

METRO DETROIT 2019 MULTIFAMILY RECAP



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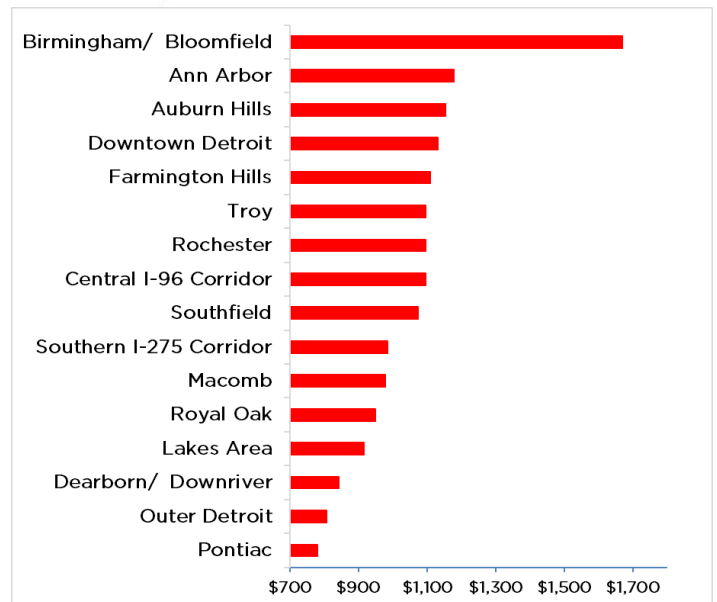
Apartment fundamentals in Metro Detroit remained healthy in 2019 with continued growth in effective rents and stable occupancies. A strong economy, low unemployment, and a downward trend in home ownership has created significant demand for rental housing. However, developers have taken notice of these solid fundamentals as new construction starts have been on the rise resulting in a slight uptick in overall vacancy.

For the past 10 years (2010-2019), the apartment sector in Metro Detroit has seen increases in effective rents. In 2019, average effective rents reached \$989/Unit or \$1.08/PSF, which represents a \$31/Unit or 3.2% increase from 2018 and a \$211/unit or 27% increase from rents achieved in 2010. Submarkets that have seen the largest increases during the past 12 months include Royal Oak (6.9%), Novi (5.0%), Clinton Township (4.6%), and Southfield (4.4%). Despite this uptick in effective rents, occupancy has experienced a slight decline in recent years because of new supply. While annual absorption totaled 1,245 units in 2019, there were 1,828 units delivered, which resulted in negative net absorption of 583 units and a 20-basis point decrease in occupancy to 94.3%. Downtown Detroit's revival has been a source of optimism for local apartment developers. Most of the apartment deliveries in Metro Detroit will be focused in the Downtown / Midtown / Rivertown and Ann Arbor submarkets, where nearly 2,000 new units are projected to open by the end of 2020.

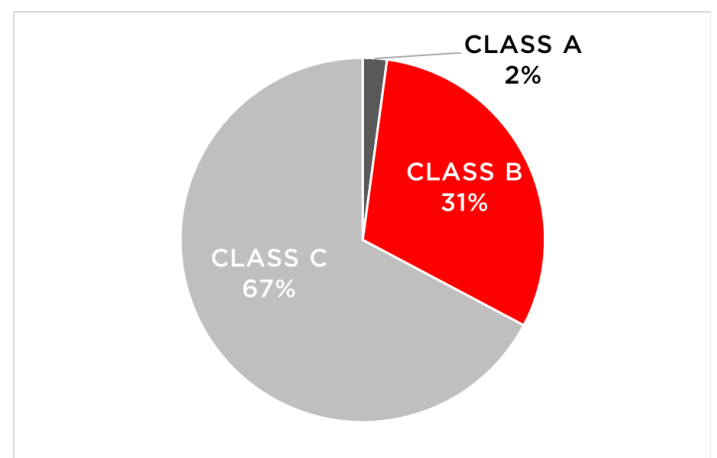
Out of State buyers continue to flock to secondary markets in Michigan searching for yield. Sales volume for 2019 totaled roughly 7,100 units for \$508 million or \$72k/Unit according to CoStar. However, these statistics do not include a large off-market acquisition of an 1,116-unit apartment portfolio in Ann Arbor, Farmington Hills, and Rochester Hills, where the price was not disclosed. Combining this portfolio acquisition to CoStar's sales statistics would obviously result in much higher sales volume for 2019. Other notable transactions include the sale of Valley Ranch Apartments in Ann Arbor for \$70.3 million or \$183k/unit, Providence of Harbour Club in Belleville for \$79 million or \$71k/Unit, and The Loop on Greenfield in Oak Park for \$59.7 million or \$83k/unit. Cap rates have continued to compress in Metro Detroit, hovering around 6% and down almost 200 basis points from 2010. Cap rate compression, coupled with more than a \$200/Unit increase in effective rents, has resulted in a substantial spike in the average price per unit for an apartment community from \$36.8k/unit in 2010 to a peak of \$85.8k/unit in 2018.

MARKET AT A GLANCE	YE 2018	YE 2019
# OF MULTI-FAMILY BUILDINGS	3,788	3,805 ↑
MARKET SIZE (UNITS)	294,954	296,782 ↑
EFFECTIVE RENT PER UNIT	\$958	\$989 ↑
OVERALL OCCUPANCY	94.5%	94.3% ↓
UNITS DELIVERED	463	1,828 ↑
NET ABSORPTION (UNITS)	(876)	(583) ↑
NEW UNITS IN PLANNING STAGES	6,815	7,359 ↑
TOTAL SALES VOLUME	\$553,126,842	\$508,261,777 ↓

AVERAGE EFFECTIVE RENTAL RATES PER UNIT



METRO DETROIT MULTIFAMILY INVENTORY BY CLASS TYPE



METRO DETROIT 2020 MULTIFAMILY FORECAST



METRO DETROIT MULTIFAMILY FORECAST

Apartment fundamentals in Metro Detroit have mirrored the fundamentals of major markets across the country with steady expansion and stable growth. Now in the 127th month of expansion as of January 2020, the economy is still growing, albeit at a slower rate with growing uncertainty. Metro Detroit's multifamily sector reflects this reality as well, with certain metrics showing signs of potential headwinds.

There is the possibility for a slight supply/demand imbalance in 2020 with approximately 4,000 units projected for delivery. This influx of new inventory will certainly make for competitive leasing environment amongst Class A communities. While still positive, annual rental rate growth is projected to slow to roughly 2.0%. Demand may vary depending on the amount of job growth in those submarkets with some experiencing more demand than others over the next 12 months. As a result, deliveries are projected to outpace demand causing another downtick in overall vacancy. Regardless, developers remain optimistic about Metro Detroit and its ongoing transition into a more diverse economy. There are numerous developments in various stages of planning, representing more than 7,359 units if all come to fruition.

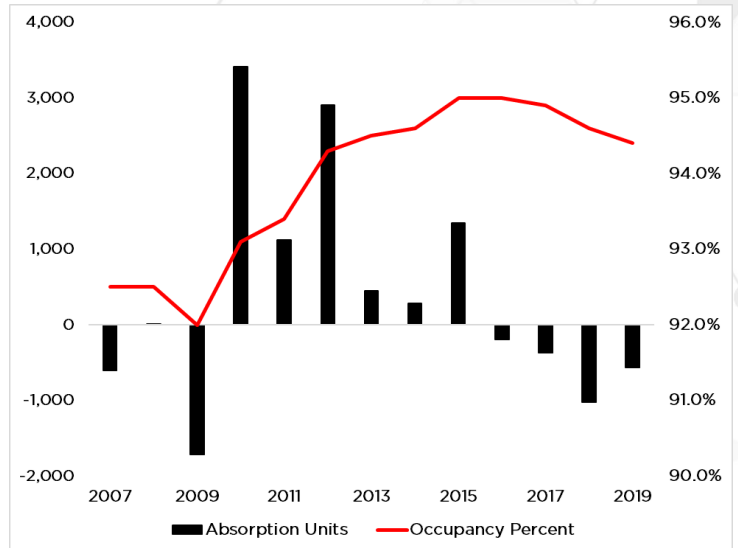
According to the Bureau of Labor Statistics, job growth in Metro Detroit was -0.15% in November 2019, reflecting -3,500 jobs lost during a 12-month period. This job growth figure was below the national average of 1.5%. RealPage forecasts Metro Detroit's job growth to be -0.11% in 2020, with -2,660 jobs lost. In spite of these recent job losses, the unemployment rate for Metro Detroit remains at an all-time low, hovering around 4%.

Despite these potential headwinds, sector fundamentals in Metro Detroit are expected to remain healthy in 2020. Homeownership rates continue to decline both nationally and locally. Millennials have been the biggest driver of apartment rentals in recent years. Generation Z, which is now starting to reach adulthood, is expected to continue driving demand as many will graduate with student debt and be more prone to rent than own.

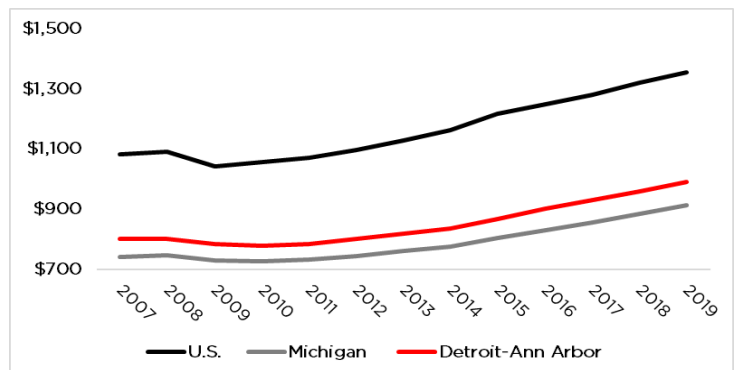
There is no dearth of liquidity in the capital markets for well-located multifamily product. Apartments have long been considered the darling of real estate investment because of its cash flow stability and sound fundamentals. If job growth holds up and interest rates remain low, the multifamily market in Metro Detroit is expected to remain the favored asset class for real estate investors in 2020, leading to possible further cap rate compression and increased sales.

NOTE: Friedman's Multifamily Market Report provides our clients and tenants with a snapshot of pertinent market data and information to help them make informed commercial real estate decisions.

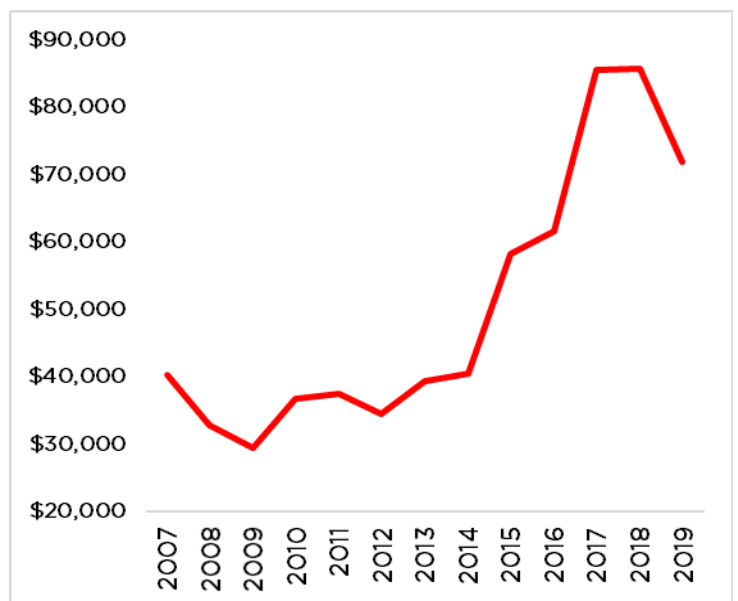
OCCUPANCY & ABSORPTION



EFFECTIVE RENTS—NATIONAL



ANNUAL PRICE PER UNIT—METRO DETROIT



METRO DETROIT MULTIFAMILY STATS



SUBMARKET	# BLDGS	INVENTORY (UNITS)	NET ABS. (UNITS)	NEW UNITS IN PLANNING STAGES	TOTAL VAC. (%)	OVERALL OCC. (%)	AVG EFFECTIVE RENT PER UNIT	TOTAL SALES VOLUME	SOLD UNITS	AVG. PRICE PER UNIT
Ann Arbor	702	38,127	406	1,023	3.9%	96.1%	\$1,167	\$114,000,302	950	\$120,000
Auburn Hills	21	4,924	67	258	2.7%	97.3%	\$1,084	\$14,817,497	238	\$62,258
Birmingham/ Bloomfield	42	3,739	(26)	235	5.1%	94.9%	\$1,555	\$1,530,000	12	\$127,500
Central I-96 Corridor	106	17,094	(211)	206	4.2%	95.8%	\$1,076	\$2,637,742	36	\$73,271
Dearborn/ Downriver	408	39,073	37	-	4.6%	95.4%	\$844	\$107,468,679	1,661	\$64,701
Downtown Detroit	255	12,876	0	2,363	7.6%	92.4%	\$1,162	\$41,497,925	511	\$81,209
Farmington Hills	67	11,349	(77)	-	6.0%	94.0%	\$1,102	\$33,400,000	268	\$124,627
Lakes Area	74	7,576	21	-	4.1%	95.9%	\$862	N/A	N/A	N/A
Macomb	475	51,126	(20)	959	5.9%	94.1%	\$934	\$47,557,500	684	\$69,529
Outer Detroit	816	38,693	(290)	17	9.8%	90.2%	\$811	\$26,381,450	996	\$26,487
Pontiac	99	6,365	26	862	3.6%	96.4%	\$787	\$6,356,823	146	\$43,540
Rochester	40	7,215	(138)	52	5.7%	94.3%	\$1,086	\$860,000	10	\$86,000
Royal Oak	353	13,265	(129)	668	5.0%	95.0%	\$971	\$77,736,335	1,044	\$74,460
Southern I-275 Corridor	245	26,443	(220)	202	5.9%	94.1%	\$965	\$26,882,524	420	\$64,006
Southfield	69	12,811	(32)	-	4.9%	95.1%	\$1,073	\$6,700,000	96	\$69,792
Troy	33	6,106	3	514	6.1%	93.9%	\$1,148	\$435,000	7	\$62,143
TOTAL	3,805	296,782	(583)	7,359	5.7%	94.3%	\$989	\$508,261,777	7,079	\$71,799

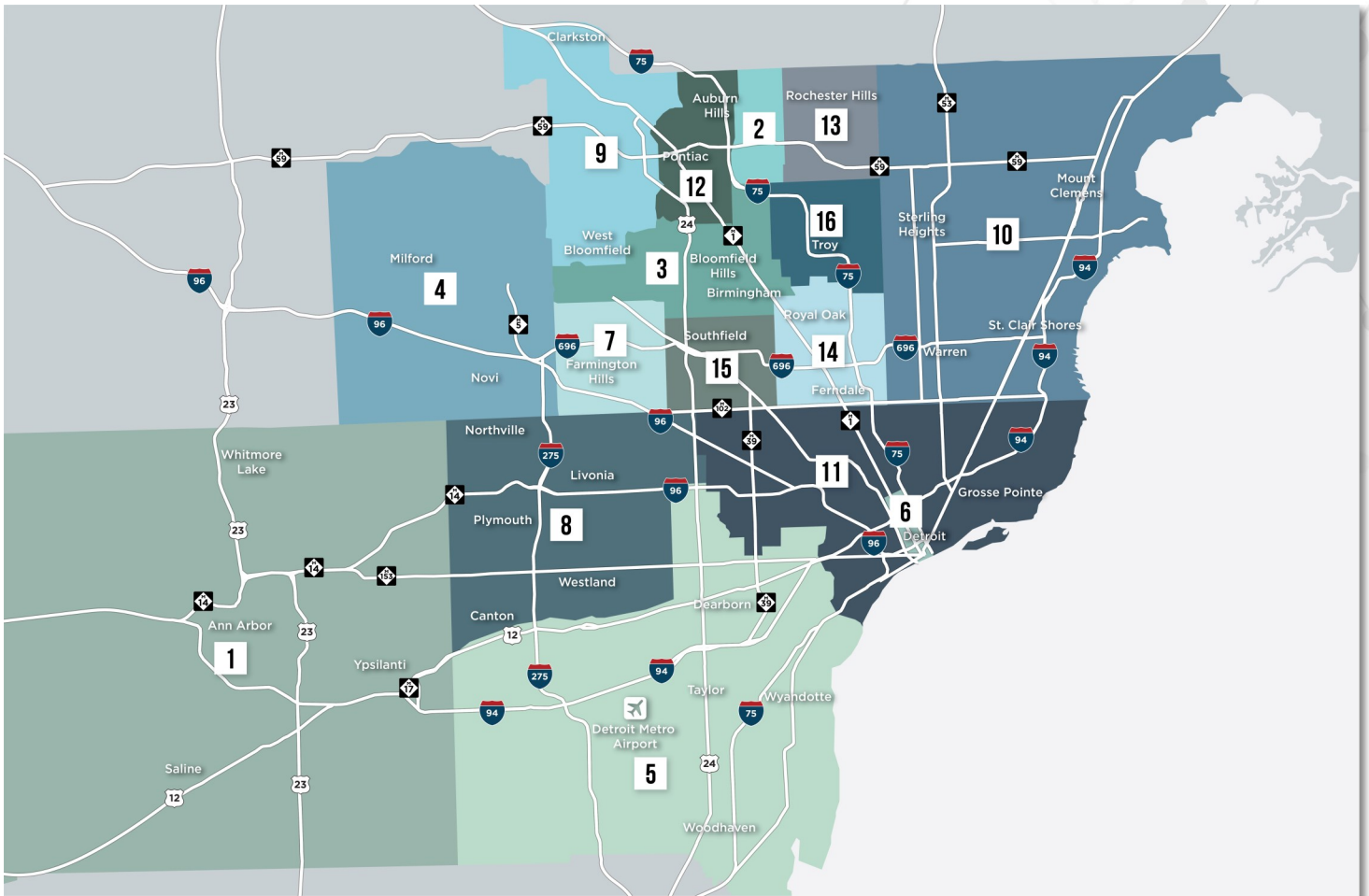
2019 MULTIFAMILY SALES

(3MM+)



BUILDING	ADDRESS	CITY	UNITS	SALE PRICE	PRICE PER UNIT
Harbour Club	49000 Denton Rd	Belleville	1,112	\$79,000,000	\$71,043
Valley Ranch	1315 Oak Valley Dr	Ann Arbor	384	\$70,250,000	\$182,942
The Loop on Greenfield	25500 Greenfield Rd	Oak Park	717	\$59,700,000	\$83,263
Alden Towers	8100-8106 E Jefferson Ave	Detroit	389	\$35,150,000	\$90,360
Hillside Forest	30545 Crest Forest	Farmington Hills	252	\$32,500,000	\$128,968
Barrington Apartments	9960 Wayne Rd	Romulus	312	\$21,125,000	\$67,708
Acclaim at Ford Lake	8753 Spinnaker Way (Part of Portfolio)	Ypsilanti	184	\$13,112,322	\$71,262
Plymouth Heritage Apartments	12811 Heritage Dr	Plymouth	172	\$12,000,000	\$69,767
West Garden Apartments	130 E Tami Cir	Westland	159	\$9,500,000	\$59,748
West Oaks	15833 W 11 Mile Rd	Southfield	96	\$6,700,000	\$69,791
Wayne Court Apartments	3523—3525 Cass Ave	Detroit	45	\$3,900,000	\$86,666
Cavalier Manor	24563 Kelly Rd	Eastpointe	66	\$3,375,000	\$51,136
Sterling Court Apartments	43850-43924 Freeway Dr	Sterling Heights	48	\$3,300,000	\$68,750
Shelby Square Apartments	5200 23 Mile Rd	Shelby Township	48	\$3,150,000	\$65,625
Sandstone Apartments	12800 W Nine Mile Rd	Oak Park	46	\$3,050,000	\$66,304

METRO DETROIT 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 S 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.

FOR MORE INFORMATION PLEASE CONTACT

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