



Yardi® Matrix

MULTIFAMILY REPORT

Detroit Pushes Through

Winter 2020

Occupancy Stays High

Employment Gains at Standstill

Rent Growth Outperforms US Average

Yardi® Matrix

Slow, Steady Gains Keep Market On Track

Detroit's rental market remained stable in 2019, underlined by consistent rent growth and an expanding millennial population. In 2019, rent growth was 90 basis points above the 3.0% national rate. Gains in the Renter-by-Necessity segment weighed heavily, surpassing the 3.5% mark for most of the year.

Job growth stagnated in the 12 months ending in November, with significant losses in manufacturing (-6,200 jobs) offset by gains in leisure and hospitality (3,700 jobs), construction (1,400 jobs) and government (1,000 jobs). Due to the metro's growing tourism prospects and attracted by more accessible financing options for hotel projects, several developers are switching from residential plans to hospitality projects in downtown Detroit. Ford Motor Co. is converting the Michigan Central Train Station into a \$350 million mixed-use project, now set to include a hotel. Continuing its post-bankruptcy revitalization, downtown Detroit has a handful of large projects underway. Bedrock is building Monroe Blocks, a 1.4 million-square-foot destination, while also leading the \$313 million adaptive reuse of the historic Book Tower.

Although multifamily transaction velocity slowed down in 2019, national investors are increasingly bullish on the Motor City's potential, according to the latest Detroit Reinvestment Index, an annual report released by the Kresge Foundation.

Market Analysis | Winter 2020

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Recent Detroit Transactions

Oaks at Hampton



City: Rochester Hills, Mich.
Buyer: The Solomon Org.
Purchase Price: \$88 MM
Price per Unit: \$162,500

Hillside Forest



City: Farmington Hills, Mich.
Buyer: Highgate Capital Group
Purchase Price: \$36 MM
Price per Unit: \$141,471

Bloomfield Square



City: Auburn Hills, Mich.
Buyer: Tithe Properties &
Management
Purchase Price: \$23 MM
Price per Unit: \$88,542

Plymouth Heritage

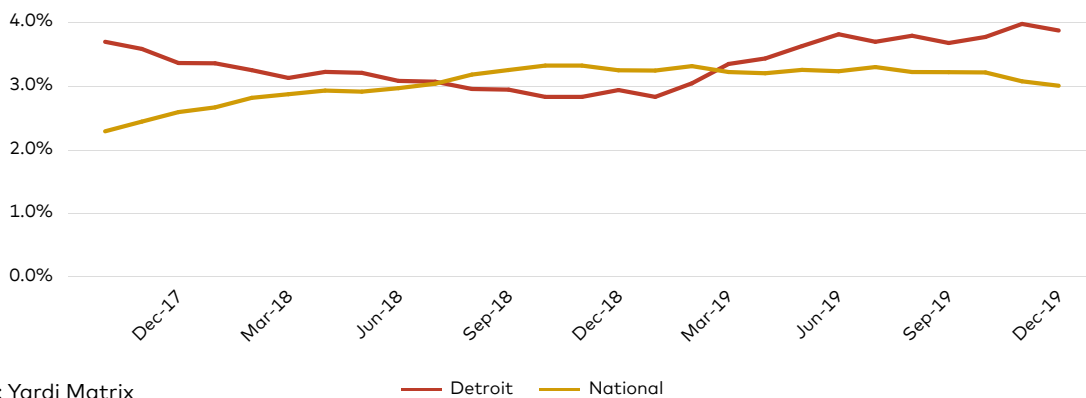


City: Plymouth, Mich.
Buyer: Berger Realty Group
Purchase Price: \$20 MM
Price per Unit: \$116,279

RENT TRENDS

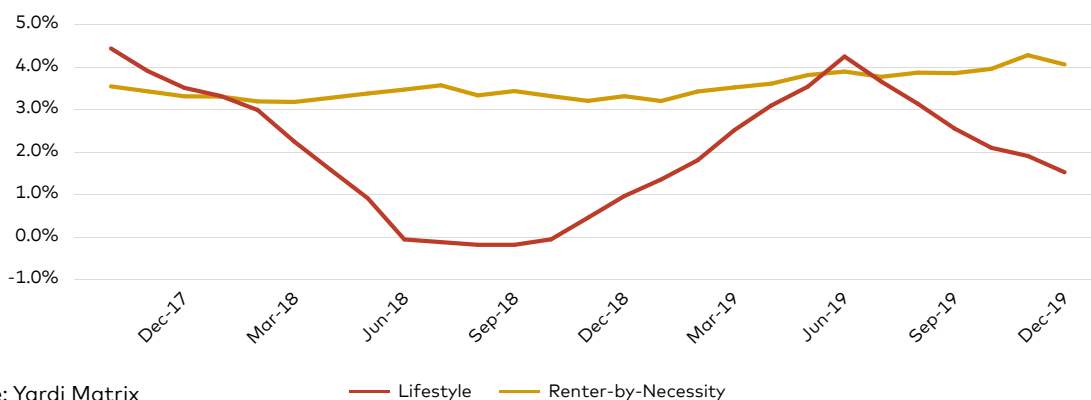
- ▶ Detroit rents were up 3.9% in 2019, outperforming the 3.0% national rate. The metro's average rate hit the \$1,000 threshold in April and ended the year at \$1,019, still significantly below the \$1,474 national figure.
- ▶ Working-class Renter-by-Necessity rates rose 4.1% to \$974, while rents in the significantly smaller Lifestyle segment advanced only 1.5%, to \$1,603. With many of 2019's deliveries catering to high-income residents and roughly 70% of the upcoming inventory also geared toward Lifestyle renters, rents at the lower end of the quality spectrum are likely to continue driving growth.
- ▶ At the end of last year, Dearborn (\$1,397), Bloomfield Hills/Birmingham (\$1,362) and Detroit-Downtown (\$1,346) were the most expensive submarkets in the metro. However, rents grew fastest in submarkets with a sizable Renter-by-Necessity component, including Belleville (10.6%), Detroit-East (10.5%) and Southfield (7.1%).
- ▶ According to a 2019 Michigan State Housing Development Authority report, single-family homebuilding has decreased 26% since 2012. This, coupled with Detroit's slow pace of multi-family development and a growing number of millennials entering the market, is likely to continue fueling rent growth.

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



Source: Yardi Matrix

Detroit Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

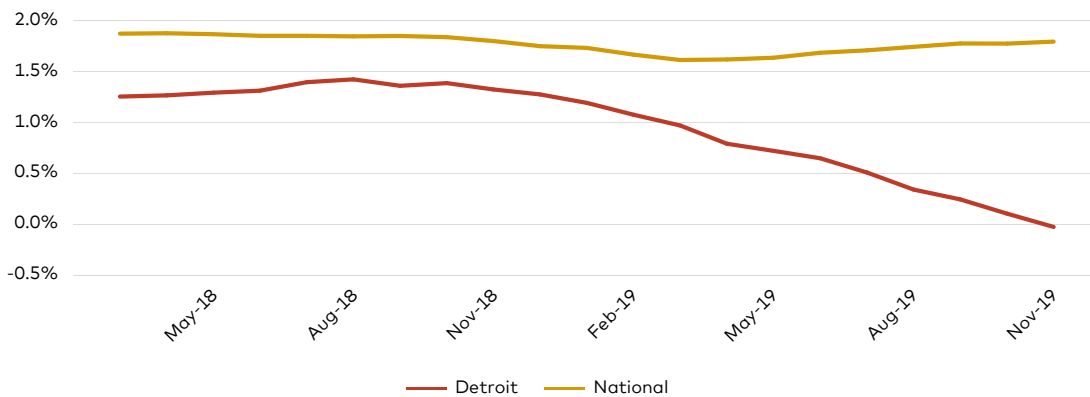


Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Detroit lost 6,600 net jobs in the 12 months ending in November 2019. Manufacturing—traditionally the metro’s strongest sector—contracted by 6,200 positions.
- ▶ Part of the deficit was offset by gains in leisure and hospitality (3,700 jobs). Following continued efforts to revive the city’s core, tourism is steadily rising, with conferences playing an increasing role and the metro’s hospitality sector responding to heightened demand. Detroit’s first Cambria hotel broke ground in November. The \$50 million project is part of an adaptive reuse of the historic Walker-Roehrig Building. Even Ford’s \$350 million Michigan Central Station redevelopment is likely to add a hospitality component. The 650,000-square-foot building is undergoing a massive remodeling process, set to wrap up in 2023.
- ▶ The revitalization of the downtown area is powering through with a bevy of projects, many of which are spearheaded by Bedrock, downtown’s largest real estate player. The list includes a \$300 million research and education center, which will anchor the Detroit Center for Innovation. The 14-acre development on the site of the canceled Wayne County Jail project is a public-private partnership among Bedrock, Related Cos., the city of Detroit and the University of Michigan.

Detroit vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	199	9.7%	3,700	1.9%
15	Mining, Logging and Construction	78	3.8%	1,400	1.8%
90	Government	193	9.4%	1,000	0.5%
55	Financial Activities	116	5.7%	400	0.3%
50	Information	27	1.3%	-	0.0%
80	Other Services	75	3.7%	-100	-0.1%
40	Trade, Transportation and Utilities	385	18.8%	-1,000	-0.3%
65	Education and Health Services	319	15.6%	-1,900	-0.6%
60	Professional and Business Services	397	19.4%	-3,900	-1.0%
30	Manufacturing	257	12.6%	-6,200	-2.4%

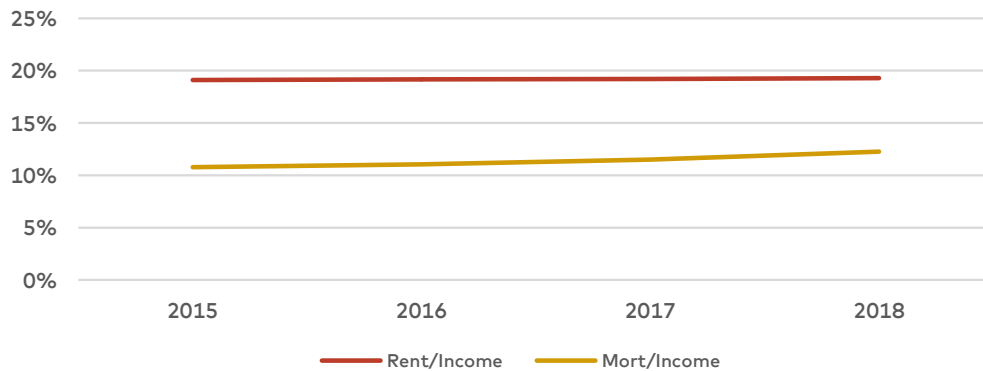
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

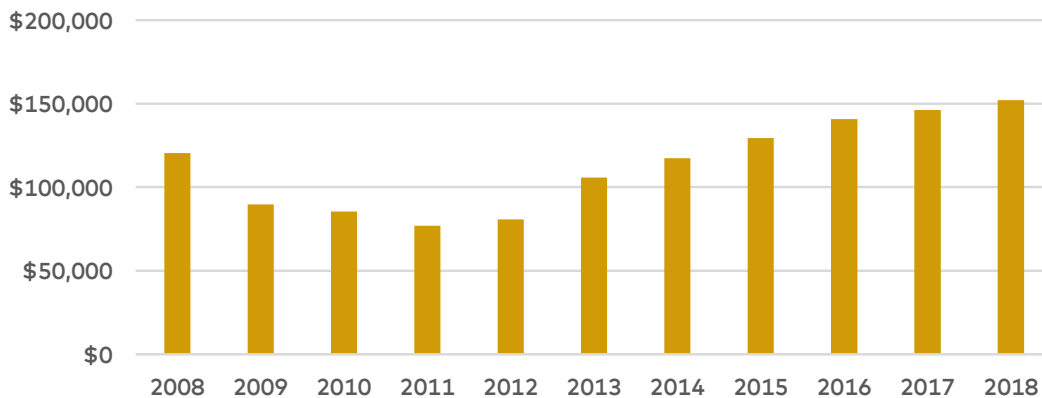
- The median home price in Detroit continued rising, hitting \$152,223 in 2018. That is nearly double the 2011 figure, when the market bottomed out. The average rent accounted for 19% of the area median income, while the average mortgage payment equated to just 12% of the same amount.
- Although Detroit is considered one of the Midwest's most affordable cities, nearly half of its households spend more than 30% of their income on housing, according to the nonprofit Michigan League for Public Policy. Matters are likely to deteriorate, as the status of 10,000 of the city's 22,000 affordable housing units is set to expire in 2023, when Low-Income Housing Tax Credit subsidies run out, according to city officials.

Detroit Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Detroit Median Home Price



Source: Moody's Analytics

Population

- Metro Detroit gained 4,738 residents in 2018, a 0.1% uptick, 50 basis points below the national growth rate.
- Between 2015 and 2019, the region's millennial population rose 10.9%, outpacing the national average by 6.2%, according to a recent Detroit Regional Chamber report.

Detroit vs. National Population

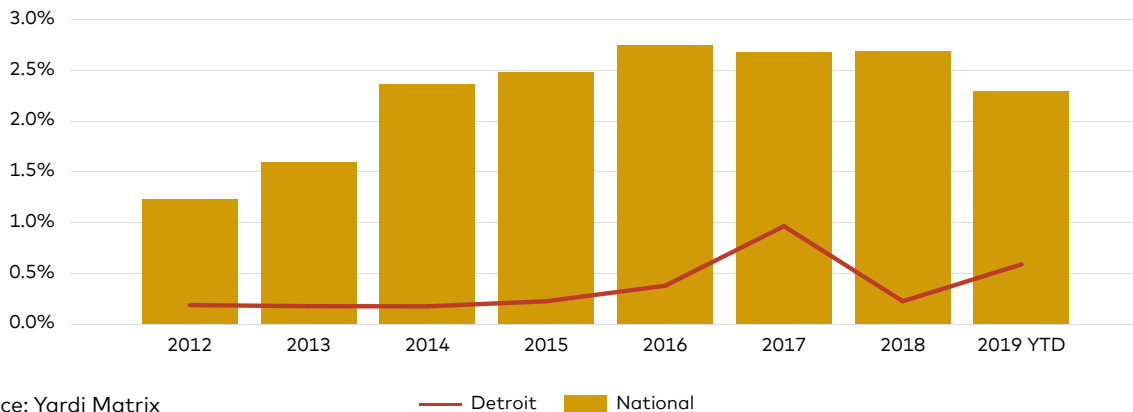
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Detroit Metro	4,309,845	4,316,198	4,321,704	4,326,442

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

SUPPLY

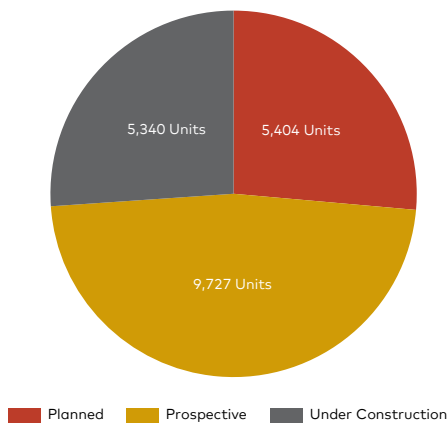
- ▶ Detroit had 5,340 apartments under construction at the end of last year, with more than two-thirds of them geared toward high-income residents. Apart from those, the metro had an additional 15,131 units in the planning and permitting stages.
- ▶ A total of 1,240 units came online in 2019, accounting for 0.6% of total stock—170 basis points below the national average, but in the second-highest place for deliveries this decade. Detroit's rather tepid five-year average of 996 units completed annually since 2015 has contributed to stable rent growth.
- ▶ Demand remained relatively healthy, with occupancy in stabilized assets at 96.1% as of November, above the 94.9% national average. Among Midwestern metros, only the Twin Cities (96.7%) posted a higher occupancy rate.
- ▶ Developers are mainly targeting core urban areas, with Downtown (1,137 units under construction) leading the way, followed by Detroit-New Center (769 units). The largest project underway is Mocerri Cos.' 613-unit Montclair at Partridge Creek in Macomb County's Golden Corridor. In 2015, PNC Bank originated a \$33.9 million construction loan for the developer of the upscale property, scheduled for completion in early 2022.

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



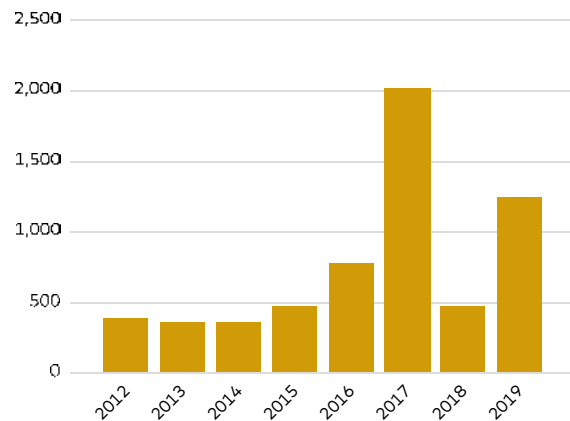
Source: Yardi Matrix

Development Pipeline (as of December 2019)



Source: Yardi Matrix

Detroit Completions (as of December 2019)



Source: Yardi Matrix

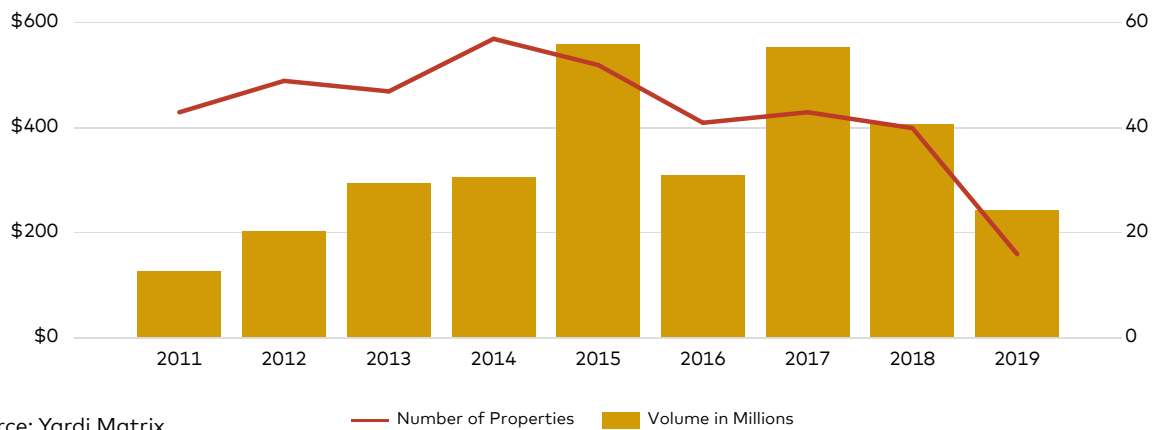
TRANSACTIONS

- Sales activity in Detroit was tepid last year, with only \$244 million in assets trading in confirmed transactions. That marked the lowest volume since 2013. Although almost all properties that changed hands were RBN communities, per-unit prices continued to rise, peaking at \$118,012 in 2019, but still below the \$166,589 national figure.
- Last year, investors primarily targeted suburban areas such as Rochester Hills (\$88 million) and

Farmington Hills/West Bloomfield (\$79 million). The Solomon Org. was among the most active buyers, with the company spending more than \$127 million on two assets in northwest Detroit.

- According to the Emerging Trends in Real Estate 2020 forecast, Detroit's revitalized economy and development are expected to increase real estate demand going forward.

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



Source: Yardi Matrix

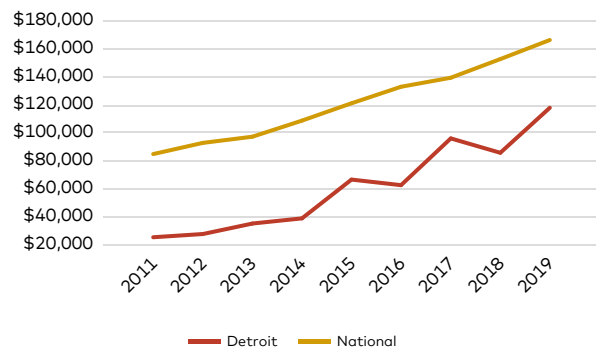
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Rochester Hills	88
Farmington Hills/West Bloomfield	79
Auburn Hills	23
Canton/Plymouth	20
Dearborn Heights/Inkster	10
Woodhaven/Brownstown	9
Southfield	7

Source: Yardi Matrix

¹ From January 2019 to December 2019

Detroit vs. National Sales Price per Unit



Source: Yardi Matrix



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City Club Apartments Begins \$25M Update

The project will update the 1974-built tower and designate 20 percent of the units as affordable for the property's current residents.



Hunt Arranges Refi For Historic Trio

The company provided a Fannie Mae conventional loan for Hibbard Tower, Kean Building and Trombley Lodge.



JV Breaks Ground On Development

A partnership of The Roxbury Group, Invest Detroit, Capital Impact Partners and the Michigan Economic Development Corp. is heading the project.



Walker & Dunlop Arranges \$48M Loan

Vice President Benjy Krosin partnered with Inner Circle Holdings' President Kari Zapolski to originate the transaction.



Student Housing Project Finalized

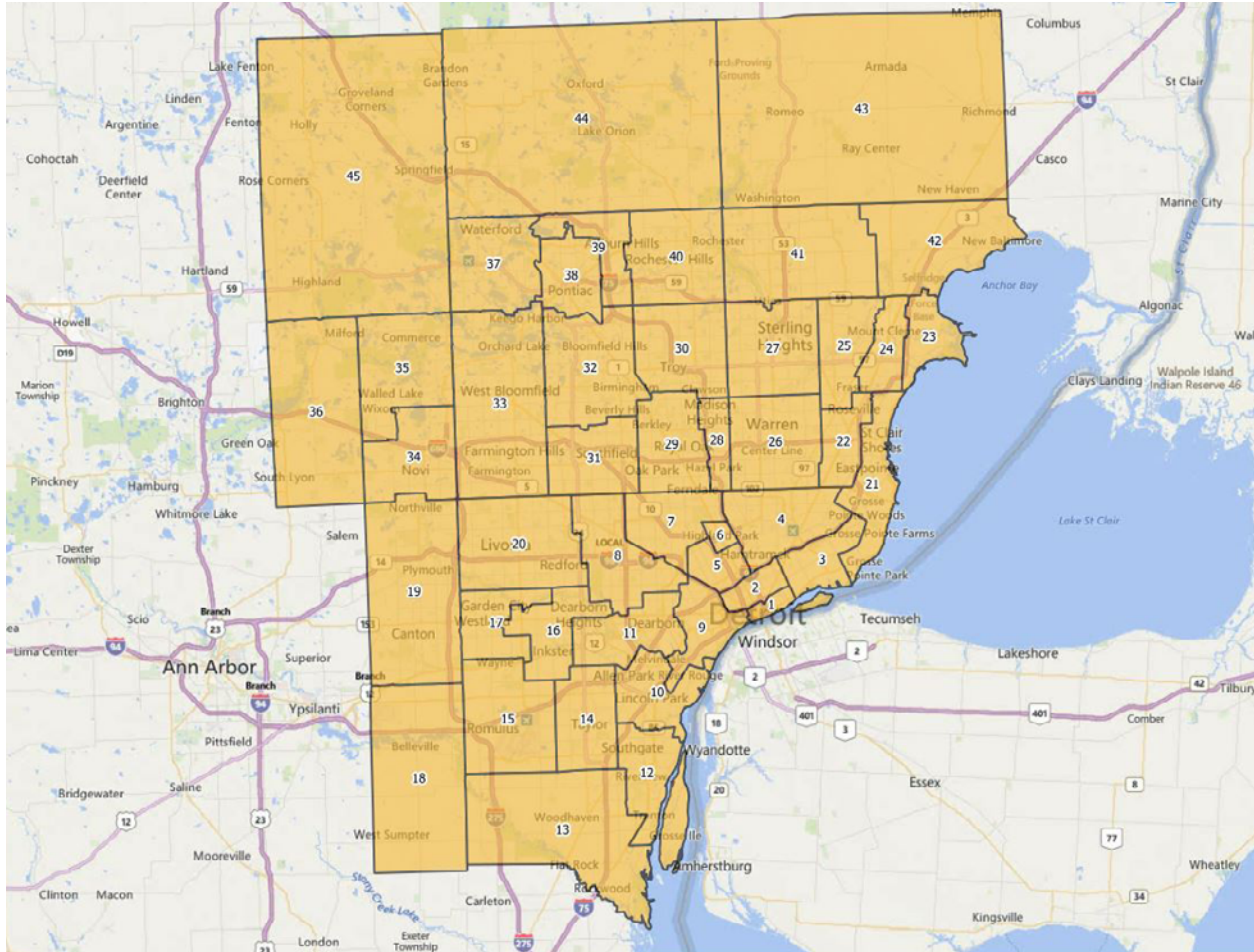
Corvias and Wayne State University have finished the second phase of the 841-bed project. The project started in 2017.



LR Management Buys Michigan Community

The acquisition of the 62-unit asset in Farmington Hills, Mich., was subject to a \$3.5 million Fannie Mae loan from Greystone.

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 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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