



# 2019 MULTIFAMILY RENTAL MARKET OUTLOOK

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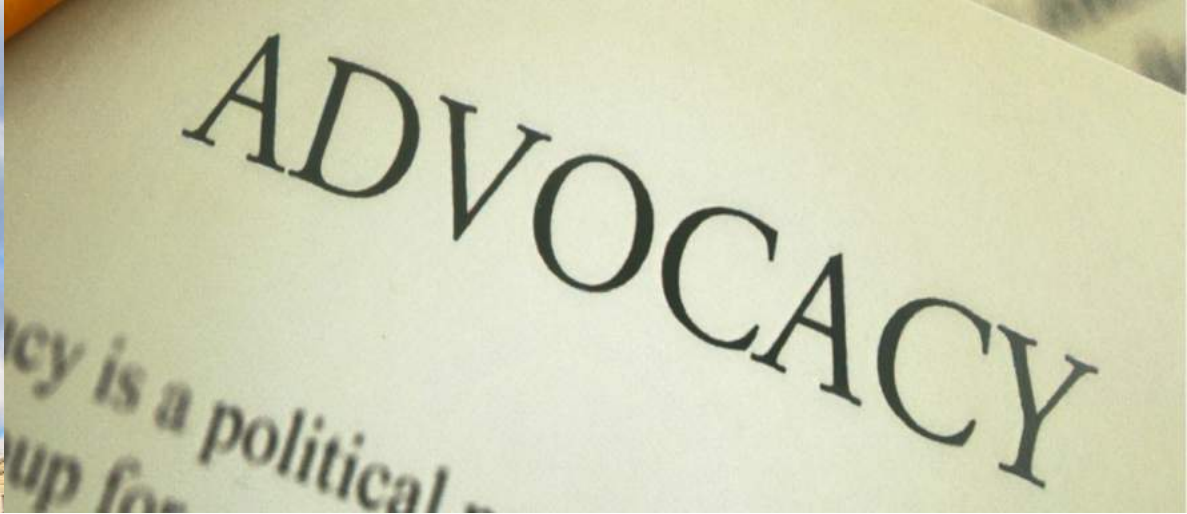
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# Apartment Association of Michigan

## 2019 Multifamily Rental Market Outlook

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# Multifamily Review



# MULTIFAMILY OUTLOOK

## FREDDIE MAC MID-2018 OUTLOOK

- Household formations remain high due to healthy employment and moderate wage growth. Annual household growth recorded at the end of the first quarter of 2018 exceeded 1 million new households.
- Overall, the national homeownership rate was 64.3% as of June 2018, a 60-basis-point year-over-year change.
- Although approximately 35% of households rent, between 60% and 65% of households headed by persons younger than 35 years of age rent, and this trend is expected over at least the near term.
- Positive trends in demographics, employment, and lifestyle preferences are expected to aid the absorption of new multifamily completions in late 2018 and in all of 2019.
- Apartment absorption is forecast to trail new inventory over the next few quarters, spurring an increase in vacancy. Rising vacancy will level off as deliveries subside in 2019.
- Moderating rent growth observed during the last few quarters is anticipated to continue in 2019 in many metro areas, though rent growth rates will remain higher than the historical average.

# MULTIFAMILY MARKET – INVESTMENT TRENDS

## INVESTMENT TRENDS

On a national scale, multifamily transaction volume so far this year is on pace to match 2017 volume.

Transaction volume attributed to foreign investment is down. The reduction is due in part to economic improvement in many countries, giving foreign buyers more investment options outside the United States.

Factors multifamily investors should consider include:

- Homeownership continues to elude many households
- A housing supply shortage still exists in the U.S., though the gap is starting to narrow
- Many secondary and tertiary markets represent an easier entrance to multifamily investment with higher cap rates than primary multifamily markets
- As Millennials enter their 30s, rental demand is shifting from the urban core to suburbs
- In some urban core areas, rehab or reuse of office or commercial properties to multifamily is more practical than a new build because of lower cost, simpler permitting processes, municipal support, or shortage of infill sites

# MULTIFAMILY MARKET – INVESTMENT TRENDS

## INVESTMENT TRENDS

Opportunities due to softening Class A market:

- Class B and C occupancy and rent growth are typically increasing at a faster pace than Class A
- In some markets, renter fatigue among higher-tier properties is forcing some households to Class B multifamily or to less-costly submarkets

Start becoming aware of the needs and preferences of Gen Z, the largest age group, that is just starting to enter the prime renting age.

For instance, “Gen Z has an affinity for suburbia, with nearly 60% preferring it,” according to PropertyShark.

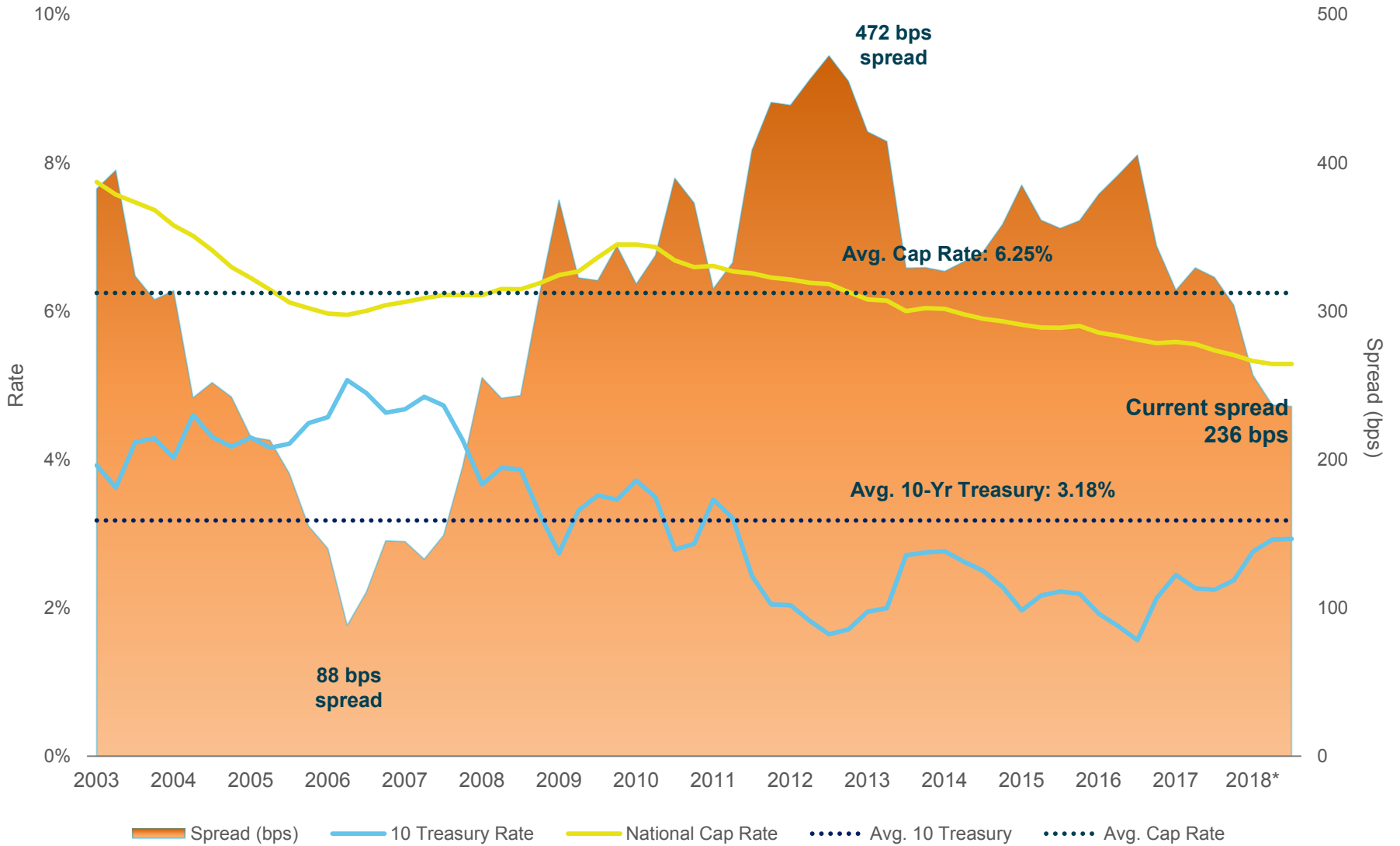
# Cap Rate Analysis





# INVESTMENT INDICATORS - NATIONAL

## 10-YEAR TREASURY VS. APARTMENT CAP RATE

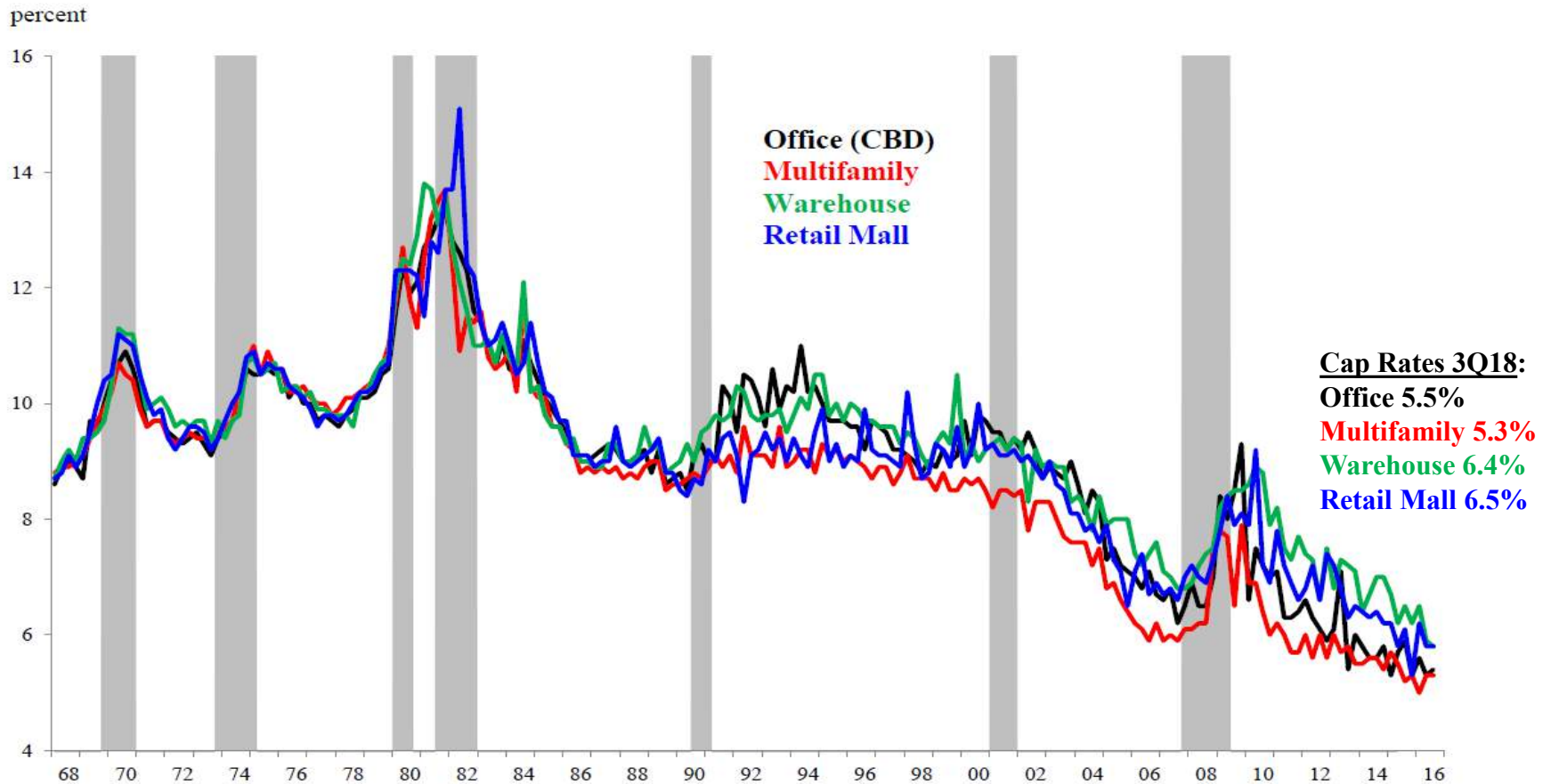


Source: Berkadia Research; Real Capital Analytics; Federal Reserve of St. Louis

\*3Q2018

# CAP RATES - NATIONAL

## CAP RATES FALL TO LOW LEVELS FOR ALL MAJOR CRE PROPERTY CLASSES



Shaded areas denote recessions. Source: ACLI.

# HISTORICAL CAP RATE TRENDS

## CAP RATE INFLUENCERS

Cap rates fluctuate over time due to economic and capital market conditions. According to the chart on slide 7, the commercial real estate market experienced declining cap rates and elevated property values three times over the past four decades: 1982-1990, 2002-2007, and present day. Key factors that drive cap rate swings are:

- Taxes
- Capital Requirements
- Interest Rates
- Law reform

### 1980'S – MAJOR TAX LEGISLATION

Key factors that drove cap rate swings:

- Pension funds, foreign investors, and other institutions investing in CRE
- Led to aggressive lending practices and ensuing period of significant overbuilding
- Changes to the tax code enhanced depreciation allowances and tax shelters for CRE
- Deregulation of the saving and loan (S&L) industry allowed institutions the ability to invest in commercial mortgages for the first time, opening a new source of capital

### MID 2000'S – INVESTMENT BANK FUELED

Key factors that drove cap rate swings:

- Significant increases in debt and equity availability
- CMBS driven
- Reduction in capital requirements on investment banks
- Heightened investor demand

### CURRENT CYCLE –INTEREST RATES

Key factors currently affecting cap rates swings:

- Market driven by interest rates
- With a current cap rate spread marginally below the 10-year average, an interest rate hike by the Fed won't have a significant effect on cap rates, remaining steady due to solid market fundamentals

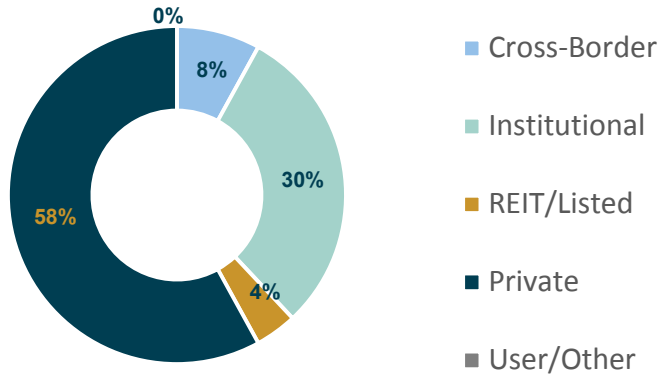
# Multifamily Capital Market Trends



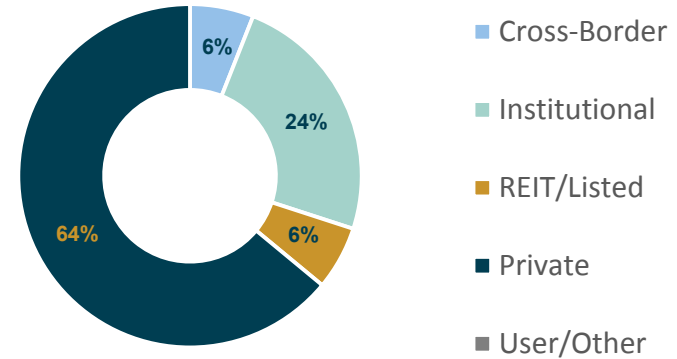
# MULTIFAMILY BUYER COMPOSITION - NATIONAL

Private capital is historically the driver in multifamily transactions, making more than half of all acquisitions.

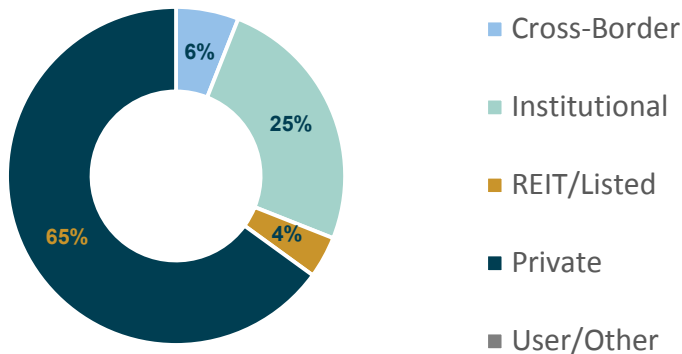
2015



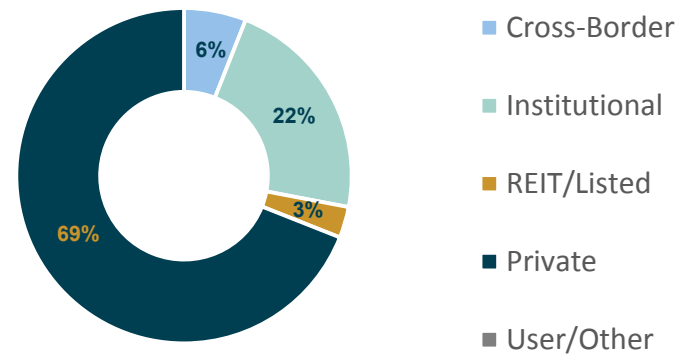
2016



2017



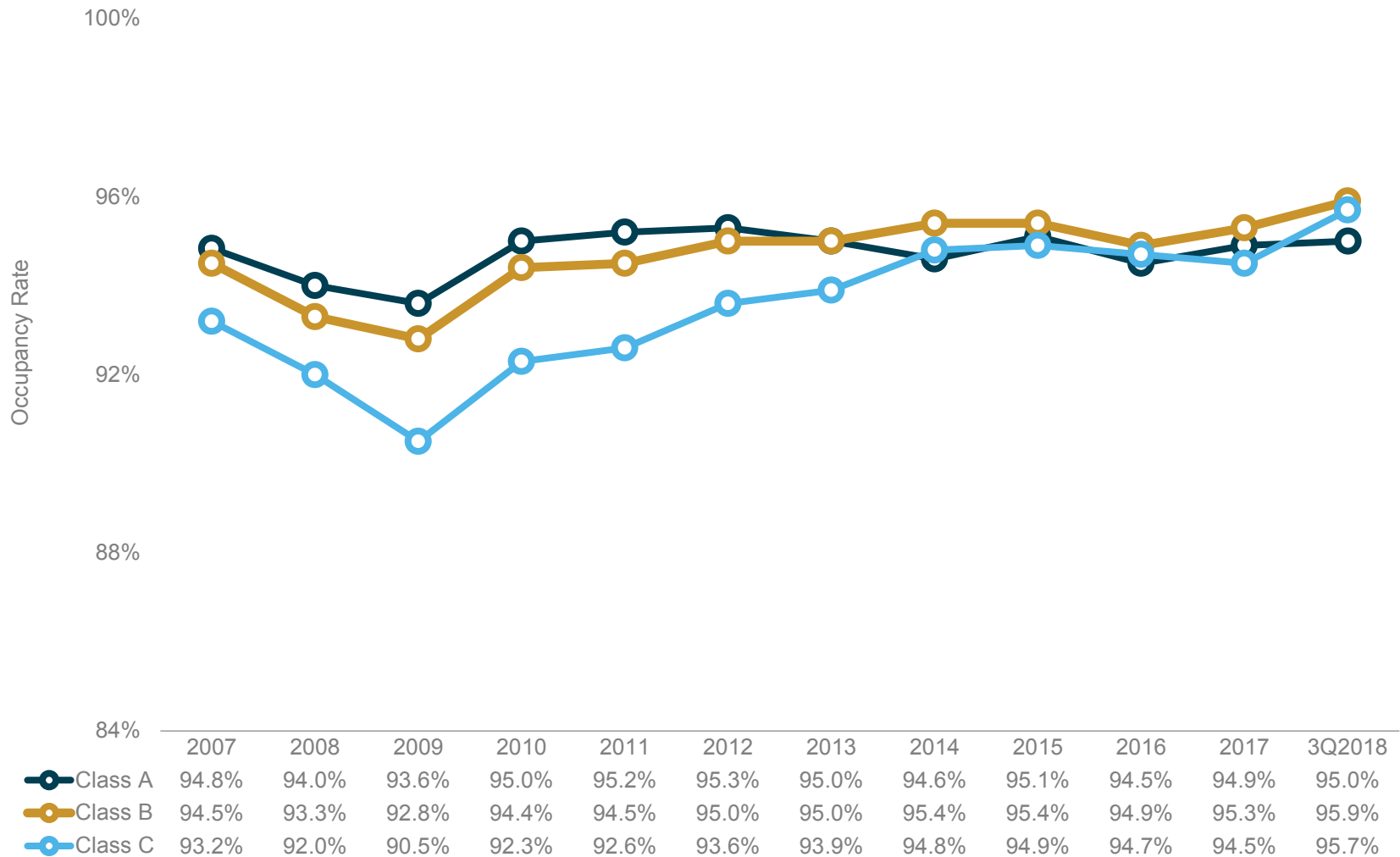
2018 YTD



\* Based on independent reports of properties and portfolios \$2.5 million and greater.

Source: Berkadia Research; Real Capital Analytics

# APARTMENT OCCUPANCY BY CLASS - NATIONAL



Source: Berkadia Research; Axiometrics

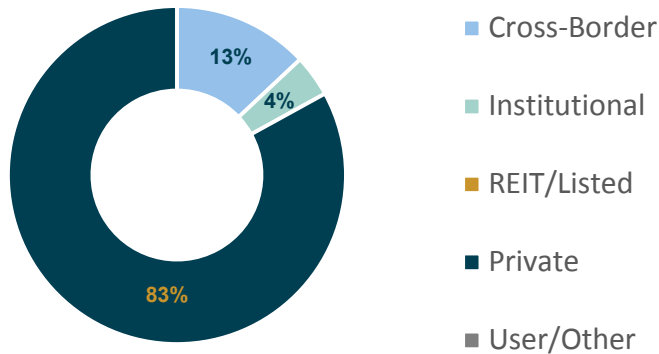
# Metro Detroit Multifamily Market Trends



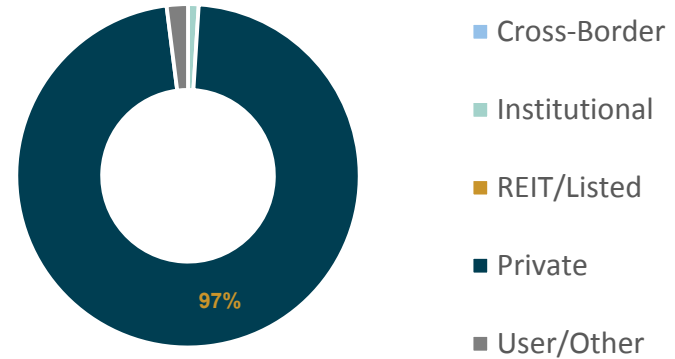
# MULTIFAMILY BUYER COMPOSITION – DETROIT MSA

Since 2015, an average of 83% of MF transactions in metro Detroit have been made with private capital.

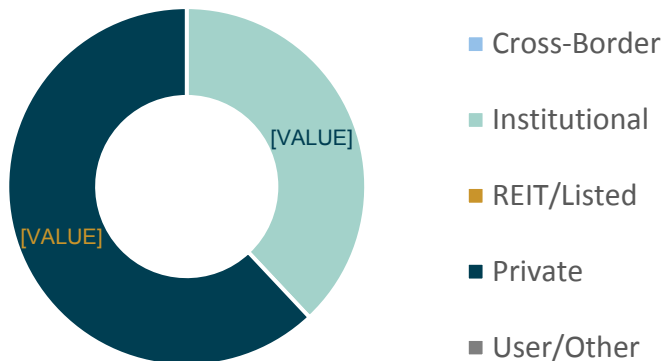
2015



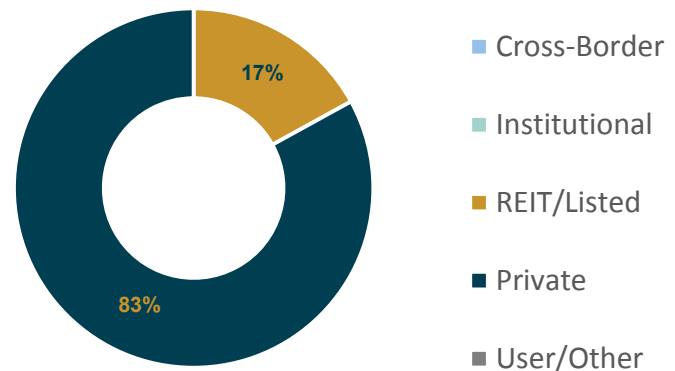
2016



2017



2018 YTD



\* Based on independent reports of properties and portfolios \$2.5 million and greater.

Source: Berkadia Research; Real Capital Analytics



## MULTIFAMILY QUARTERLY SNAPSHOT – DETROIT MSA

- Average monthly effective rent increased 3.1% year over year to \$966 in 3Q18.
- Occupancy was 96.5% in 3Q18, down 40 bps from one year prior.

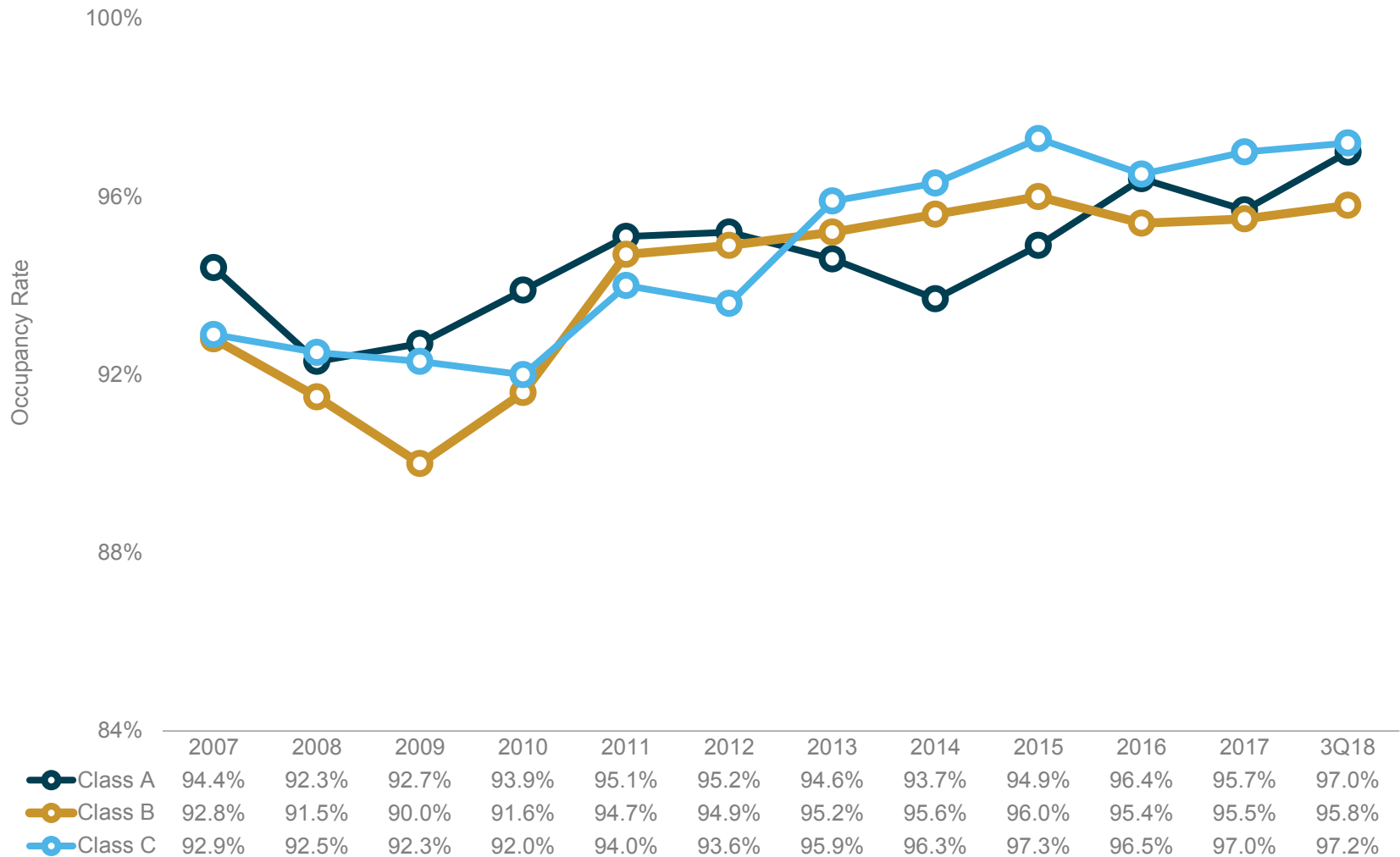
3Q 2018	Avg. Effective Rent	Avg. Occupancy
<b>Market Average</b>	<b>\$966</b>	<b>96.5%</b>
Class A	\$1,291	97.0%
Class B	\$963	95.8%
Class C	\$726	97.2%
<b>Total Units Breaking Ground During the Next 24 Months</b>		<b>Total Units Under Construction</b>
<b>7,658*</b>		<b>2,682**</b>

Year	Annual Occupancy	Annual Absorption
2017	96.2%	2,683
2016	96.1%	493
2015	95.3%	5,946
2014	94.7%	-686
2013	94.9%	-62
2012	94.5%	3,602
2011	94.1%	2,560
2010	91.9%	7,254
2009	91.0%	-3,000
2008	91.8%	4,043
2007	93.8%	1,432

\* Estimate. Includes properties w/ 100+ conventional units.

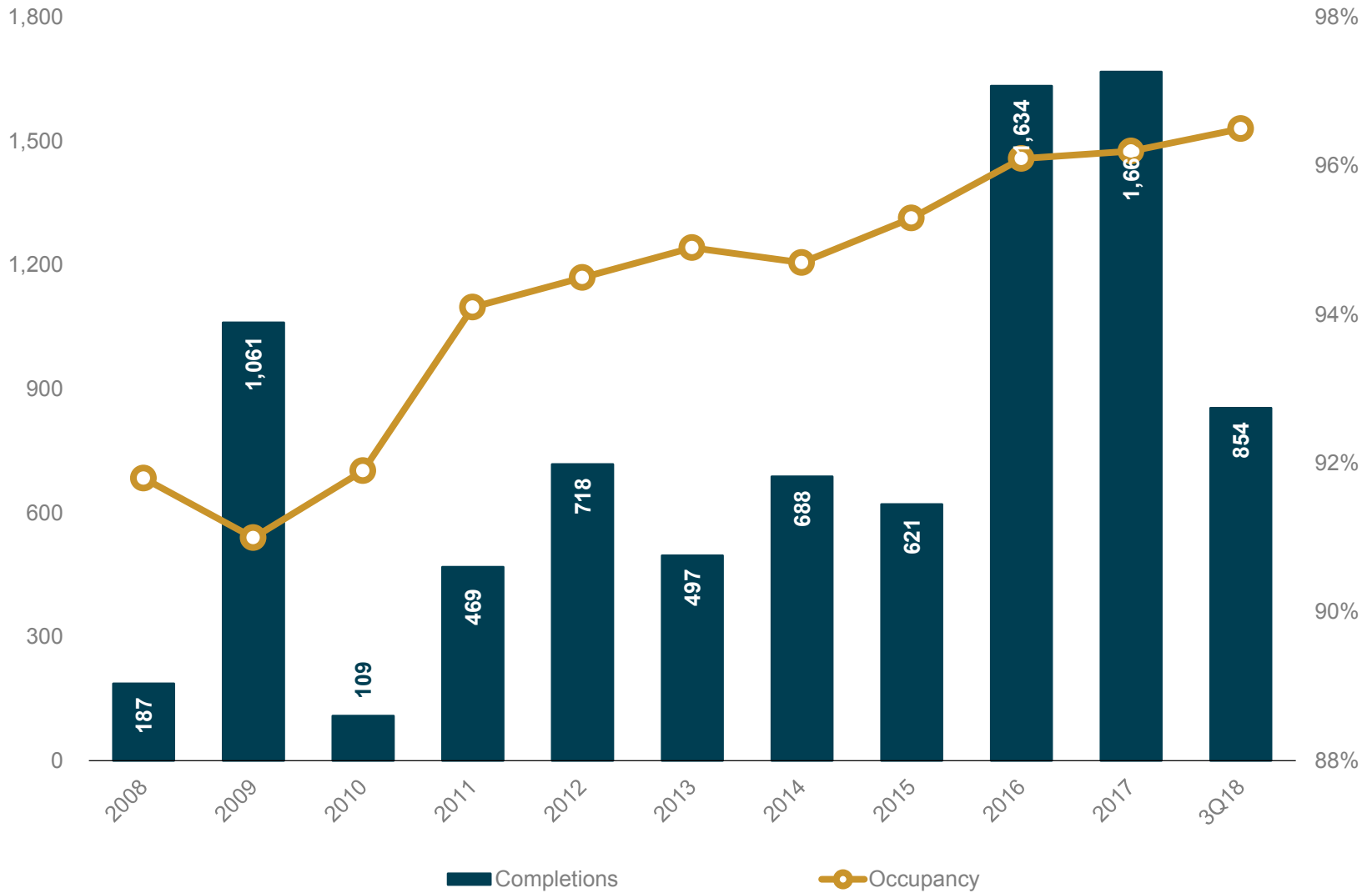
\*\* Identified units as of 3Q2018; 100+ unit developments.

# APARTMENT OCCUPANCY BY CLASS – DETROIT MSA



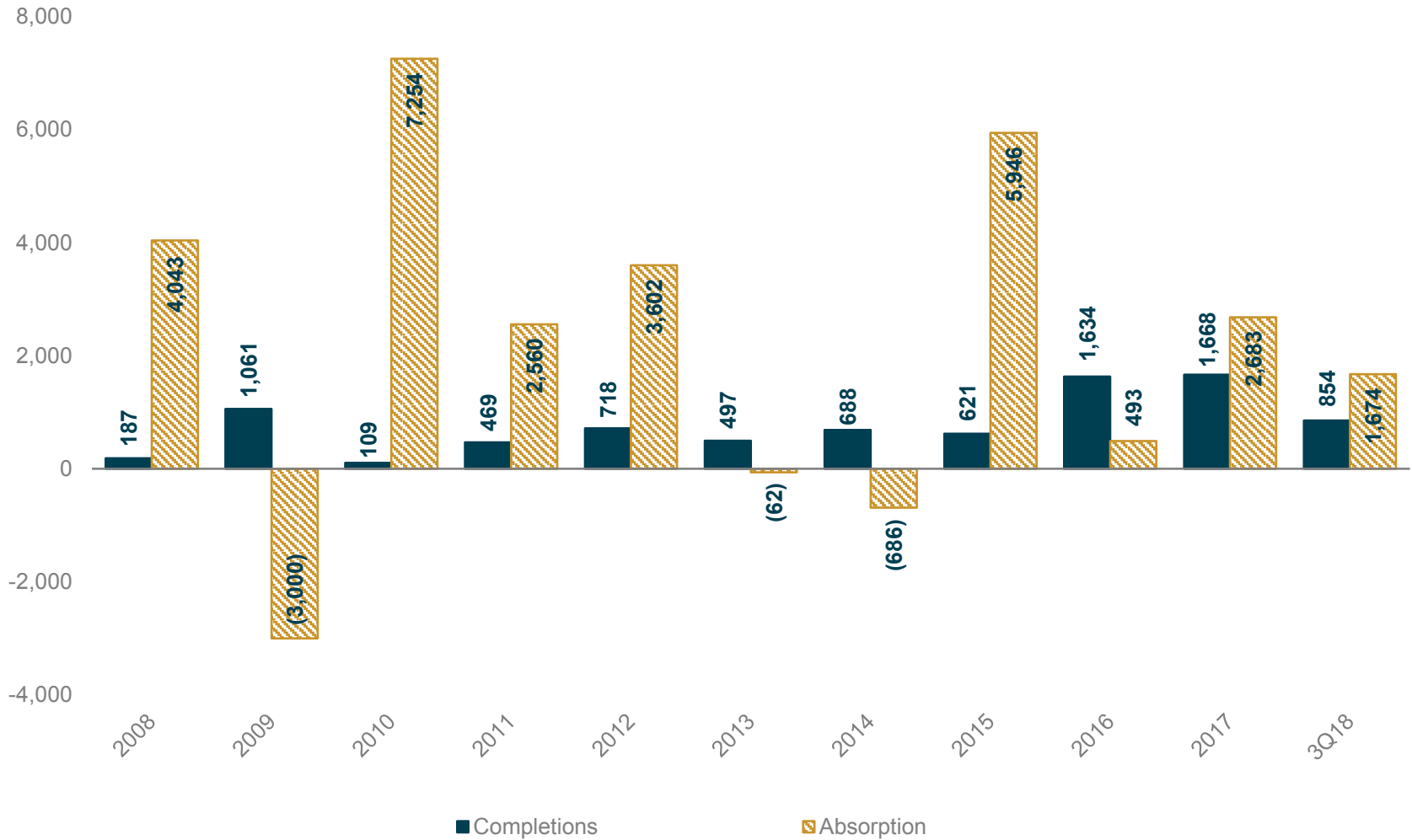
Source: Berkadia Research; Axiometrics

# COMPLETIONS VS. OCCUPANCY – DETROIT MSA



Source: Berkadia Research; Axiometrics

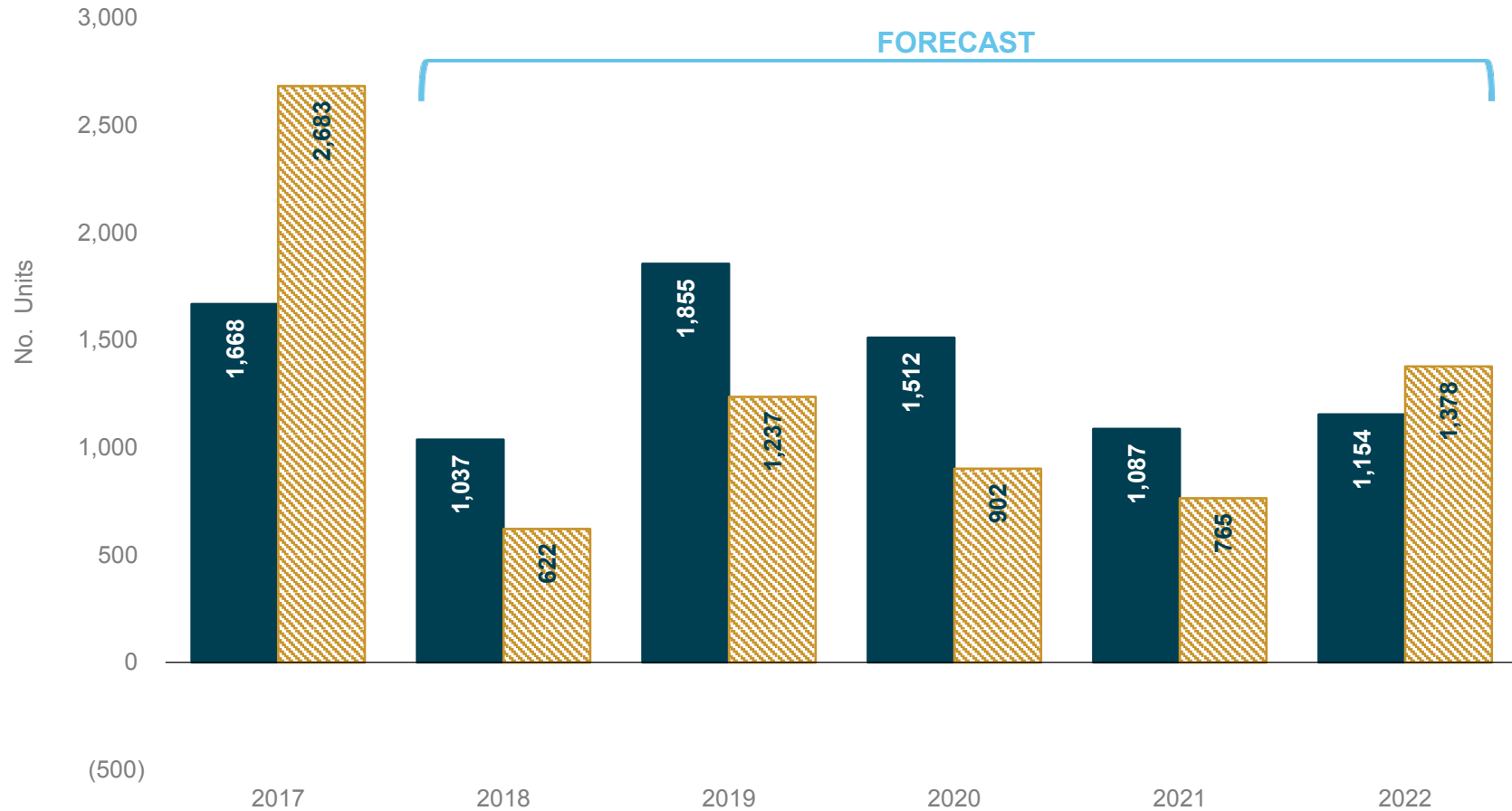
# COMPLETIONS VS. ABSORPTION – DETROIT MSA



Source: Berkadia Research; Axiometrics

# PROJECTED SUPPLY AND DEMAND – DETROIT MSA

## MULTIFAMILY HOUSING



Source: Axiometrics

■ New Supply

▨ Demand

# QUARTERLY TRENDS TOP 15 SUBMARKETS

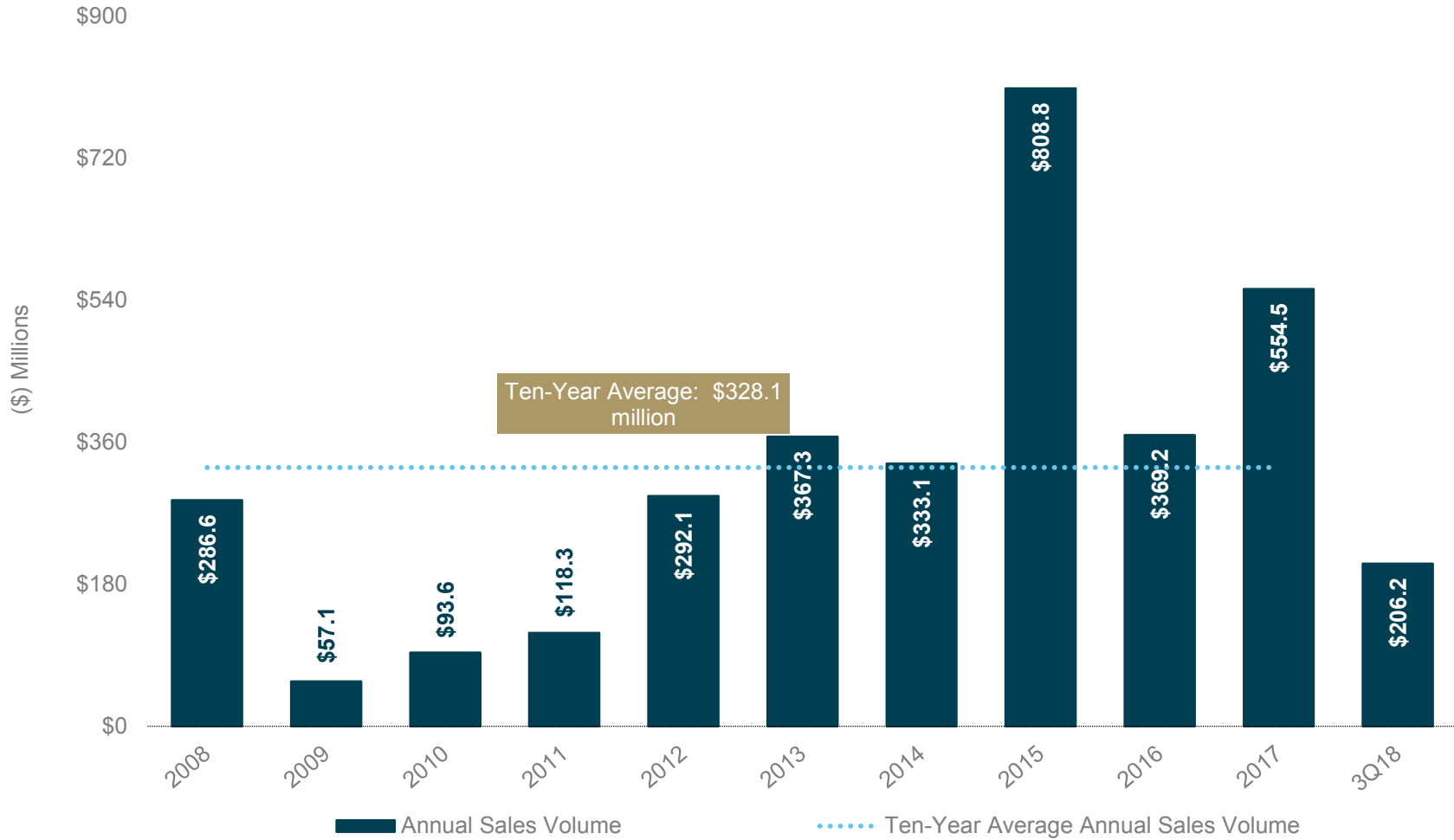
3Q2018

Rent Growth Rank	Submarket	Average Rent	Annual Change	Occupancy
1	Downtown / Midtown / Riverton	\$1,135	6.2%	95.8%
2	Pontiac / Waterford / Auburn Hills	\$931	4.3%	97.3%
3	Detroit City	\$800	3.4%	96.4%
4	Sterling Heights / Shelby Township	\$969	3.1%	97.1%
5	Clinton Township / St. Clair County	\$840	3.1%	95.0%
6	Farmington Hills / West Bloomfield	\$1,231	3.0%	97.0%
7	Westland / Canton / Livonia	\$920	2.9%	96.9%
8	Southfield	\$996	2.8%	96.7%
9	South Wayne County	\$807	2.7%	96.6%
10	Novi / Livingston County	\$1,055	2.5%	98.0%
11	Dearborn / Dearborn Heights	\$1,026	2.4%	94.0%
12	Warren / Roseville	\$972	2.2%	95.8%
13	Troy / Rochester Hills	\$1,123	1.3%	96.5%
14	Royal Oak / Oak Park	\$978	1.3%	97.6%
15	Novi	\$978	1.2%	97.1%
<b>Detroit Market Average</b>		<b>\$966</b>	<b>3.1%</b>	<b>96.5%</b>

Source: Berkadia Research; Axiometrics

# ANNUAL TRANSACTION VOLUME – DETROIT MSA

## MULTIFAMILY ASSETS\*

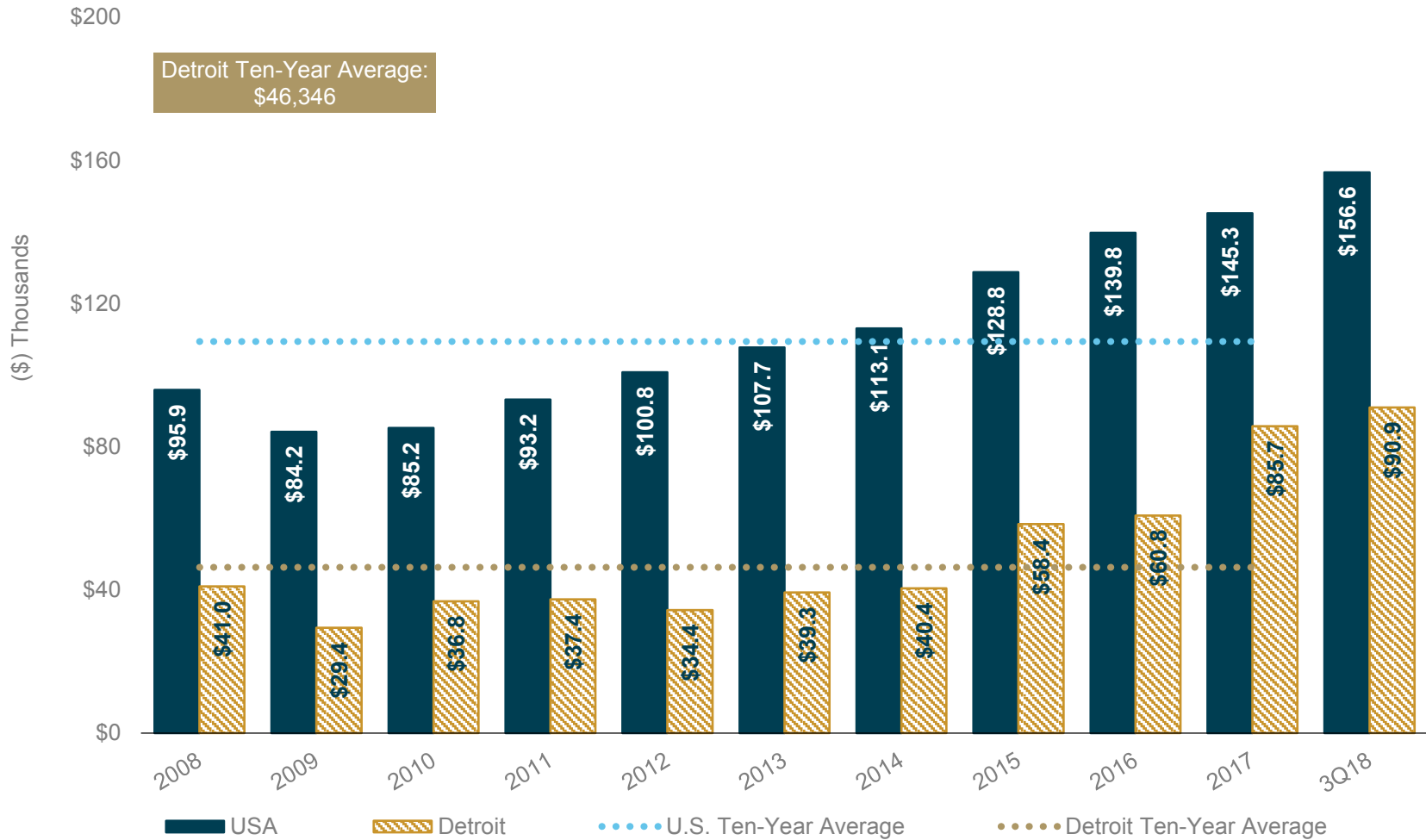


\* Based on independent reports of properties and portfolios \$2.5 million and greater.

Source: Berkadia Research; Real Capital Analytics

# ANNUAL AVERAGE PRICE PER UNIT

## MULTIFAMILY TRANSACTIONS\*



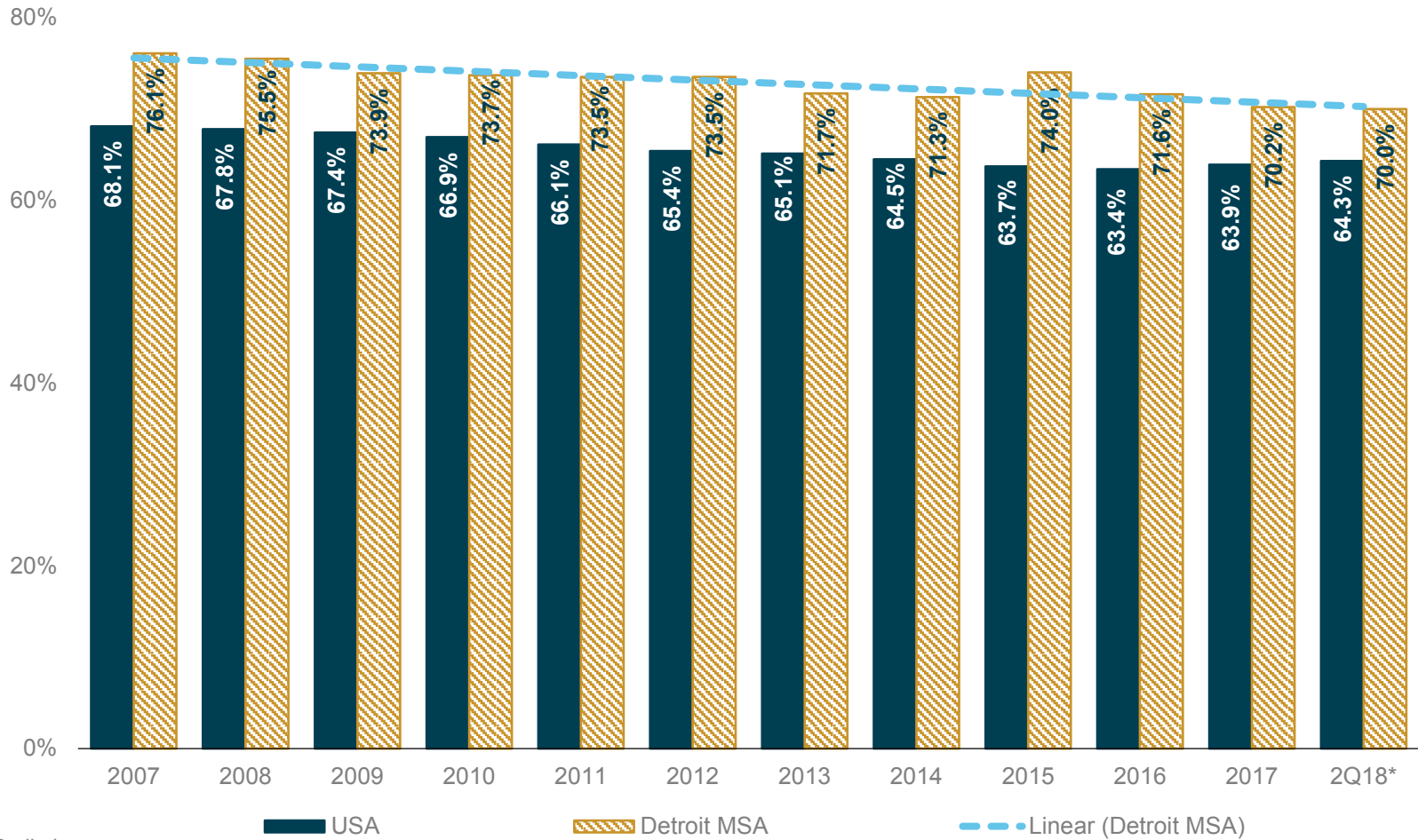
\* Based on independent reports of properties and portfolios \$2.5 million and greater.

Source: Berkadia Research; Real Capital Analytics



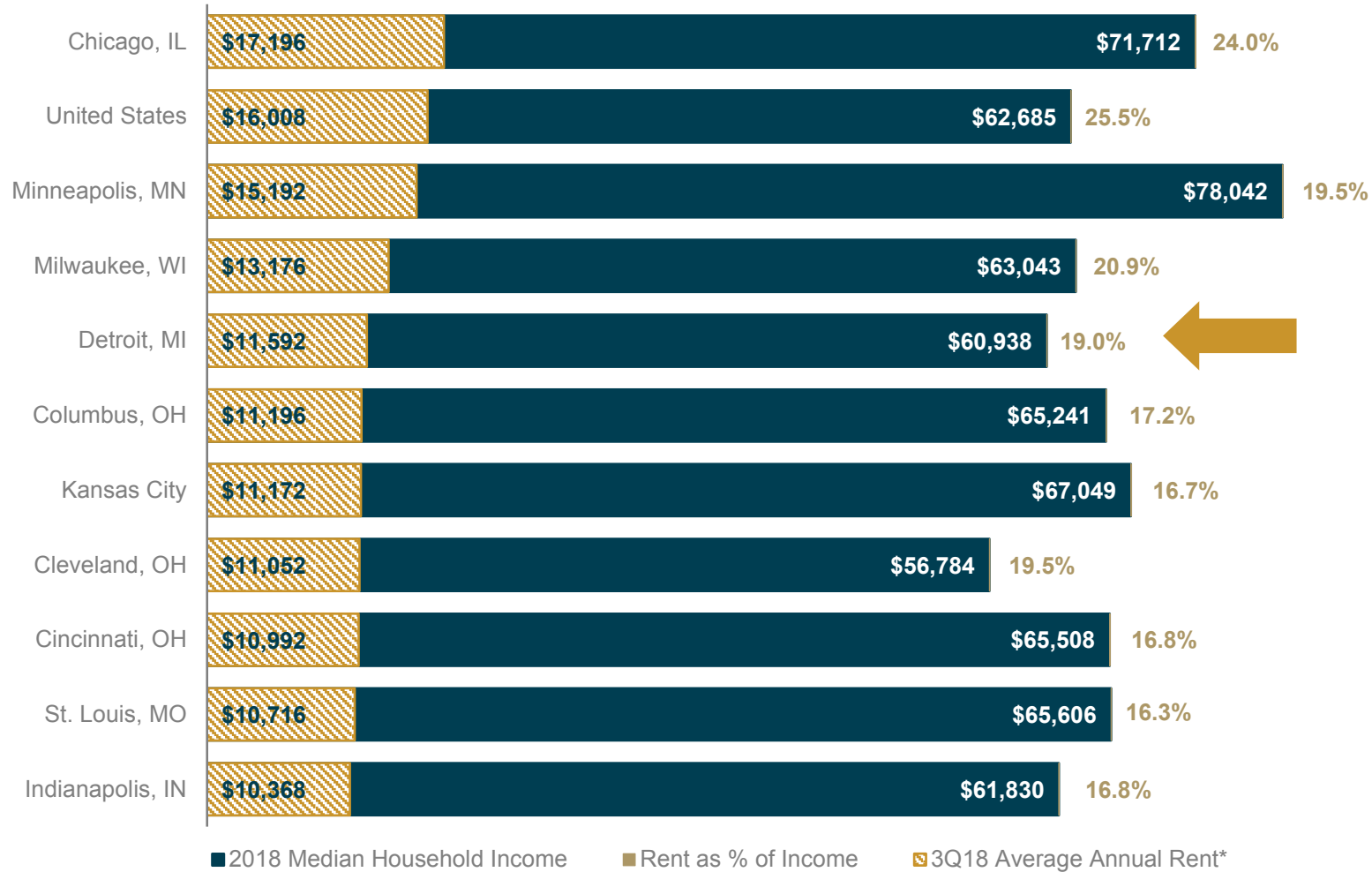
# HOMEOWNERSHIP RATE

- According to the U.S. Census Bureau, the average homeownership rate in the Detroit MSA was 70.0% in the second quarter of 2018



# HOUSING AFFORDABILITY – MIDWEST METRO AREAS

## INCOME VS. RENT



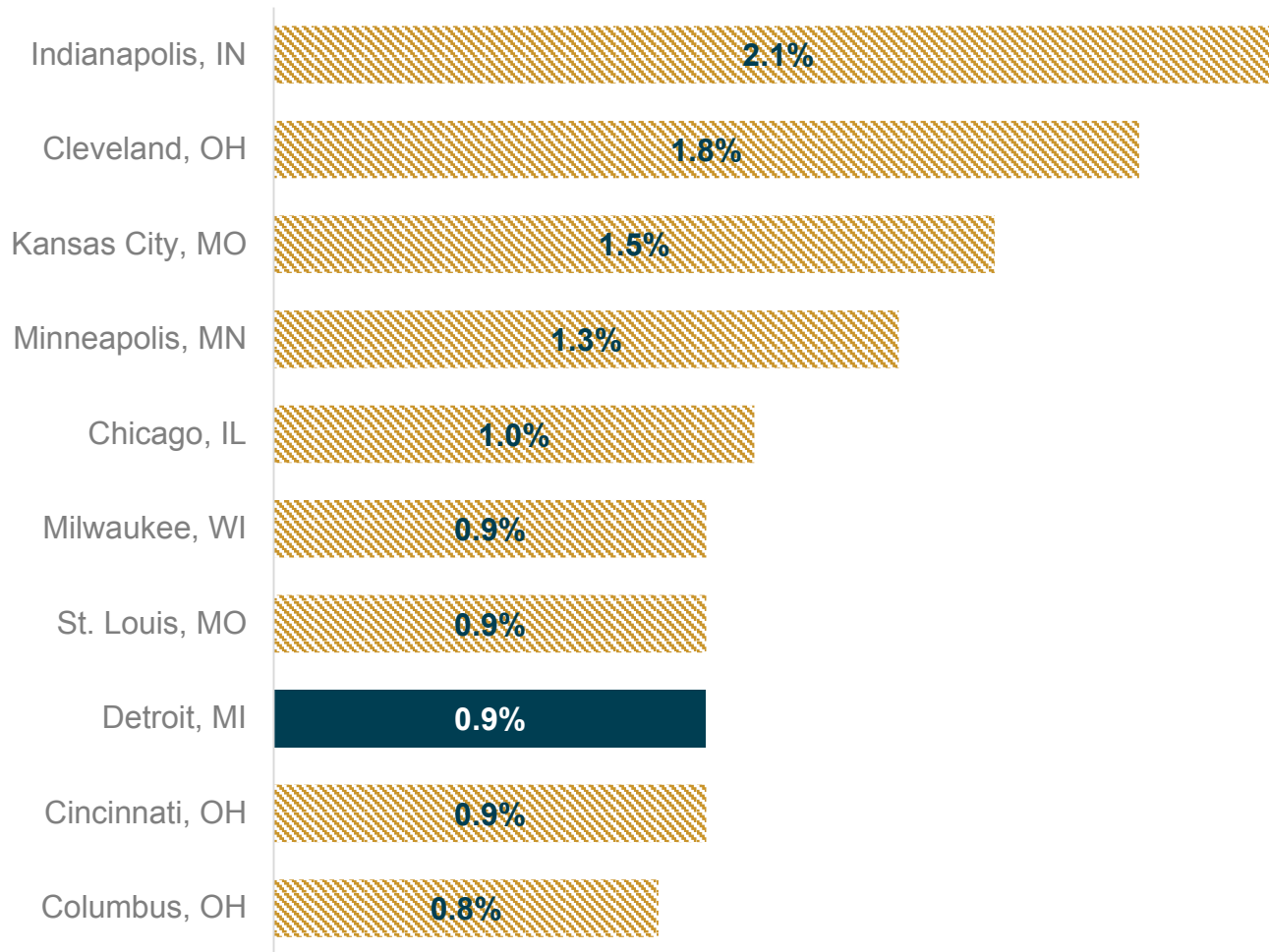
Source: Berkadia Research; Moody's Analytics; Axiometrics

# Metro Detroit Economic Trends



## EMPLOYMENT GROWTH RATE – MIDWEST METRO AREAS

Percent Change in Nonfarm Payroll Employment: September 2018\* (Seasonally Adjusted)

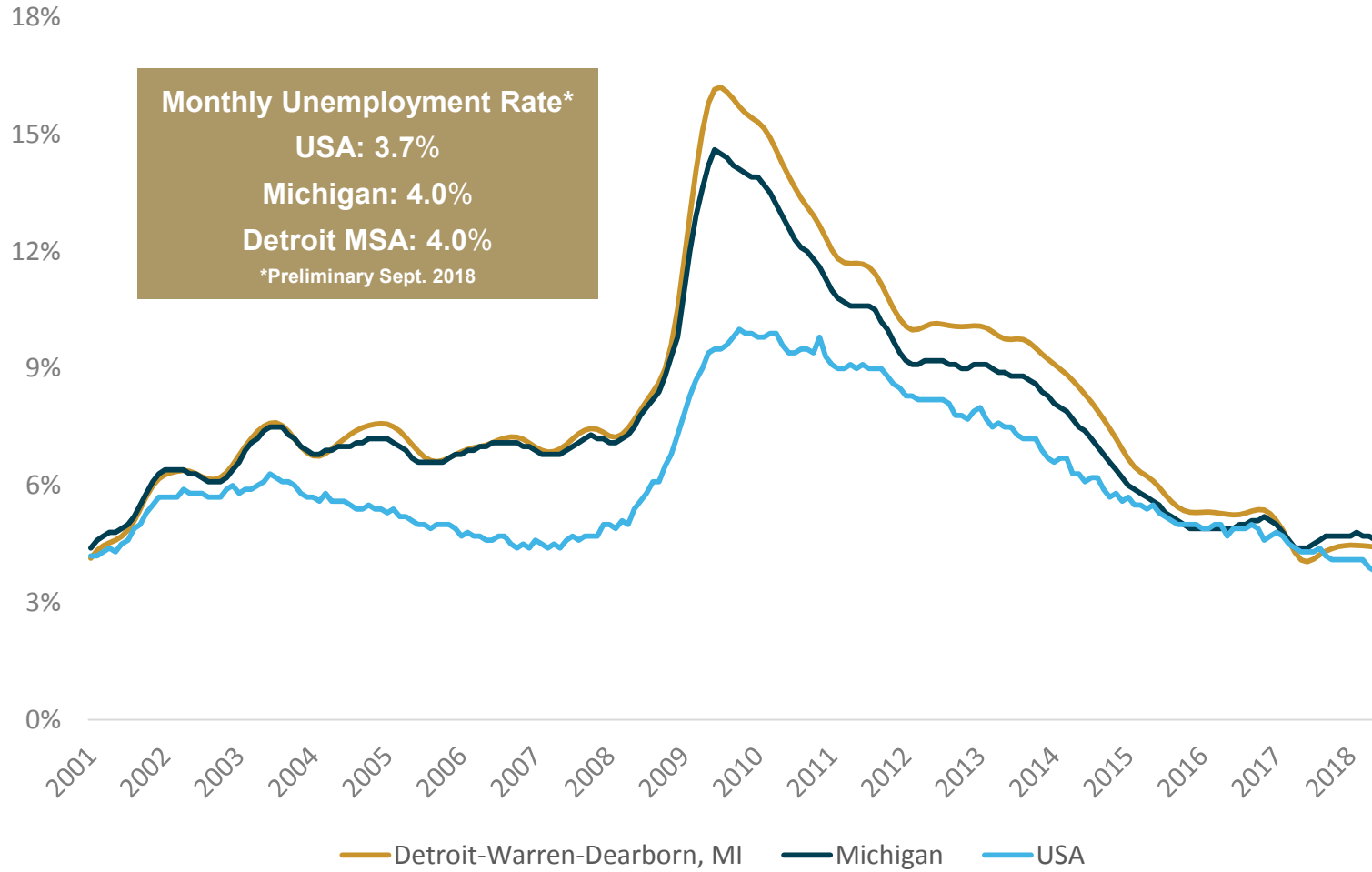


Source: Berkadia Research, Moody's Analytics

\*Projected

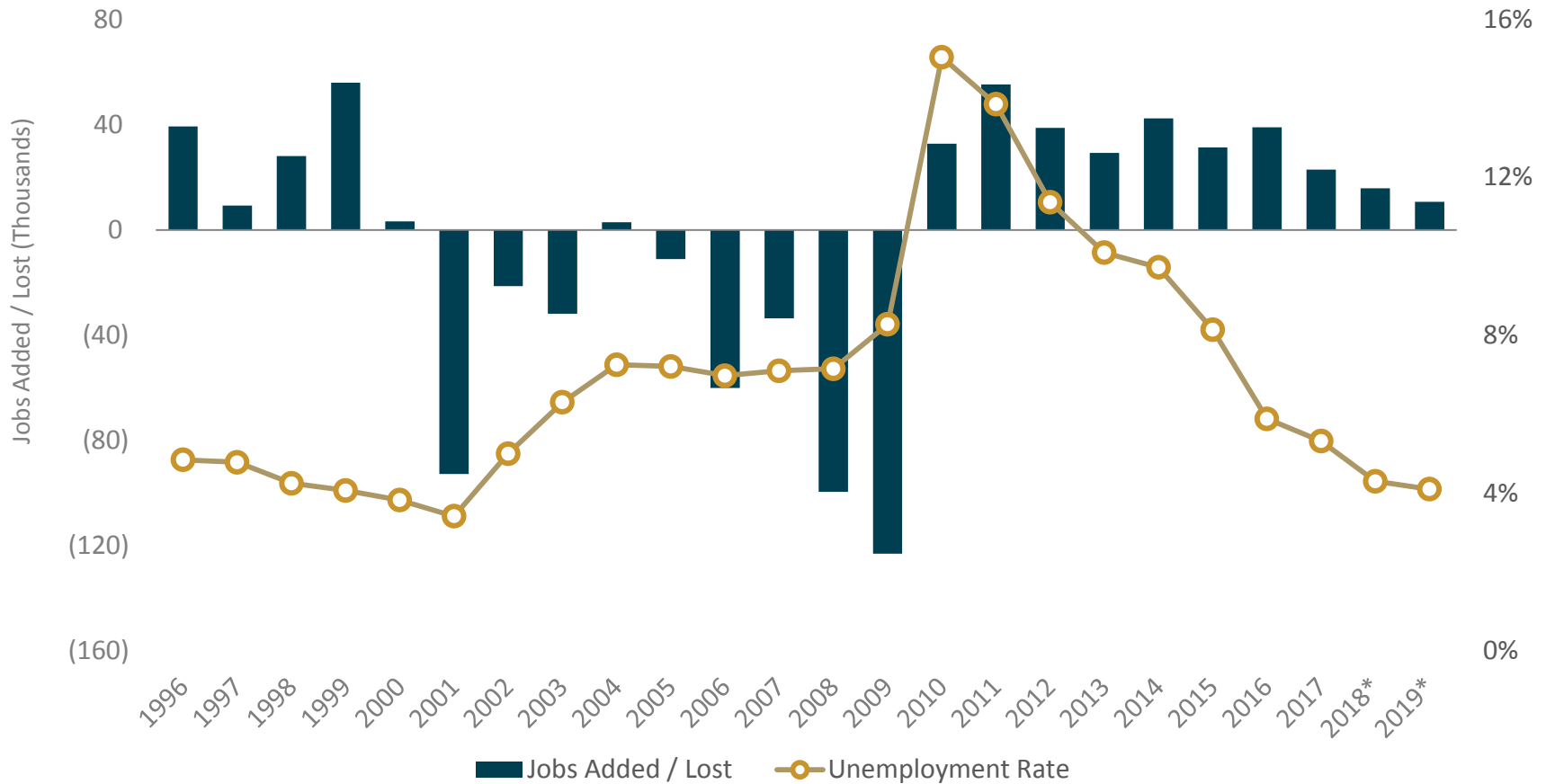
# UNEMPLOYMENT: STATE AND NATIONAL

September 2018 | Seasonally Adjusted



Source: U.S. Census; Bureau of Labor Statistics; Moody's Analytics

# JOB GROWTH AND UNEMPLOYMENT – DETROIT MSA



\* - Projected

- Sept. 2017 – Sept. 2018 Job Growth: 13,800 Jobs Added (Seasonally Adjusted)
- September 2018 monthly unemployment rate is 4.0% (Seasonally Adjusted)

Source: Bureau of Labor Statistics; Moody's Analytics