

MARKET REPORT

Multifamily
Detroit Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

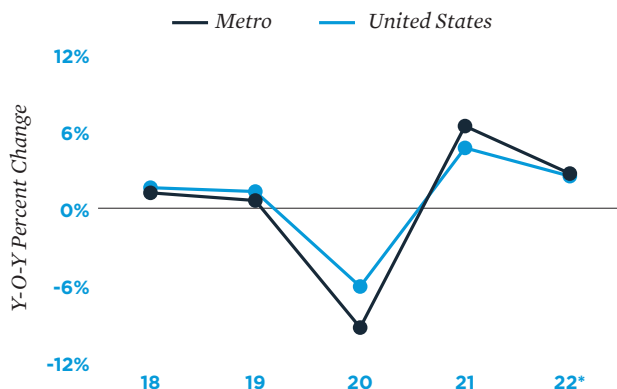
2Q/22

CBD Resurgence Buys Fundamentals; Suburban Demand Fosters Builds

CBD availability fully recovers. Apartment demand has returned to the urban core, evidenced by the 430-basis-point compression recorded during the past year ending in March. Improved vaccination rates and the easing of pandemic-related restrictions allowed major employers, such as Rocket Companies, to initiate their return to offices, and also led to restaurants and entertainment venues reopening, making downtown living more desirable for renters once again. Additionally, roughly one-fourth of all units in the CBD were offering concessions during the fourth quarter of 2020, which also boosted leasing activity. That usage rate has since fallen under 7 percent in March, a healthy sign for local rent growth moving forward. With only 400 units slated for delivery in Downtown Detroit this year, availability is expected to remain tight in the near term.

Renters' preference for larger units is evident. Although Downtown recorded the largest vacancy compression of any submarket year-over-year in March, net absorption has been most pronounced in Troy-Rochester Hills and Farmington Hills-West Bloomfield. Units in these locales average roughly 200 square feet larger than apartments in the CBD, which has elevated renter interest in these areas. As a result, effective rents in these neighborhoods have risen to the highest in the metro, spurring local development. These two submarkets will account for the bulk of supply additions throughout this year.

Employment Trends



Multifamily 2022 Outlook



**54,000
JOBS**

will be created

EMPLOYMENT:

Total employment will be up 2.7 percent from last year. Detroit's rate of employment growth is above the national increase, and the recovery of sectors, such as professional and business services, signal employment rebound in the metro.



**2,200
UNITS**

will be completed

CONSTRUCTION:

Completions will reduce from last year but remain above the trailing five-year average of 1,500 units, equating to inventory expansion of 0.8 percent. Suburban supply additions will account for roughly three-fourths of this year's construction pipeline.



**0
BASIS POINT**

change in vacancy

VACANCY:

Unit availability remains relatively flat this year as net absorption nearly mirrors delivery volume. At 1.7 percent, the metro's year-end vacancy rate will be at least 10 basis points below any major Midwest market.



**6.9%
INCREASE**

in effective rent

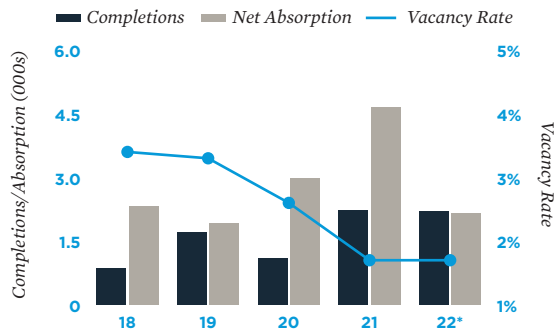
RENT:

At the end of last year, rents had jumped 9.8 percent, and while this trajectory will not be sustained through the end of this year, rents will still increase by elevated amounts. The average effective monthly rent will reach \$1,241 in 2022.

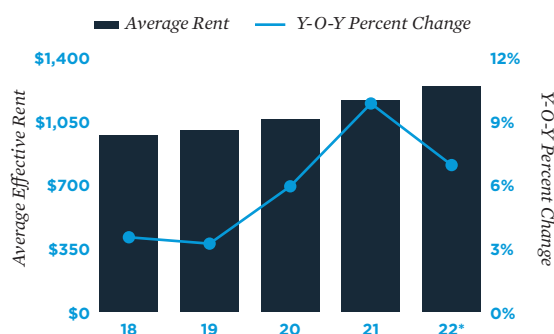
* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

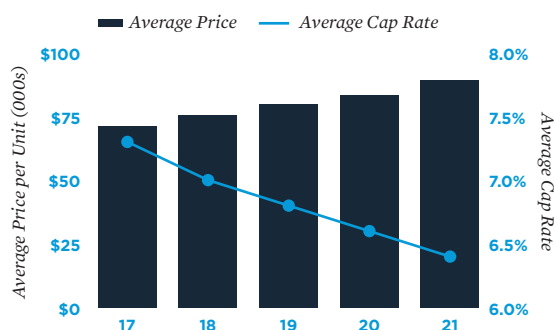
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

2,346 units completed

- Rental inventory increased by 0.9 percent over the past 12 months ending in March, with over 40 percent of completions delivering in Farmington Hills-West Bloomfield and Troy-Rochester Hills.
- Developers completed 1,100 more units during this span relative to the previous yearlong period.



VACANCY

100 basis point decrease in vacancy Y-O-Y

- Availability fell within 10 basis points of the all-time low over the past four quarters to 1.8 percent. This decrease was spearheaded by a 380-basis-point reduction in Class A vacancy.
- Rents nearly 30 percent below the metro average elevated demand for apartments in Warren-Roseville, where vacancy is 0.7 percent.



RENT

11.9% increase in the average effective rent Y-O-Y

- Robust renter demand helped lift the average effective rent to \$1,185 per month in March. This gain was bolstered by the 12.8 percent rent surge in Class A units during the past year.
- Suburban rents increased by 12.6 percent to \$1,141 per month, while the mean monthly rate in the CBD rose nearly 7 percent to \$1,352.

Investment Highlights

- Transaction velocity increased by 12 percent in 2021 relative to the previous year; however, deal flow remains below levels seen prior to the pandemic. Heightened competition for listings pushed the average sale price up 7 percent over the past year to \$89,200 per unit. Still, entry costs here are some of the lowest among major Midwest markets, and Detroit's mid-6 percent cap rate is attracting yield-focused regional buyers to the market.
- Investment activity has been elevated in South Wayne County, home to sub-2 percent vacancy and double-digit rent growth over the past year. Here, buyers are targeting pre-1980s-built Class C assets. Entry costs generally fall in line with the market average, with first-year returns climbing to the mid-8 percent band. Buyers seeking even higher returns are pursuing listings in Westside and Eastside Detroit, where yields can rise into the double digits.
- Investors are also active in northwest suburbs like Farmington Hills, Bloomfield and Novi, where rents are the highest in the metro. Competition for available listings here is fierce, with entry costs often rising above the \$150,000 per-unit threshold.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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