

An aerial photograph of Detroit, Michigan, showing a mix of urban architecture, including a large stadium, various commercial buildings, and residential structures. A major road with traffic is visible on the left side of the image. The sky is clear and blue.

Yardi® Matrix

Detroit Pushes Forward

Multifamily Report Summer 2019

Investment Sales Wind Down

Rent Growth Outpaces US Average

Deliveries Expected to Peak This Year

Market Analysis

Summer 2019

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Job Growth Fuels Upscale Demand

Detroit's expanding economy and growing Millennial population are pushing up housing demand, particularly in core submarkets, leading to a spike in rent growth—at 3.6% year-over-year through July. Gains in the Lifestyle segment weighed in heavily, recovering from negative values in the summer of 2018, to figures above the 4.0% threshold by mid-year 2019.

Detroit added 11,000 jobs in the 12 months ending in June. Gains were led by the leisure and hospitality sector (6,100 jobs), mainly due to an increasing number of visitors, as well as new hotel projects coming online, while a shortage of guestrooms still lingers. The metro lost 1,600 manufacturing jobs, but the sector is expected to get a significant boost in the coming years, with upcoming investments from Dakkota Integrated Systems and Fiat Chrysler Automobiles. The new facilities, worth a combined \$2.6 billion, are set to generate more than 5,600 positions.

Multifamily investment activity slowed down in early 2019, but the pace is expected to pick up, as almost all of Detroit's core submarkets are within designated opportunity zones, attracting investors seeking well-located properties that offer value-add potential. Considering a projected cycle peak for deliveries in 2019—2,392 units—rent growth is expected to slightly moderate, reaching 2.2% for the year.

Recent Detroit Transactions

Hoover Square



City: Warren, Mich.
Buyer: GSH Group
Purchase Price: \$22 MM
Price per Unit: \$63,743

Riverview Crossings



City: Riverview, Mich.
Buyer: RESSCO
Purchase Price: \$19 MM
Price per Unit: \$62,844

Kings Gate



City: Sterling Heights, Mich.
Buyer: Burton Carol Management
Purchase Price: \$9 MM
Price per Unit: \$72,351

Concorde Club

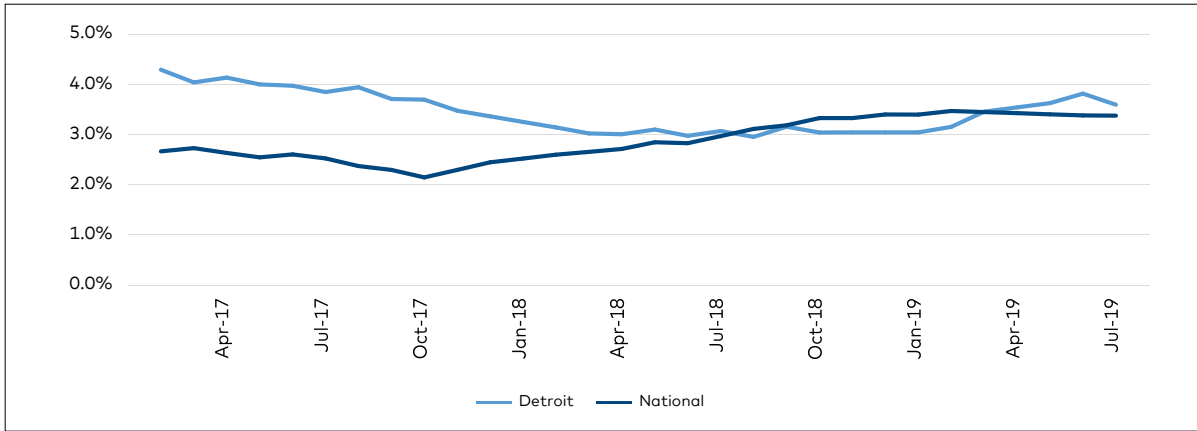


City: Romulus, Mich.
Buyer: AndMark
Purchase Price: \$7 MM
Price per Unit: \$42,731

Rent Trends

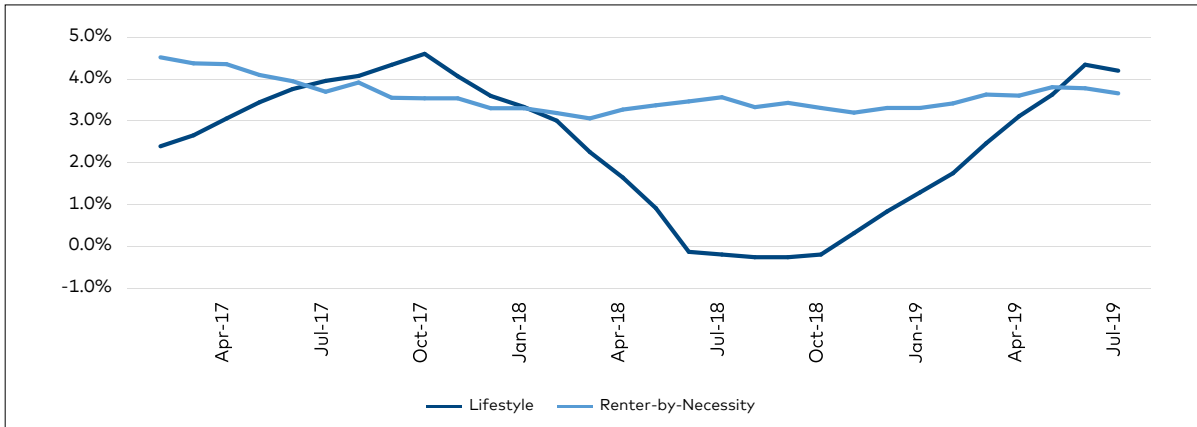
- Rents in the metro rose 3.6% year-over-year through July, outperforming the 3.4% U.S. rate. The average rent reached \$1,008, well below the \$1,469 U.S. figure. Detroit's improving economy is fueling demand, particularly in core submarkets, boosting rent growth. Downtown recorded a 20% increase in rents between April 2016 and April 2019, the highest among the metro's intellectual capital nodes.
- New renters are mostly seeking modern, well-located units, pushing up demand for Lifestyle units, which saw rents rise 4.2% to \$1,612, a major shift compared to 12 months prior, when rates were still contracting (-0.2%). Meanwhile, working-class Renter-by-Necessity rates increased 3.7% to \$963.
- The metro's most expensive submarkets as of July were Bloomfield Hills/Birmingham (\$1,374), Detroit-Downtown (\$1,371), Dearborn (\$1,342), Detroit-Midtown (\$1,272) and Troy (\$1,262). Detroit-Downtown recorded a 5.0% jump in rents year-over-year through July, the highest among the metro's core submarkets. Meanwhile, rates in Belleville were up 12.5% for the same period, the most significant year-over-year growth overall.
- The development cycle high expected this year—2,392 apartments—is slated to moderate rent growth. We expect the average metro Detroit rent to advance by 2.2% in 2019.

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)

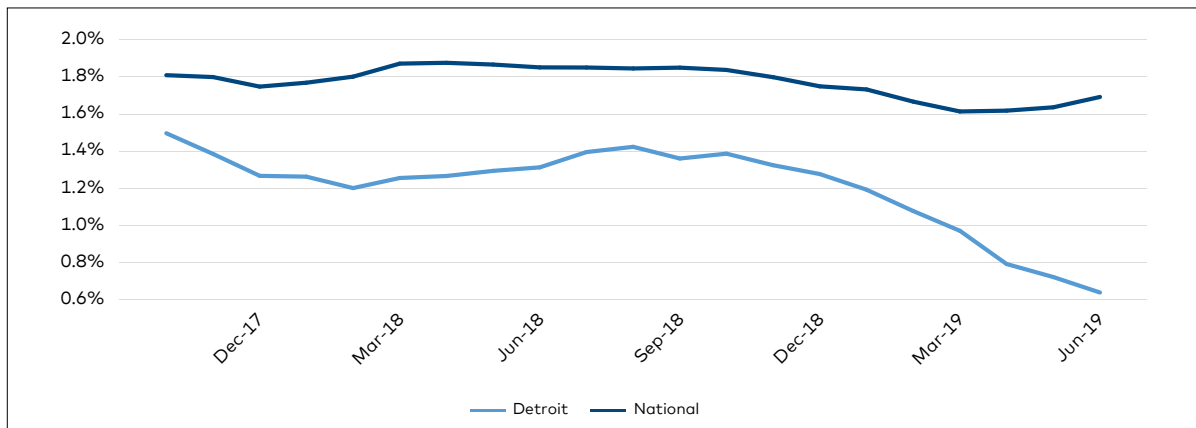


Source: YardiMatrix

Economic Snapshot

- In the 12 months ending in June, Detroit added 11,000 jobs for a 0.6% appreciation, lagging the 1.7% national figure. According to research conducted by Reuters and based on federal data, metro Detroit came in at number 10 among 378 U.S. metros for job growth levels between 2010 and 2017, accounting for 1.7% of all jobs generated within that timeframe.
- Gains were led by the leisure and hospitality sector, which added 6,100 jobs for a 2.9% uptick, the most significant year-over-year jump. The figures are the result of an increase in the number of events taking place in the city, with the Detroit Metro Convention and Visitors Bureau receiving 13% more requests for conventions in 2018 versus 2017. Trade, transportation and utilities (4,200 jobs gained), education and health services (3,000), and construction (2,100) followed.
- The manufacturing sector lost 1,600 positions year-over-year through June. Nonetheless, Detroit's automotive hub status is set to get a boost through a new \$55 million Dakota Integrated Systems facility that will supply parts to Fiat Chrysler Automobiles and is slated to create more than 600 jobs. Fiat Chrysler also plans to invest \$2.5 billion in the expansion and modernization of two of its Detroit plants—Mack Avenue Engine and Jefferson North Assembly—creating nearly 5,000 jobs in what is a historic move for the metro, which hasn't had a new assembly plant built in three decades.

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	%
70	Leisure and Hospitality	216	10.4%	6,100	2.9%
40	Trade, Transportation and Utilities	380	18.3%	4,200	1.1%
65	Education and Health Services	321	15.5%	3,000	0.9%
15	Mining, Logging and Construction	81	3.9%	2,100	2.6%
90	Government	191	9.2%	2,000	1.1%
50	Information	27	1.3%	300	1.1%
80	Other Services	76	3.7%	-500	-0.7%
55	Financial Activities	117	5.6%	-700	-0.6%
30	Manufacturing	260	12.5%	-1,600	-0.6%
60	Professional and Business Services	402	19.4%	-3,900	-1.0%

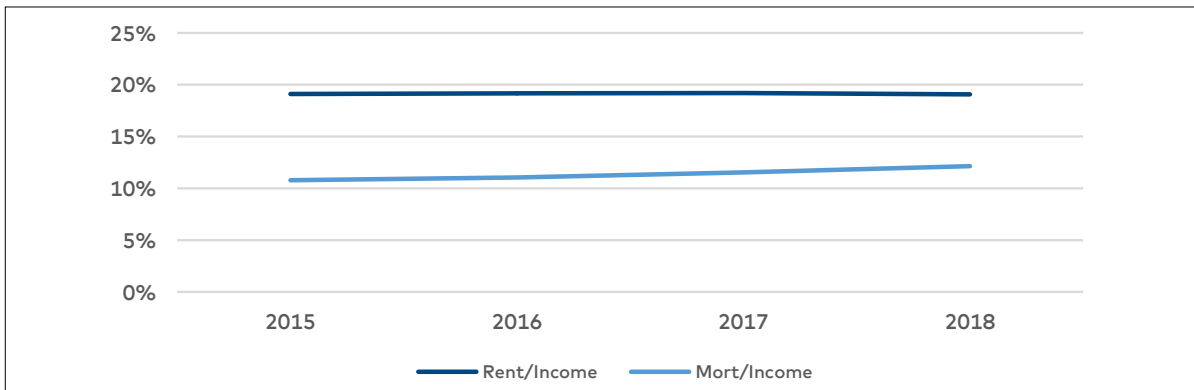
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

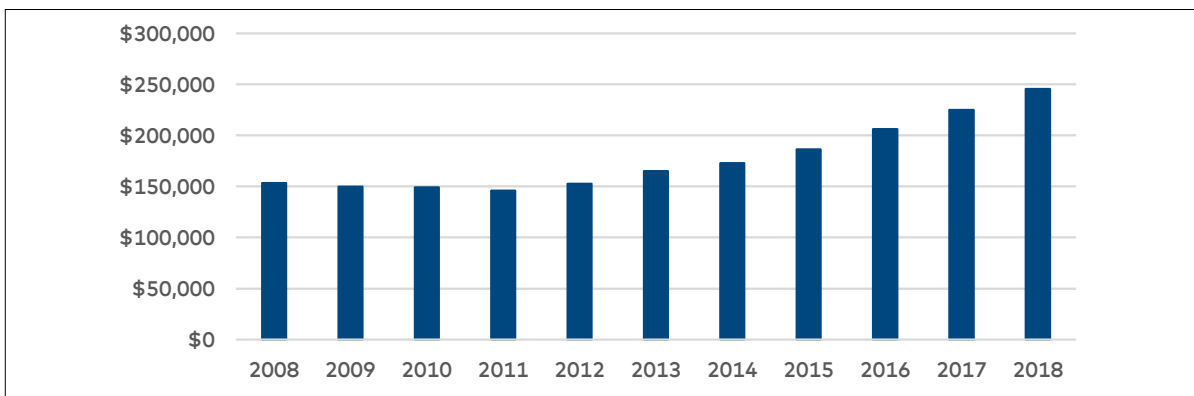
- Housing costs continue to rise in Detroit. In 2018, the median home value reached \$245,479, up 9% for the year and a peak for the past decade. Detroit's reviving economy has kept affordability rates flat in recent years. Meanwhile, owning remained the more affordable option. Last year, the average mortgage rate payment accounted for 12% of the area median income, while the average rent equated to 19%.
- The Michigan State Housing Development Authority has awarded LIHTCs for the creation or preservation of 536 affordable units across the city. The total investment reached \$100 million.

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 17,356 residents between 2012 and 2017.
- According to the Detroit Regional Chamber, the metro's Millennial population inched up 9.7% between 2013 and 2017, way above the 5.5% U.S. average.

Detroit vs. National Population

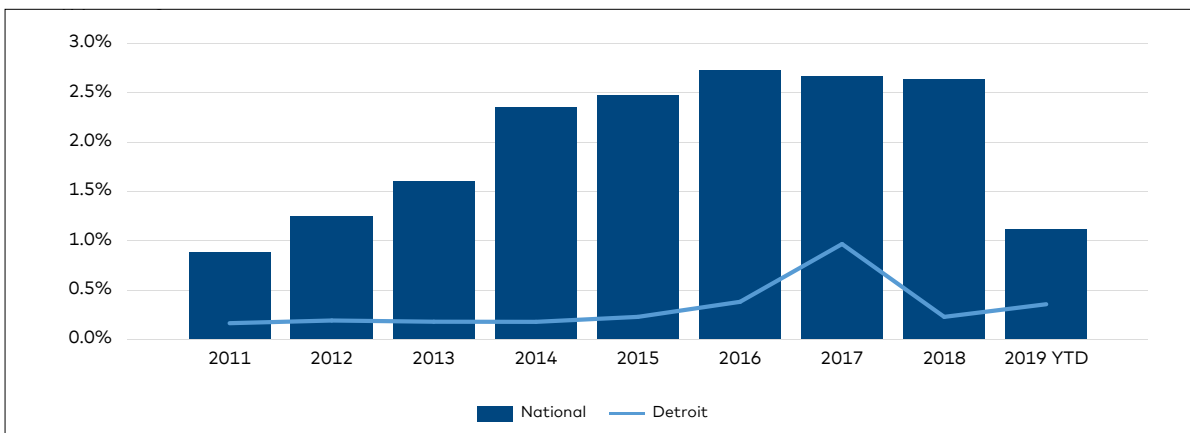
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Detroit Metro	4,298,541	4,303,366	4,302,282	4,305,869	4,313,002

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

Supply

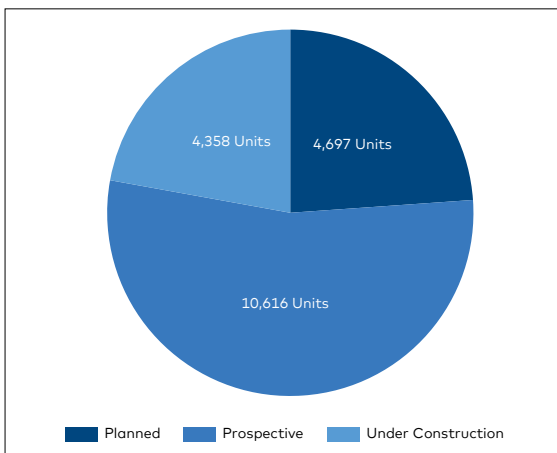
- Development activity is picking up pace in Detroit, with 2,392 units expected to come online in 2019 for a new cycle peak. A total of 745 units came online in the first seven months of the year, well above the 474 apartments added last year.
- Developers had 4,358 units underway as of July and an additional 15,313 units in the planning and permitting stages. Development is sustained by the local and state governments through infrastructure and neighborhood revitalization projects, as well as through public-private partnerships. In one such project, Woodburn Partners is set to build 60 units and 5,000 square feet of retail as part of the Strategic Neighborhood Fund, a public-private funding initiative.
- Core submarkets continue to benefit most from strong housing demand. Downtown Detroit had 1,053 units underway as of July, followed by Royal Oak/Oak Park (628 units). Local developer Bedrock Detroit had several major projects underway in central locations, including what is set to be the city's tallest building, expected to include up to 450 units. Bedrock and its partners have also acquired the site of the former Brewster-Douglass public housing project in Brush Park, planning to develop 900 units.

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



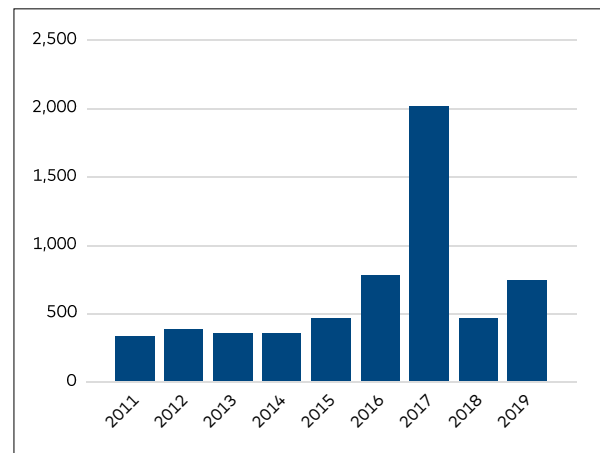
Source: YardiMatrix

Development Pipeline (as of July 2019)



Source: YardiMatrix

Detroit Completions (as of July 2019)

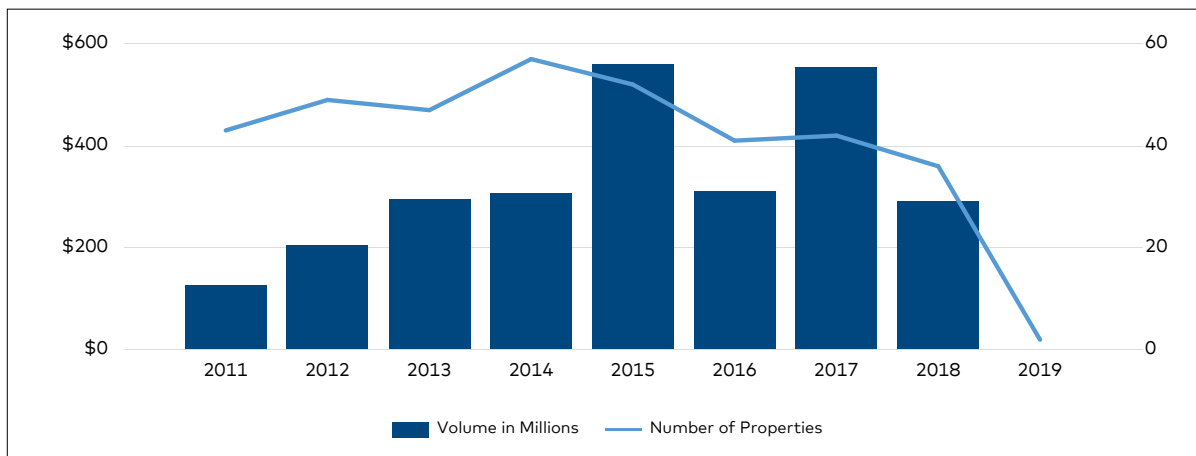


Source: YardiMatrix

Transactions

- Detroit sales activity has slowed to a near halt, with only two multifamily properties of 50 or more units trading in the first seven months of 2019. Both were Renter-by-Necessity assets with value-add potential, a trend that has long dominated the metro's multifamily investment market. Local and out-of-state investors are seeking well-located Class B and C properties, drawn by acquisition yields that fluctuate between 8.0% and 11.0% for this type of ventures.
- Post-recession investment activity peaked in 2015, when 52 Renter-by-Necessity properties traded for nearly \$560 million. In 2018, 36 assets in the same segment traded for \$292 million. One of the largest transactions of the 12 months ending in July was GSH Group's acquisition of the 342-unit Hoover Square from RESSCO, for about \$22 million. The purchase was partially funded by a \$16.4 million loan from SunTrust Bank. The property last traded in 2007 in an REO sale, for \$6 million.

Detroit Sales Volume and Number of Properties Sold (as of July 2019)



Source: YardiMatrix

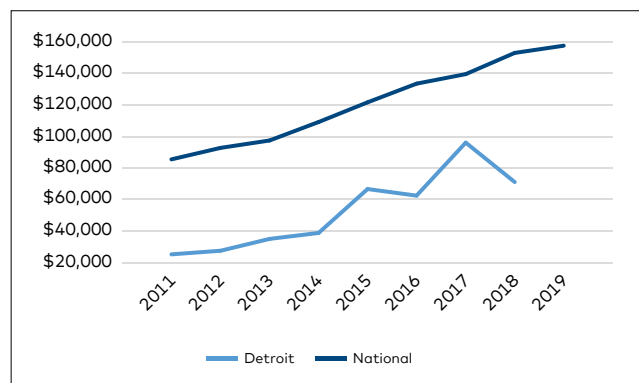
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Warren	22
Detroit–Downtown	19
Southgate/Riverview	19
Detroit–East	13
Sterling Heights	9
Wayne/Romulus	7
Detroit–North	4
Clinton Township–East	3

Source: YardiMatrix

¹ From August 2018 to July 2019

Detroit vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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The Habitat Co. Bolsters Condo Division

David Barnhart, the newly appointed vice president, will work alongside Shruti Kumar, appointed as regional manager, in overseeing the company's portfolio in Chicago, Detroit and Tampa.



Time Equities' High-Rise Community In Grand Rapids

The 16-story tower is the result of a joint effort of contractor Pioneer Construction, property manager KMG Prestige and architecture firm Ghafari Associates.



JV Buys 6-Building Senior Housing Portfolio

Madison Marquette and GFH Financial Group have acquired a total of 509 units across properties in California, Washington and Michigan. The portfolio is a mix of independent living, assisted living and memory care facilities.



Trio of Midwest Communities Commands \$100M

With this acquisition of 1,263 units, The Habitat Co. enters the Minnesota market while expanding its multifamily portfolio in Michigan to more than 2,500 units.



Michigan Awards LIHTC for 536 Affordable Units

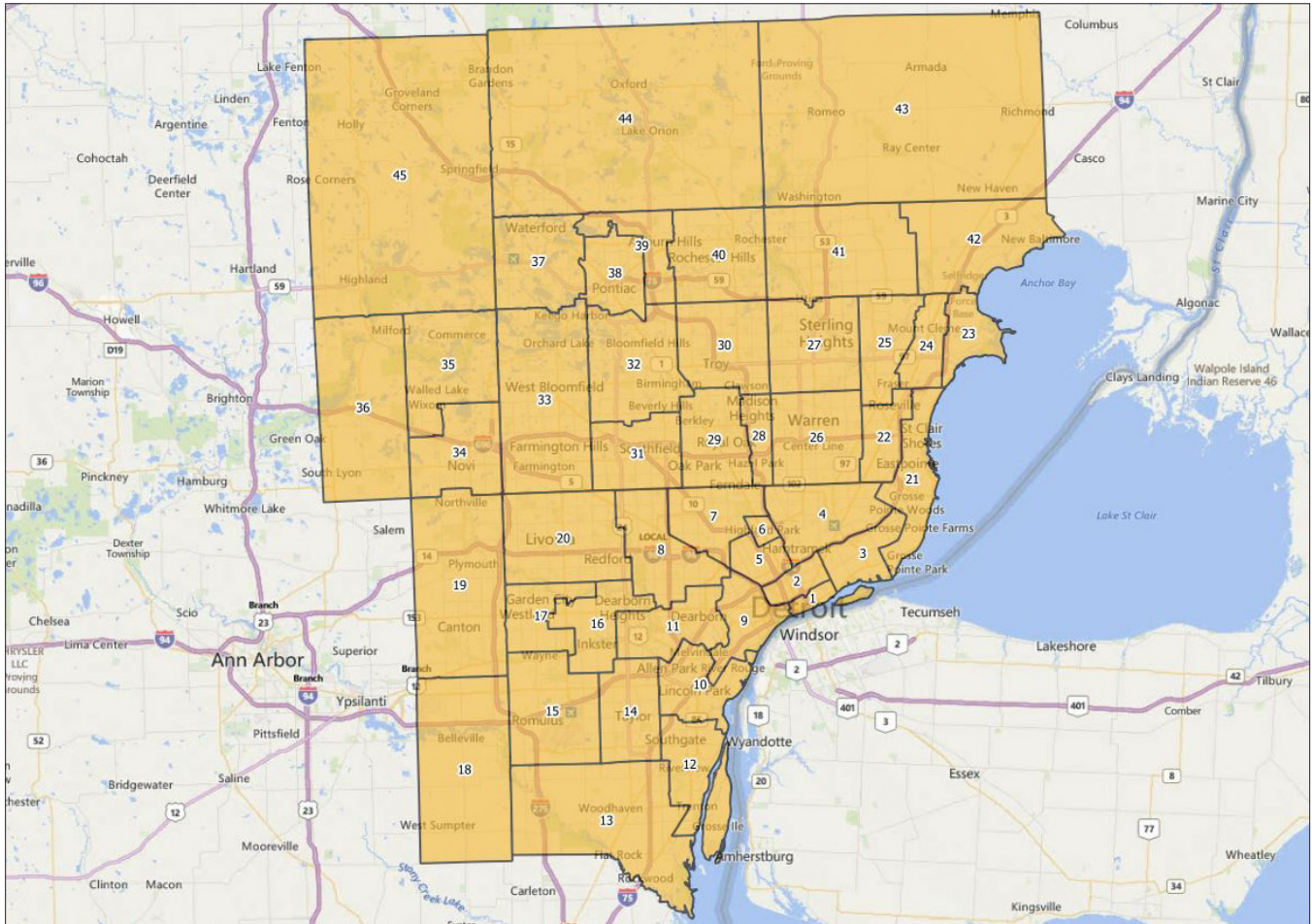
The state selected five projects in Detroit for the federal tax credits, which will support the construction of 235 new units and preserve the affordability of 318 existing units.



Detroit-Area Community Scores \$23M Refi

Berkadia secured a 15-year Fannie Mae loan for the 180-unit garden-style property located less than 5 miles from downtown Rochester. Ashford Apartments consists of 23 two-story buildings.

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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