

# MARKET REPORT

Multifamily  
Detroit Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

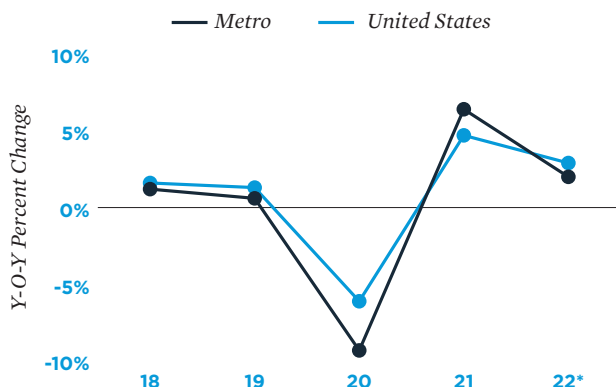
3Q/22

## High-Skill Labor Market to Foster Household Formation and Renter Demand in Detroit

**Suburban vacancy holds below pre-pandemic trend.** Since 2020, vacancy in Detroit's suburbs has fallen 190 basis points below the long-term average as renters sought larger units in areas of reduced density. While some renters have returned to urban living, many millennials continue to value more spacious floor plans, enabling suburban vacancy to stay low. The 2.8 percent rate at the onset of July reflects this, with northern suburbs like Troy-Rochester Hills, Novi-Livingston County and Pontiac-Auburn Hills recording vacancies beneath the suburban average. Income growth at a top 15 rate nationally should continue to aid household formation measures in these northern suburbs moving forward.

**Business developments to aid central renter demand.** The pandemic's impact on renter populations spurred a shift toward suburban living in 2020, however, new projects in Detroit proper have helped return renters to the CBD. Ford's plans to turn the area surrounding Michigan Central Station into an innovation district will create additional demand for housing in the southwest portion of the city. As a planned innovation hub, the incomes of workers in the area upon completion will be sufficiently high, stimulating Class A demand. Increased employment in the urban core will augment the recent re-development efforts in Midtown and Uptown Detroit, where sporting venues, expanded transit and retail spaces have made the area more desirable to renters. These factors have supported a 310-basis-point drop in CBD vacancy since last July.

### Employment Trends



\* Forecast

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

## Multifamily 2022 Outlook



**40,000  
JOBS**

*will be created*

### EMPLOYMENT:

Hiring this year will equate to a 2.0 percent local payroll expansion, bringing total employment within 30,000 jobs of the 2019 level. A gain next year similar to 2022 would allow the metro to surpass its pre-health crisis job count in 2023.



**2,000  
UNITS**

*will be completed*

### CONSTRUCTION:

Builders will expand inventory by 0.7 percent in 2022. This level of increase is ahead of the trailing five-year average of 1,575 units, but with vacancy near record lows, supply gains are warranted and newly constructed apartments should be in demand.



**60  
BASIS POINT**

*increase in vacancy*

### VACANCY:

After reaching a low of 1.7 percent at the end of 2021, vacancy will rise slightly to 2.3 percent by the end of this year. Availability will still be at its second-lowest year-end level on record, 100 basis points below the pre-pandemic measure in 2019.



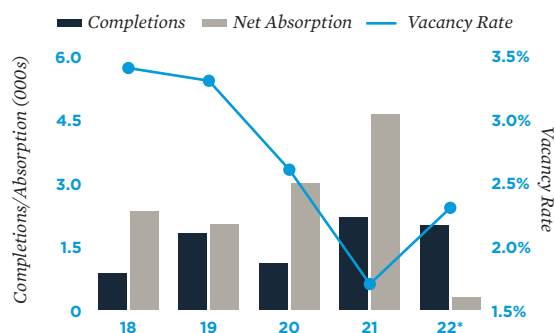
**8.3%  
INCREASE**

*in effective rent*

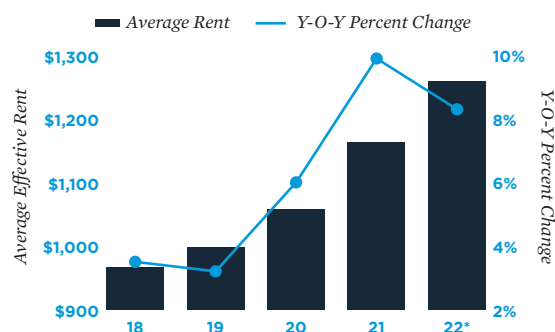
### RENT:

The metro will record a second consecutive year of above-8 percent rent growth, pushing the average effective rate up to \$1,260 per month in December. Despite notable rent amplification, the metro still has the sixth-lowest average of major U.S. metros.

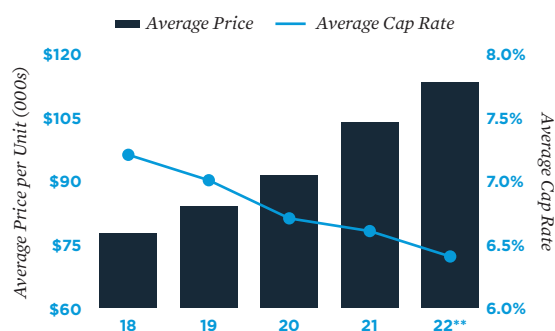
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 2Q

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

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Price: \$250

## 2Q 2022 - 12-Month Period



### CONSTRUCTION

**2,251** units completed

- Developers expanded inventory by 0.8 percent in the annual period ended in June. The majority of new units were finalized in Detroit proper and close-in suburbs like Royal Oak and Troy.
- New developments have been sparse in Warren-Roseville and St. Clair County, despite both locales recording sub-2 percent availability.



### VACANCY

**10** basis point decrease in vacancy Y-O-Y

- During the 12 months preceding July, availability in the metro dipped to 2.4 percent, 50 basis points below the level at the same time in 2019.
- Vacancy is below 2 percent in many suburbs, the result of renters seeking out lower monthly payments. These submarkets include St. Clair County, Novi-Livingston County and Pontiac-Auburn Hills.



### RENT

**12.6%** increase in the average effective rent Y-O-Y

- Despite several large completions in the core, average effective rates advanced just 4.4 percent. Tightness in the suburbs led to a 13.9 percent increase in monthly rents during the same span.
- Vacancy hovering near historically low levels has enabled the average monthly rent to reach \$1,233 per month entering July.

## Investment Highlights

- Transaction velocity rose slightly during the 12 months preceding July, up about 20 percent from the previous annual period. Rent escalations and historically low vacancy supported an increase in institutional activity. Heightened competition for available listings allowed average pricing in the metro to rise at its fastest rate since 2012, reaching \$113,000 per unit.
- The metro's average first-year return of 6.4 percent is elevated when compared to Chicago and Minneapolis. This may prompt yield-focused institutions to widen their regional search parameters.
- Within Detroit proper, Midtown and Uptown Detroit are recording the most robust investment activity. Rejuvenation efforts are ongoing in these northern sections of the city, with sporting venues, high-end retailers and expanded transit increasing the appeal of renting. Average pricing is around \$100,000 per unit here, with yields typically around 6 percent.
- Below-average vacancy and rising rents in northern suburbs like Troy, Birmingham and Novi are also attracting investors, despite properties often commanding around \$150,000 per unit. Institutions willing to pay a premium in the market are active in these areas.

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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