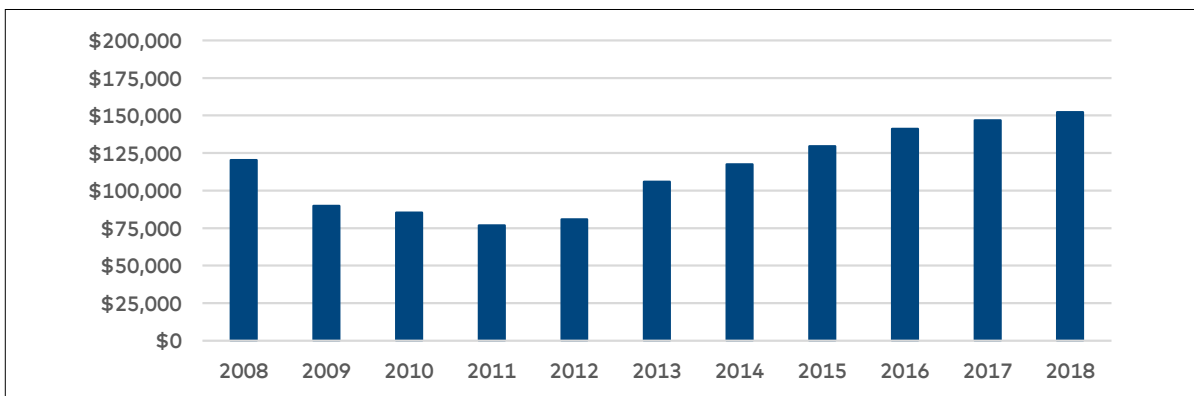
Source: Moody's Analytics

Population

- Detroit added 7,133 people in 2017, a 0.2% increase, trailing the 0.7% national growth rate.

- Between 2013 and 2017, the metro gained 14,461 residents, up 0.3% and well below the 3.0% U.S. rate.

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

- With 2,730 units expected to come online across the metro this year, multifamily deliveries in Detroit are bound to hit a strong cycle high in 2019. This comes after a tepid 2018, when only three properties adding as many as 306 units were delivered. Last year's completions included The Hamilton, a 97-unit Midtown community; the 120-unit Orchard Brook in Washington/Richmond; and the 89-unit Philip Houze, developed downtown by Barbat Holdings.

- A total of 4,605 units were under construction as of January, while another 13,625 units were in the planning and permitting stages. Developers are focusing on both new projects and repurposing and redeveloping properties with a value-add component in pedestrian-friendly neighborhoods.

- Detroit–Downtown topped the multifamily pipeline as of January, with five projects totaling 723 units underway. This is not surprising since the area is undergoing a strong building boom, with several large-scale, mixed-use projects scheduled for completion in the coming years reshaping the area for the first time in decades. Montclair at Partridge Creek, a 613-unit community developed by Moceri Cos. in Clinton Township–West, ranked as the metro's largest project underway as of January.

Detroit vs. National Completions as a Percentage of Total Stock (as of January 2019)
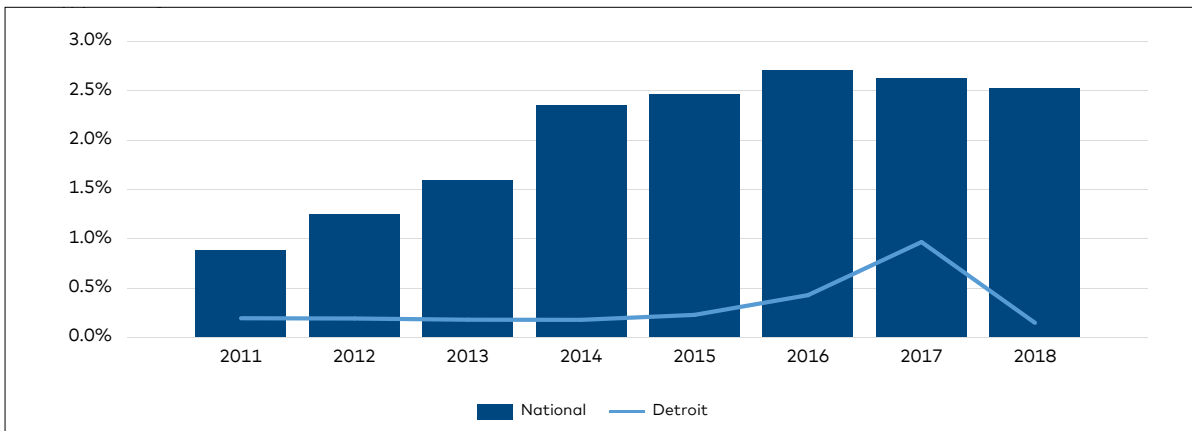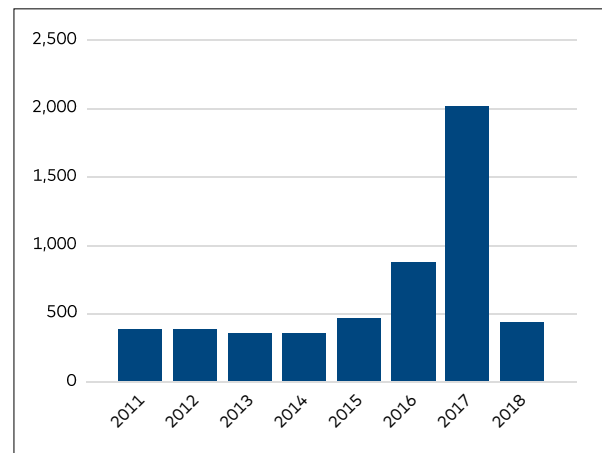

Source: YardiMatrix

Development Pipeline (as of January 2019)
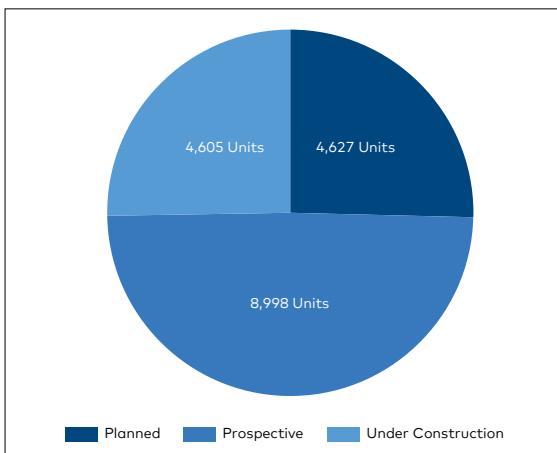
Source: YardiMatrix

**Detroit Completions** (as of January 2019)

Source: YardiMatrix

Transactions

- More than $260 million in multifamily assets changed hands in Detroit in 2018, at an average per-unit price of $75,204, well below the $154,634 national average.

- Drawn by the market's low barrier to entry, investors primarily targeted Class B and C assets with a value-add component—acquisition yields can go as high as 11.0% for properties in infill locations and 10.0% for suburban assets.

- Princeton Enterprises was one of the most active Detroit buyers of 2018. The company acquired five properties totaling 731 units for a combined $33.4 million. The largest was Grayhaven Marina Village, a 190-unit partially affordable community in Detroit–East, which the Michigan State Housing Development Authority sold for $13.3 million, or $70,175 per unit.

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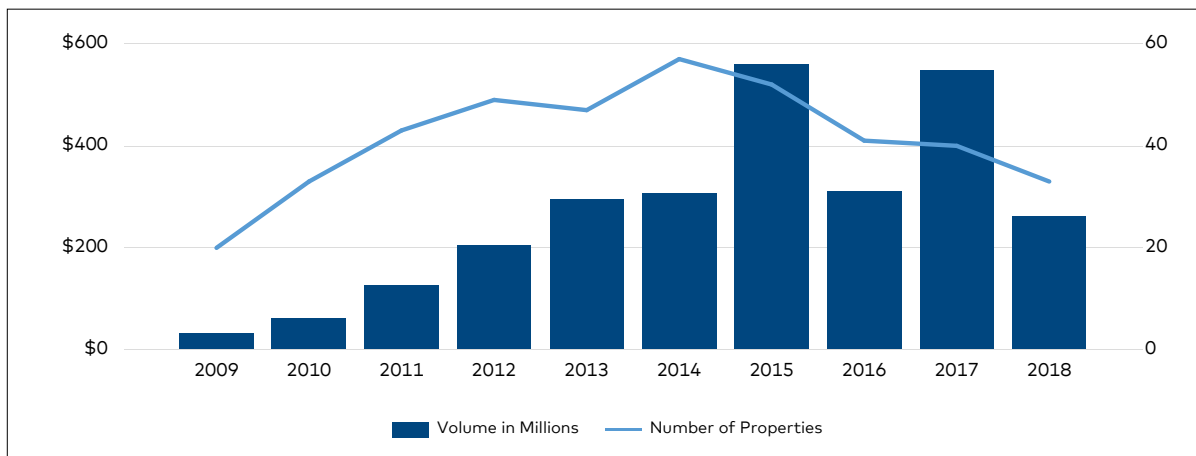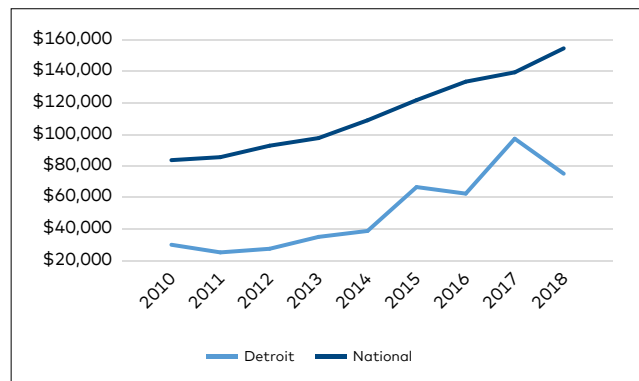

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Dearborn	41
Canton/Plymouth	38
Waterford	31
Southfield	29
Southgate/Riverview	24
Warren	22
Detroit–Downtown	19
Detroit–East	13

Source: YardiMatrix
[1] From January 2018 to December 2018

Detroit vs. National Sales Price per Unit

Source: YardiMatrix

News in The Metro

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Detroit 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.
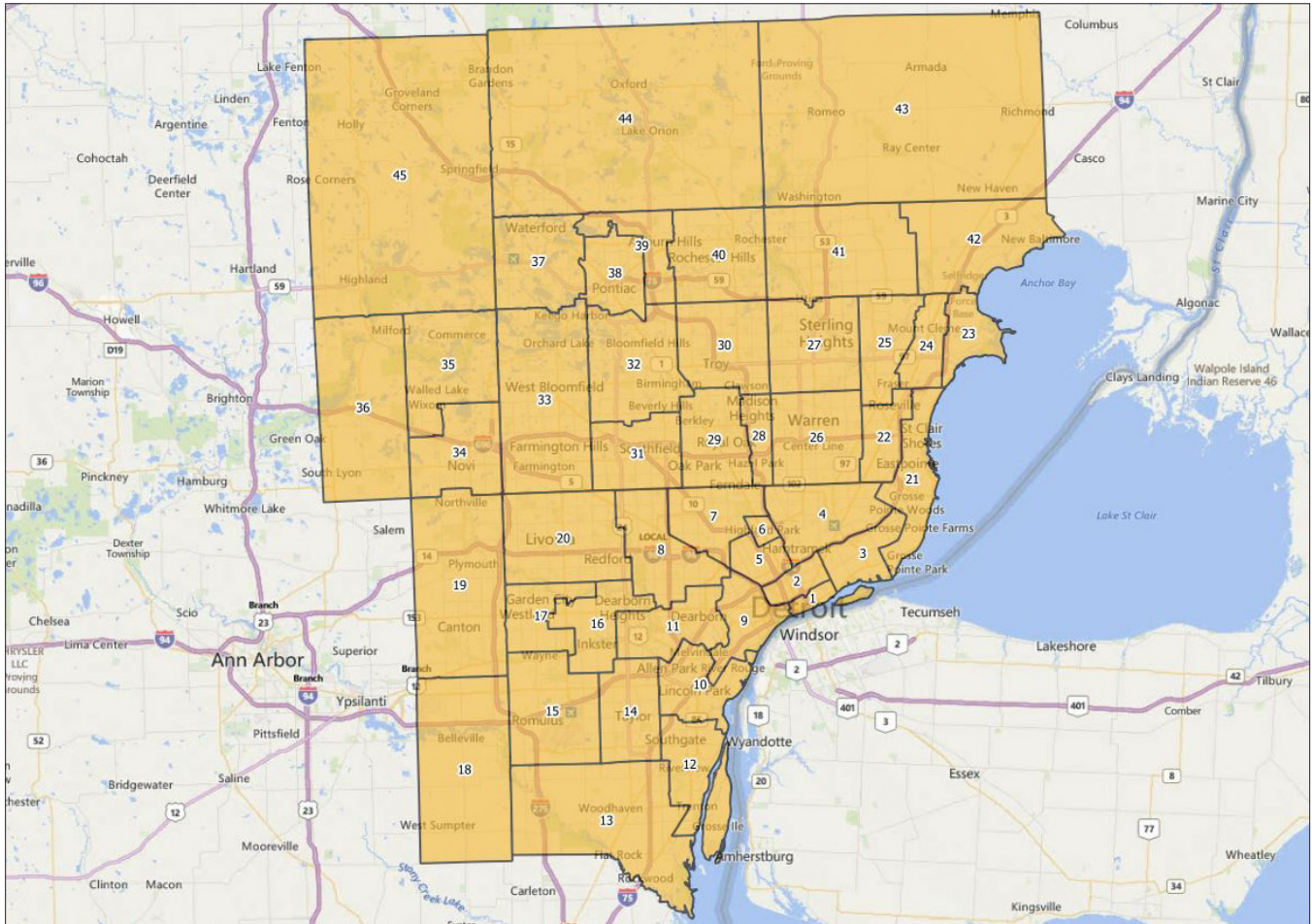

Detroit-Area Communities Receive $47M Financing

Both Fannie Mae Green Rewards loans include a 10-year term and a low fixed rate. Greystone originated the refinancing on behalf of Singh Development Co.

Detroit Submarkets

Area #	Submarket	Area #	Submarket	Area #	Submarket
1	Detroit–Downtown	16	Dearborn Heights/Inkster	31	Southfield
2	Detroit–Midtown	17	Westland	32	Bloomfield Hills/Birmingham
3	Detroit–East	18	Belleville	33	Farmington Hills/West Bloomfield
4	Detroit–Northeast	19	Canton/Plymouth	34	Novi
5	Detroit–New Center	20	Livonia/Redford	35	Wixom/Walled Lake
6	Highland Park	21	St. Claire Shores/Grosse Pointe	36	South Lyon/Milford
7	Detroit–North	22	Roseville	37	Waterford
8	Detroit–West	23	Harrison Township	38	Pontiac
9	Detroit–South	24	Clinton Township–East	39	Auburn Hills
10	Lincoln Park/Melvindale	25	Clinton Township–West	40	Rochester Hills
11	Dearborn	26	Warren	41	Shelby Township
12	Southgate/Riverview	27	Sterling Heights	42	Chesterfield/New Baltimore
13	Woodhaven/Brownstown	28	Madison Heights	43	Washington/Richmond
14	Taylor	29	Royal Oak/Oak Park	44	Clarkston/Orion
15	Wayne/Romulus	30	Troy	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.