

# Detroit Multifamily




## Vacancy Remains Low Despite Economic Pullback

### Highlights

- > The Detroit multifamily market maintained a low vacancy rate, and rents remained in a very tight range in 2020, despite economic headwinds that stalled the pace of improvement. With the economy forecast to regain momentum in 2021, apartment fundamentals should remain healthy.
- > Apartment vacancy in Detroit posted healthy performance in 2020, with the rate inching up just 10 basis points for the year. Vacancy declined in the fourth quarter, dipping 20 basis points to end the year at 3.3 percent.
- > Asking rents ticked up 0.4 percent in 2020, ending the fourth quarter at \$1,067 per month.
- > Developers delivered nearly 1,100 apartment units in 2020, but the pace of construction is forecast to accelerate in the year ahead. Projects totaling nearly 4,900 units were under construction at the end of 2020.
- > The Detroit multifamily investment market recorded mixed performance in 2020. The number of transactions was similar to levels from 2019, but there was a decline in activity in larger transactions. The median price fell, but cap rates compressed, averaging approximately 6.4 percent.

### Detroit Multifamily Market Overview

The Detroit multifamily market recorded mostly steady performance in 2020, despite economic volatility that was widespread throughout the country and across industries. Renter demand for apartments in the area was positive but did not match levels from the past few years, while construction of new units was steady. During the fourth quarter, operating conditions improved modestly, with rents inching higher and the vacancy rate tightening.

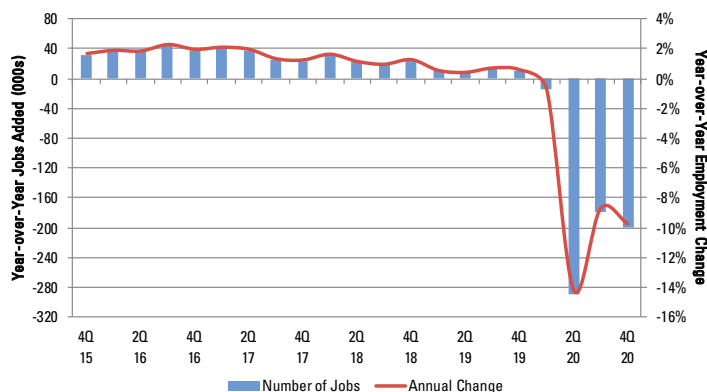
Q4 Snapshot	Detroit Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>3.3%</b>
	- Year Over Year Change ..... <b>+10 bps</b>
	Asking Rent ..... <b>\$1,067</b>
	- Year Over Year Change ..... <b>+0.4%</b>
	<b>Transaction Activity</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$50,500</b>
	Cap Rates (Avg YTD) ..... <b>6.4%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>4,898</b>
	Units Delivered YTD ..... <b>1,079</b>

Multifamily investment activity in the Detroit area closely tracked year-earlier levels throughout much of 2020. While there were no significant spikes in sales velocity, the fourth quarter proved to be the most active period of the year. The mix of properties that sold changed in 2020. While dozens of larger transactions have been executed over the past few years, those types of deals occurred with less frequency in 2020. Activity in the past year was concentrated in sales below \$10 million. Local cap rate trends have been inconsistent, but cap rates generally trended lower in 2020, averaging 6.4 percent.

## Employment

- > Employment in Detroit contracted in 2020, following 10 consecutive years of annual gains. Employers cut nearly 200,000 jobs in 2020, an annual decline of 9.7 percent.
- > One segment of the local economy that proved to be particularly resilient in 2020 was financial activities. Financial employment in Detroit remained essentially flat in 2020, outperforming the rest of the market.
- > At the end of 2020, Amazon announced plans for a significant expansion in Detroit. The company is slated to open five new facilities in Detroit in 2021, including one of the company's robotics fulfillment centers. Amazon is expected to expand its area workforce by nearly 2,000 workers in 2021.
- > **Forecast:** Area employers have already begun to add back workers, a trend that is likely to continue through 2021, as the economy fully reopens. Total employment is forecast to expand by 2.7 percent in 2021, with approximately 50,000 jobs returning to the market.

### Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*Amazon is expected to expand its area workforce by nearly 2,000 workers in 2021*

## Vacancy

- > Apartment vacancy in Detroit declined by 20 basis points in the fourth quarter, with the rate dipping to 3.3 percent. Rental vacancy has been consistently low in Detroit for the past several years.
- > Despite elevated levels of economic volatility, multifamily vacancy rates in Detroit were mostly stable in 2020. The rate ticked up just 10 basis points for the full year, following an increase of 30 basis points in 2019.
- > Vacancy in Class A apartments rose 40 basis points in 2020, ending the year at 4.2 percent. Net absorption in the Class A segment totaled approximately 650 units in 2020, down 25 percent from one year earlier.
- > **Forecast:** Construction of new apartments is forecast to accelerate in 2021, resulting in higher area vacancy rates. Vacancy in Detroit is forecast to rise 50 basis points in 2021, ending the year at 3.8 percent.

### Vacancy Trends



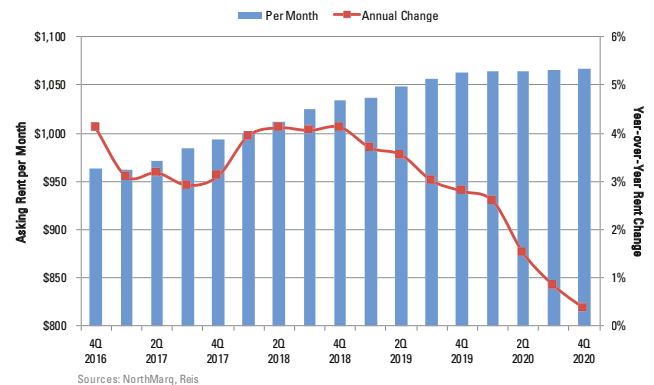
Sources: NorthMarq, Reis

*Despite elevated levels of economic volatility, multifamily vacancy rates in Detroit were mostly stable in 2020*

## Rents

- > Rents in Detroit had been growing at a fairly steady pace before leveling off in 2020. Asking rents ended the fourth quarter at \$1,067 per month, after inching up a few dollars per month in both the third and the fourth quarters. Rents were essentially flat in the first half of 2020.
- > For the full year, asking rents in Detroit rose 0.4 percent, following growth of 2.8 percent in the preceding year. Annual growth averaged more than 3 percent from 2015 to 2019.
- > Net absorption in the area’s Class A properties has been averaging approximately 1,000 units per year, supporting rent gains in the top tier. Asking rents in Class A apartments ticked up 0.2 percent in 2020, ending the year at \$1,323 per month.
- > **Forecast:** Rent growth is forecast to reach approximately 2 percent in 2021. Asking rents are expected to total nearly \$1,090 per month by year end.

## Rent Trends

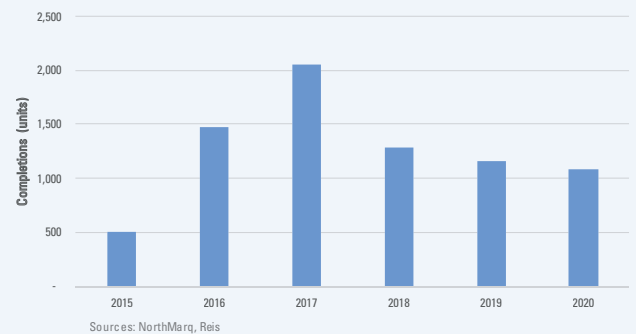


*Asking rents ended the fourth quarter at \$1,067 per month*

## Development and Permitting

- > Developers delivered nearly 1,100 apartment units in 2020, down 6 percent from the total inventory growth in the preceding year. This marked the lowest annual total for new construction in Detroit since 2015.
- > After slowing in 2020, apartment construction is accelerating. Projects totaling nearly 4,900 units were under construction at the end of 2020. Development in the Midtown Detroit submarket is one of the most active areas for new construction. Outside the city core, Troy and Royal Oak are the most active areas for new apartment development.
- > Multifamily permitting slowed in 2020, but activity spiked at the end of the year. Developers pulled permits for approximately 1,800 multifamily units in 2020, down 12 percent from one year earlier. During the fourth quarter, permits for more than 1,000 multifamily units were issued.
- > **Forecast:** Developers are forecast to deliver approximately 1,800 new units to the Detroit market in 2021, the largest annual total of completions since 2017.

## Development Trends

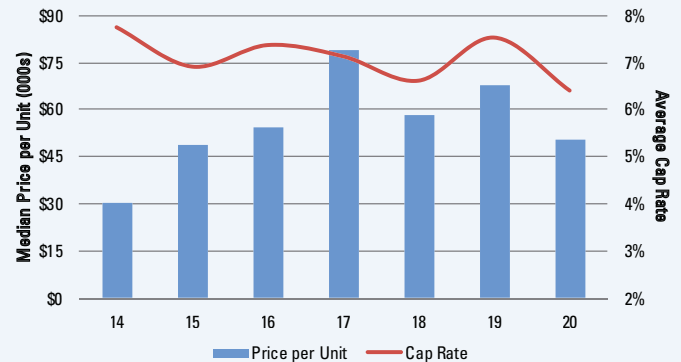


*Projects totaling nearly 4,900 units were under construction at the end of 2020*

## Multifamily Sales

- > Multifamily sales activity in Detroit in 2020 closely tracked 2019 levels, although transaction volume is down approximately 50 percent from peak levels recorded from 2013 to 2015. During the fourth quarter, the number of property sales accelerated; transactions in the fourth quarter accounted for nearly 40 percent of the total sales activity in 2020.
- > The median price in transactions that closed in 2020 fell to approximately \$50,500 per unit, down from nearly \$68,000 per unit. Pricing trends in Detroit can be uneven due to the range of properties that may trade in a year.
- > Several older Class B and Class C properties sold during the fourth quarter, a trend that weighed on pricing. The median price in sales during the fourth quarter was just over \$40,000 per unit.
- > Area cap rates compressed in 2020. Cap rates generally ranged between 6.5 percent and 7.5 percent from 2015 to 2019 but dipped to an average of approximately 6.4 percent in 2020.

## Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

*Cap rates dipped to an average of approximately 6.4 percent in 2020*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

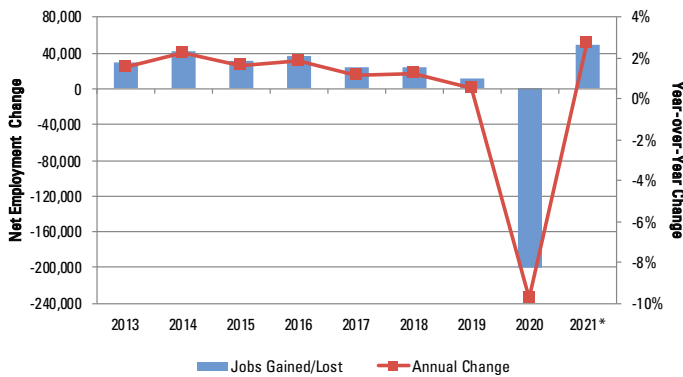
Property Name	Street Address	Units	Sales Price	Price/Unit
825 Whitmore	825 Whitmore Rd., Detroit	223	\$9,000,000	\$40,359
Greyberry	2870 Greyberry Dr., Waterford	128	\$8,350,000	\$65,234
Russell Woods	2255 Webb St., Detroit	156	\$6,050,000	\$38,782
Edgewood Park	370 W Hopkins Ave., Pontiac	168	\$4,100,000	\$24,405

## Looking Ahead

The Detroit multifamily market outperformed most of its regional peers in 2020, and operating conditions are forecast to be fairly healthy in 2021 as well. One factor that has helped keep the Detroit area vacancy tight in recent years is a lack of supply growth. Vacancies have tightened in years where demand growth was elevated and have been fairly flat in years where absorption slowed, including in 2020. Looking ahead to 2021, apartment construction is on pace to accelerate, and renter demand for units is forecast to be steady, which should result in a modest vacancy rise during the course of the year.

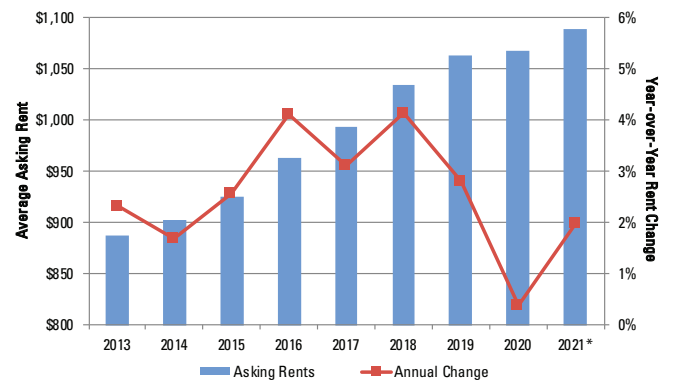
The local investment market should gain momentum in 2021. Investors had been active in Detroit in recent years, as the local economy was recording steady improvement and several redevelopment plans were taking shape. When the COVID-19 outbreak occurred, larger participants became more conservative, waiting to assess the full impact of the pandemic on the economy. This stifled transaction activity in institutional-grade assets. With the economy recovering, and a widespread distribution of vaccinations gaining momentum, investors will likely return to the market.

### Employment Forecast



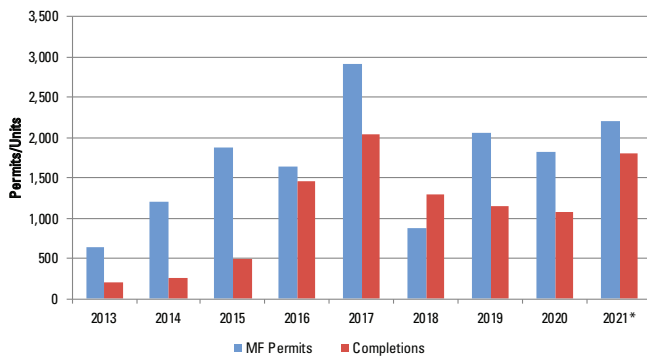
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



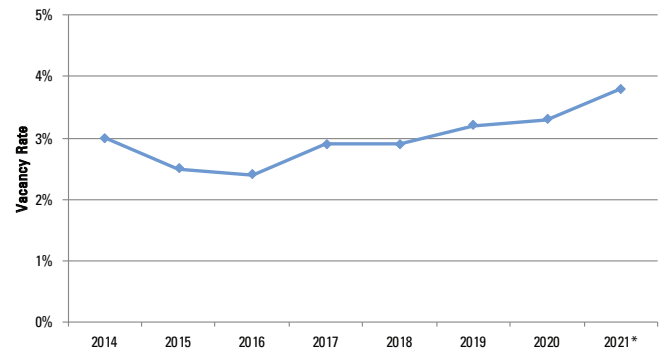
\* Year End Forecast  
Sources: NorthMarq, Reis

### Construction & Permitting Forecast



\* Year End Forecast  
Sources: NorthMarq, Census Bureau, Reis

### Vacancy Forecast



\* Year End Forecast  
Sources: NorthMarq, Reis

## About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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