METRO DETROIT

2023 OUTLOOK & 2022 REVIEW MULTIFAMILY REPORT

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MARKET AT A GLANCE (H2 2022)

H2 2022
346K ▲
H1 2022 - 344K | H2 2021 - 340K
Market Size (Units)

H2 2022
$1,188 ▼
H1 2022 - $1,197 | H2 2021 - $1,132
Effective Rent Per Unit

H2 2022
93.8% ▼
H1 2022 - 95.3% | H2 2021 - 95.7%
Overall Occupancy

H2 2022
(3,638) ▼
H1 2022 - 78 | H2 2021 - 2,234
Half Year Net Absorption

H2 2022
$447MM ▼
H1 2022 - $783MM | H2 2021 - $1.4B
Half Year Sales Volume

H2 2022
5.9K ▼
H1 2022 - 8.5K | H2 2021 - 5.5K
Units Under Construction

Note: ▲ or ▼ indicates change compared to H1 2022.
Note: H1 = Q1 & Q2 ; H2 = Q3 & Q4

2023 MARKET OUTLOOK

DECREASED OCCUPANCY: Overall occupancy is expected to continue to decrease from record high levels as the economic downturn shrinks the renter market and deliveries continue to outpace net absorption. Despite consumer preferences for amenity-rich communities, Class A deliveries are expected to continue to outpace net absorption with a resulting decrease in occupancy.

DOWNTOWN DETROIT OCCUPANCY: We expect continued occupancy decline in the Downtown Detroit submarket as renters working a hybrid/remote-work model typically prefer larger units in suburban submarkets, those working in-office are typically located closer to their office in the suburbs, and deliveries continue to exceed net absorption.

STABLE RENT GROWTH: We expect overall effective rent growth to remain stable at the pre-covid five-year average of 3.30% due to decreased demand resulting from the recent economic downturn.

DECREASED PRICE PER UNIT & CAP RATE ADJUSTMENTS: We expect a moderate decrease in sales price per unit resulting from increased cap rates due to the rising interest rate environments direct impact on acquisition pricing.

ADAPTIVE REUSE: Repurposing vacant office assets to multi-family is expected to increase as investors attempt to reposition functionally obsolete office assets. The number of conversions will be limited due to factors including construction costs, building floor plates, and effective rents making most conversions cost prohibitive.

MULTIFAMILY DEFAULTS: We expect a small uptick in multifamily foreclosures due to the prevalence of 2020/2021 highly leveraged acquisitions made with floating rate debt being negatively impacted by increased interest rates, slowing rent growth, and decreased demand.

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MARKET OVERVIEW

In the second half of 2022, the Metro Detroit multifamily market slowed after recording historic levels of rent growth, sales volume/pricing, and net absorption during the previous 12 months. Market fundaments including occupancy, net absorption, and sales volume worsened, while rent growth returned to historic levels and development activity slowed. Rising interest rates and the recent economic downturn were the main causes.

SUPPLY AND DEMAND

In H2 2022, occupancy decreased 1.50% from H1 2022 to 93.8% as compared with the 94.6% pre-covid five-year average. All submarkets recorded increased vacancy, but submarkets with more affluent demographics and sustained population growth have the lowest vacancy levels including Farmington Hills (4.1%), Royal Oak (4.4%), Ann Arbor (4.5%), and Auburn Hills (4.60%). Notably, Class B and C communities recorded 1.60% and 1.20% occupancy decreases, respectively.

Despite the higher inflation environment, rent growth (3.3%) in H2 2022 has significantly slowed from record levels during the previous 12 months and has reverted to historic levels largely due to the economic downturn and increased vacancy in H2 2022. Submarkets with more affluent demographics and population growth also typically recorded above-market rent growth including Royal Oak (5.10%), Ann Arbor (4.60%), and Auburn Hills (4.60%).

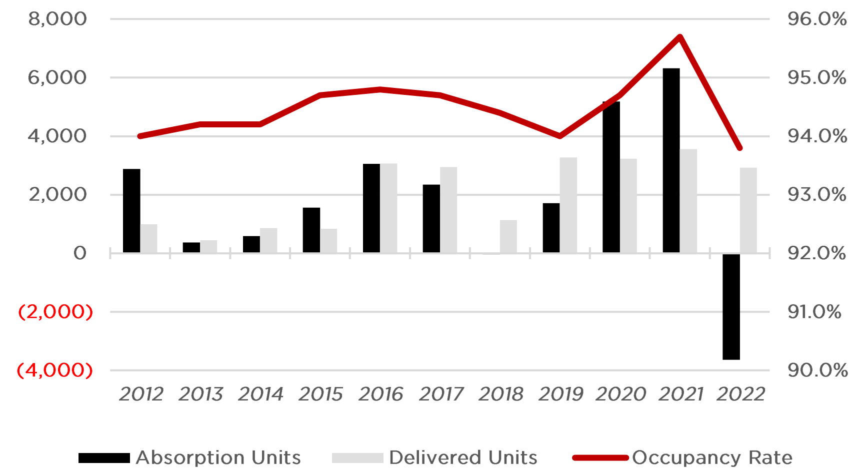
Decreasing demand across all submarkets and a development pipeline of 1,119 units delivered resulted in negative net absorption of 3,638 units in H2 2022, which is the worst half-year level on record. Class A remains stable (90.6% occupancy) and captured a majority of market demand with 562 units of net absorption almost meeting the 599 units delivered. Class B negative net absorption of 1,179 units significantly underperformed the 473 units delivered, while Class C recorded a negative net absorption of 3,020 units. The disparity between Class A and Class B/C net absorption indicates a flight to quality as Millennials/Generation Z individuals continue to prefer an amenity rich environment at higher rental rates in better markets. Despite the higher interest rates limiting single-family home purchases, the negative net absorption and resulting decreased occupancy levels also indicate an overall shrinking of the renter market due to the recent economic downturn and resulting decreased spending. This conclusion is supported by the overall negative net absorption, specifically in submarkets with a higher numbers of Class C inventory including Outer Detroit (-604 units), Macomb (-596 units), and Dearborn/Downriver (-658 units).

There are currently 5,858 units under construction. This will result in a 1.7% increase in Metro Detroit multifamily inventory, which is concerning given limited Class A net absorption, negative net absorption in the Class B/C markets, a shrinking renter market, and decreased rent growth. Notably, Downtown Detroit had only 56 units of net absorption with 278 new apartments delivered. There is an additional 2,456 units under construction in Detroit, which represents a 41.9% increase in downtown Detroit inventory. Given the below market rental growth rate of 2.30%, 2,456 units under construction, and 8.30% vacancy rate, there is a significant risk of supply/demand imbalance if urban demand stagnates.

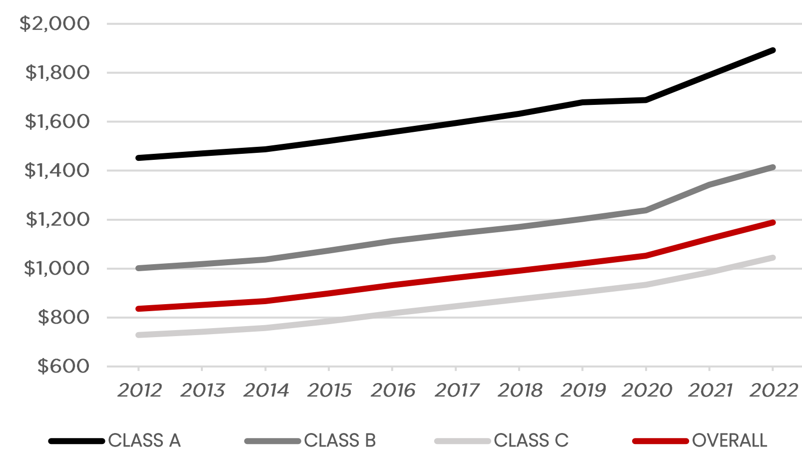
SALES AND INTEREST RATES

Total sales volume ($447MM) has decreased ±$336MM from H1 2022, but remains above the pre-covid five-year average of $337MM, indicating multifamily continues to attract significant investor interest. Despite sustained investment volume, softening fundamentals and increased interest rates (4.25% YOY increase) have created upward pressure on capitalization rates as investors are typically apprehensive to acquire multifamily with negative financial leverage (cap rate < loan interest rate), which resulted in a 0.40% average cap rate increase from H1 2022 to 6.60%. There is also an increased spread between actual sales prices and asking prices as many owners continue to price their assets based on the 2020/2021 lending rates and multifamily acquisition environment, demonstrated by the 9.20% spread in H2 2022 compared to 6.10% in H1 2022.

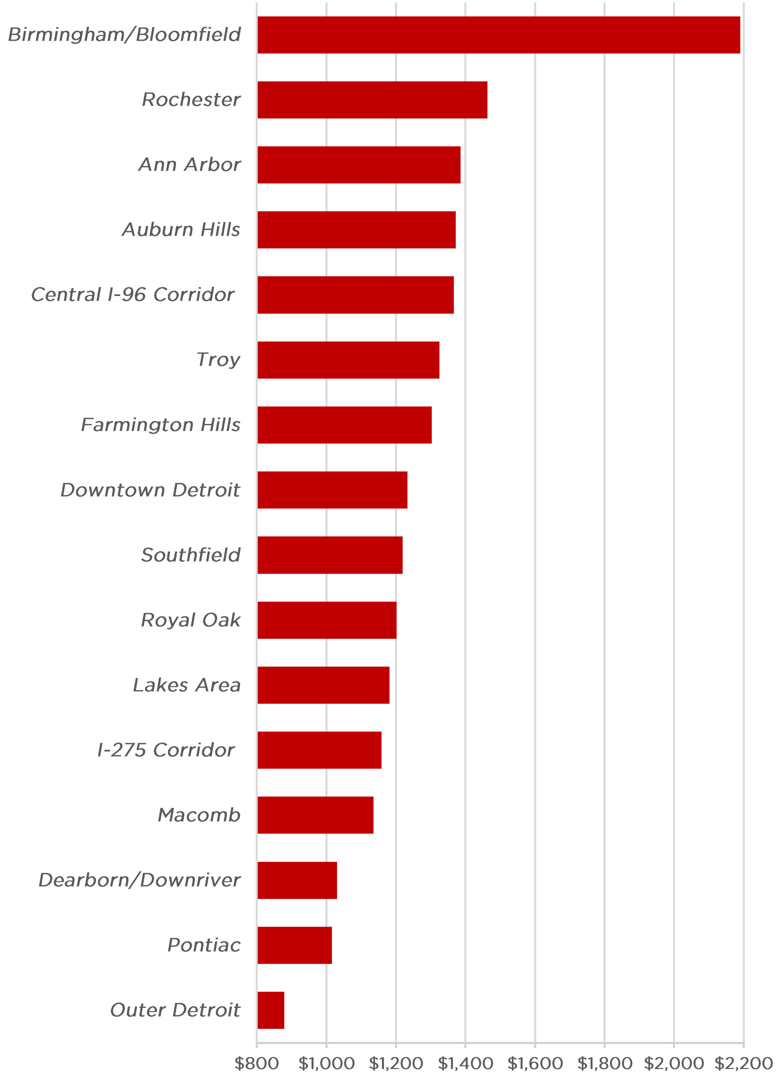
OCCUPANCY AND ABSORPTION



AVERAGE EFFECTIVE RENT BY CLASS



AVERAGE EFFECTIVE RENT BY SUBMARKET



TOP SALE TRANSACTIONS (BASED ON SALES PRICE)

PROPERTY NAME	CITY	UNITS	SALE PRICE	PRICE/UNIT
Southfield Apartments	Southfield	396	$66,350,000	$167,551
The Ascent at Farmington Hills	Farmington Hills	252	$50,000,000	$198,413
Oak Park Manor Apartments	Oak Park	298	$44,000,000	$147,651
Greentrees Apartments	Riverview	288	$37,000,000	$128,472
The Harrison	Royal Oak	74	$29,100,000	$393,243
The Cove on Ten	Warren	342	$27,500,000	$80,409
Cherry Hill Village	Dearborn Heights	224	$27,500,000	$122,768
Woodward North	Royal Oak	208	$22,975,000	$110,457
Lynden Parke	Ypsilanti	154	$18,750,000	$121,753
The Pointe At Cherry Hill	Westland	172	$16,825,000	$97,820

Top Sale:
Southfield Apartments– Southfield, MI
Sale Price: $66,350,000

Top Sale:
The Ascent – Farmington Hills, MI
Sale Price: $50,000,000

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SUBMARKET	# BLDGS	INVENTORY (UNITS)	NET ABS. (UNITS)	UNITS UNDER CONST	TOTAL VAC. (%)	OVERALL OCC. (%)	AVG. EFFECTIVE RENT PER UNIT				TOTAL SALES VOLUME	AVG. PRICE PER UNIT
							Overall	Class A	Class B	Class C		
Ann Arbor	633	41,314	(202)	553	4.50%	95.50%	$1,386	$3,012	$1,600	$1,184	$29,440,000	$115,582
Auburn Hills	28	5,797	30	18	4.60%	95.40%	$1,372	$2,392	$1,481	$1,062	$0	-
Birmingham/Bloomfield	47	4,611	(67)	0	6.30%	93.70%	$2,190	$2,604	$2,244	$1,744	$0	-
Central I-96 Corridor	115	20,007	(153)	459	6.00%	94.00%	$1,367	$1,952	$1,782	$939	$980,000	$98,000
Dearborn/Downriver	417	44,418	(658)	48	5.90%	94.10%	$1,031	$1,266	$942	$567	$67,423,500	$117,681
Downtown Detroit	279	15,619	56	2,456	8.30%	91.70%	$1,233	$1,623	$1,440	$1,000	$13,621,875	$94,473
Farmington Hills	73	12,454	(144)	0	4.10%	95.90%	$1,303	$1,362	$1,278	$875	$50,000,000	$198,413
I-275 Corridor	271	30,799	(511)	90	5.80%	94.20%	$1,159	$2,304	$1,499	$1,043	$20,525,000	$94,151
Lakes Area	78	8,529	(417)	0	9.00%	91.00%	$1,182	$1,687	$1,202	$1,158	$5,690,695	$85,652
Macomb	518	61,192	(596)	359	5.30%	94.70%	$1,136	$1,530	$1,303	$1,044	$54,575,399	$96,811
Outer Detroit	891	46,813	(604)	1,076	9.00%	91.00%	$879	$1,619	$940	$819	$23,834,605	$62,374
Pontiac	90	7,499	(9)	0	5.60%	94.40%	$1,016	$2,140	$1,020	$855	$0	-
Rochester	42	7,597	(62)	487	6.00%	94.00%	$1,463	$1,844	$1,422	$1,180	$0	-
Royal Oak	371	16,660	3	160	4.40%	95.60%	$1,202	$2,357	$1,473	$1,030	$113,545,000	$161,549
Southfield	78	14,860	(272)	0	8.30%	91.70%	$1,219	N/A	$1,242	$1,209	$66,350,000	$167,551
Troy	42	7,847	(32)	152	6.40%	93.60%	$1,325	$2,150	$1,573	$1,190	$1,475,800	$92,238
TOTAL	3,973	346,016	(3,638)	5,858	6.20%	93.80%	$1,188	$1,893	$1,414	$1,044	$447,461,874	$112,714

TOP MULTIFAMILY PROPERTIES DELIVERED (H2 2022)

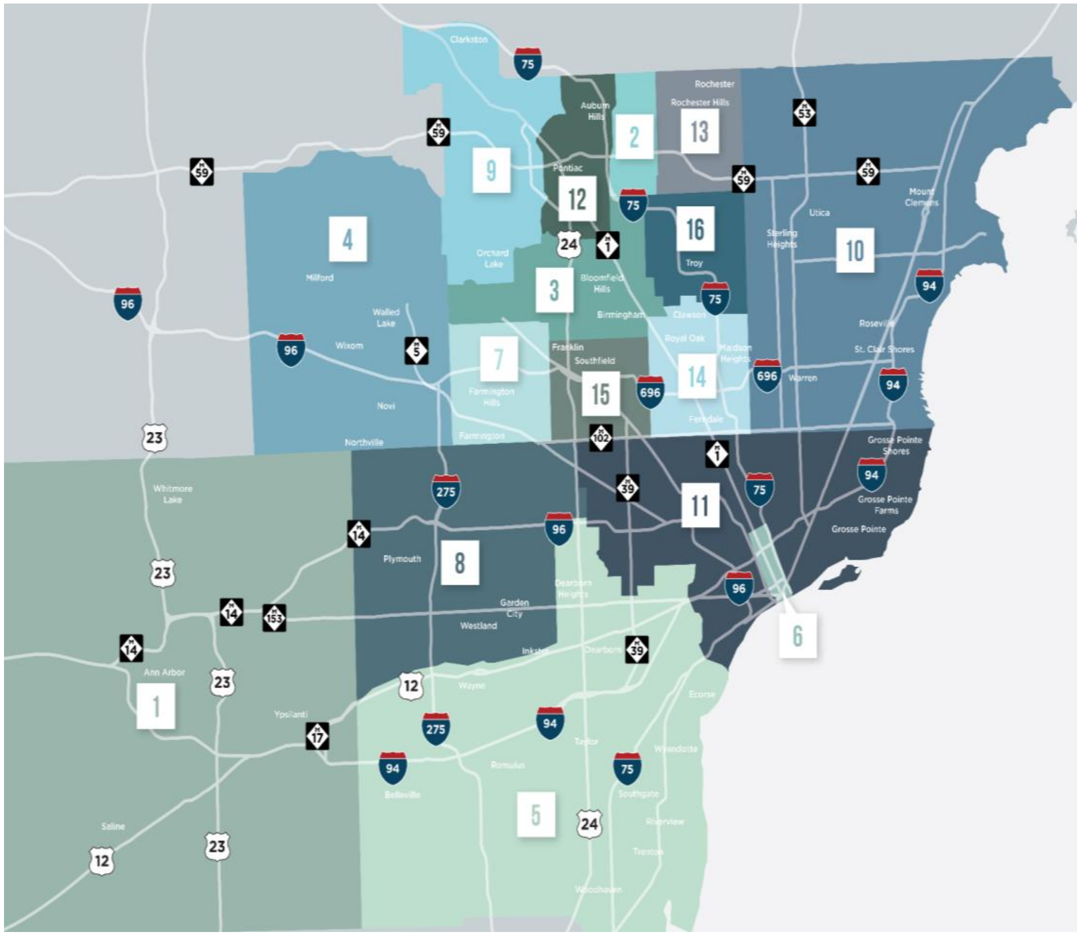
PROPERTY NAME	CITY	UNITS	DELIVERED	PROPERTY TYPE	AVG. ASKING RENT (PER UNIT)
The Crossings by Watermark	New Hudson	304	Q3 2022	Garden	$2,032
Woodward West	Detroit	204	Q3 2022	Mid-Rise	$1,214
The Flats at 200 Edmund	Detroit	200	Q3 2022	Mid-Rise	$1,700
Village at Bloomfield	Pontiac	150	Q4 2022	Low-Rise	$3,240
The Reserve at Red Run	Madison Heights	133	Q4 2022	Low-Rise	$3,259
Redwood Rochester Hills	Rochester Hills	121	Q4 2022	Garden	$2,157

TOP MULTIFAMILY PROPERTIES UNDER CONSTRUCTION (H2 2022)

PROPERTY NAME	CITY	UNITS	DELIVERY	PROPERTY TYPE	RENT TYPE
The Louis	Detroit	500	Q1 2024	Hi-Rise	Market
Legacy Rochester Hills	Rochester Hills	359	Q1 2023	Garden	Market
Lafayette West	Detroit	318	Q2 2023	Mid-Rise	Market/Affordable
Brush Watson	Detroit	300	Q1 2023	Mid-Rise	Market/Affordable
Innova	Novi	272	Q3 2023	Garden	Market
Avant Ann Arbor	Ann Arbor	253	Q2 2023	Mid-Rise	Market
Perennial Corktown*	Detroit	188	Q2 2023	Mid-Rise	Market
The Flats at Iron Ridge*	Ferndale	94	Q4 2023	Mid-Rise	Market

Note: **Indicates a Friedman Communities Management Assignment*

MULTIFAMILY SUBMARKET MAP



1	ANN ARBOR	9	LAKES AREA
2	AUBURN HILLS	10	MACOMB
3	BIRMINGHAM/BLOOMFIELD	11	OUTER DETROIT
4	CENTRAL I-96 CORRIDOR	12	PONTIAC
5	DEARBORN/DOWNRIVER	13	ROCHESTER
6	DOWNTOWN DETROIT	14	ROYAL OAK
7	FARMINGTON HILLS	15	SOUTHFIELD
8	I-275 CORRIDOR	16	TROY

Friedman Research separates the Metro Detroit multifamily submarkets in the manner shown to better reflect the way users, tenants, and brokers view our market. We believe this provides a more accurate statistical picture of each submarket which allows our clients to make better informed decisions.

Friedman's 2023 Outlook & 2022 Review Multifamily Market Report provides our clients with a snapshot of pertinent market data and information to help them make informed commercial real estate decisions. The information contained in this report is gathered from multiple sources believed to be reliable.