

Apartment Association of Michigan

2021 Multifamily Rental Market Outlook

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Multifamily Review

Multifamily Picture 3Q20

A Tale of Three Economies, Pre-, During and Post-Covid

- Apartment deal volume fell sharply in the second and third quarter from the pace of activity seen a year ago. However, there are reasons to be optimistic in that conditions do not seem to be getting worse. There are a few indicators suggesting improvement as well.
- There are a few indicators suggesting improvement as well. For example, normally third quarter volume is only 18% larger than the second quarter activity; however, this year third quarter volume was 56% larger.
- The level of deal activity also shows a degree of liquidity in the current market not seen in the worst part of the Global Financial Crisis. Deal volume has simply not fallen as much as it did in the last downturn.
- Distressed asset sales have not been a big factor in the U.S. apartment market yet. Less than half of one percent of apartment sales came from distressed situations in 2Q20 and preliminary data suggests that only 1% of the total in 3Q20 came from distress.

Multifamily Market | Investment Trends

- Portfolio sales were slightly more important for the mid- and high-rise segments, constituting 23% of the deal volume for the quarter.
- Portfolio deals represented 19% of the garden apartment sale activity.
- Less than half of one percent of apartment sales came from distressed situations in 2Q20 and preliminary data suggests that only 1% of the total in 3Q20 came from distress.
- This COVID-19 recession is not a financial recession with a shutdown of lending, but as before, the GSEs are gaining market share as other lenders pull back.
- Cap rates remained relatively steady as interest rates dropped, increasing cap rate spreads.
- Little movement in property prices highlights that market perception of the multifamily asset class continues to favor longer-term fundamentals.

Multifamily Market | Major Transactions



Independence Green Apartments

Farmington, MI | 981 Units

Sale Price: \$99,500,000

Sale Price/Per Unit: \$101,427



Pier 38

Fenton, MI | 140 Units

Sale Price: \$19,400,000

Sale Price/Per Unit: \$138,571



Hillside Forest

Farmington Hills, MI | 252 Units

Sale Price: \$32,500,000

Sale Price/Per Unit: \$128,690



Town Commons Apartments

Howell, MI | 100 Units

Sale Price: \$10,500,000

Sale Price/Per Unit: \$105,900

*Conventional apartments transacted from 01/20 to 09/20. Some sale prices are approximate calculations.

Source: Berkadia Research; Real Capital Analytics; YardiMatrix;

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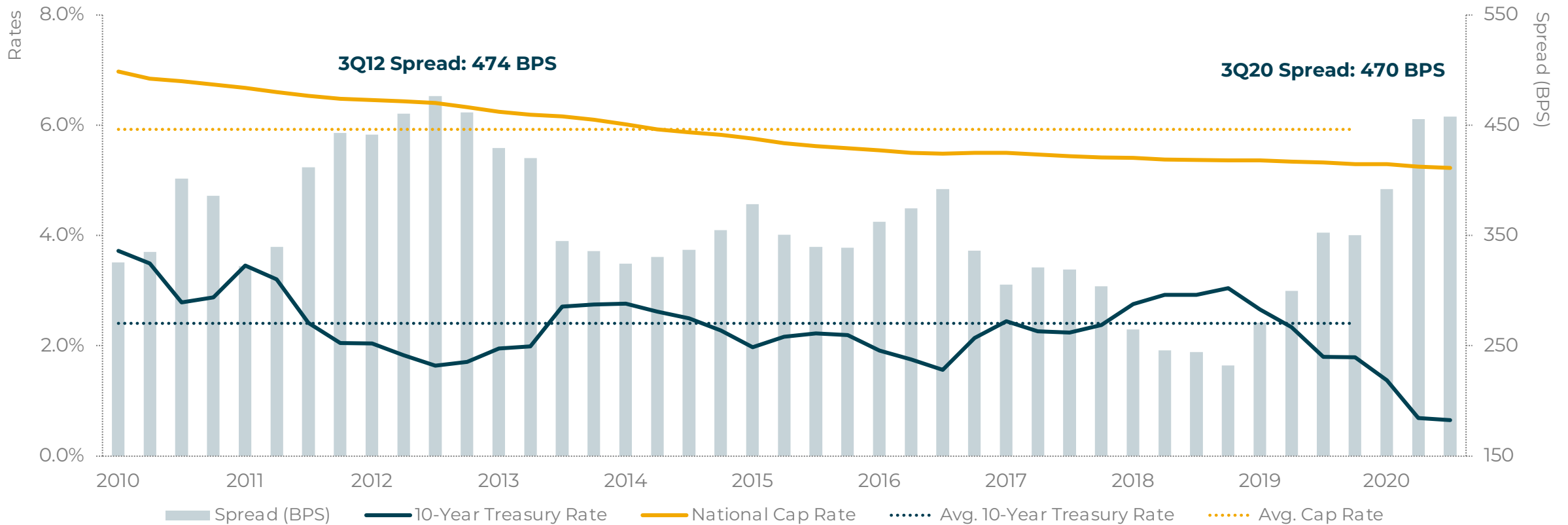




Investment Indicators

Investment Indicators | 10-Year Treasury vs. National Cap Rate

The yield on the 10 Year Treasury note fell through the third quarter of 2020 as prospects for a pre-election stimulus package diminished and coronavirus cases heightened nationwide.

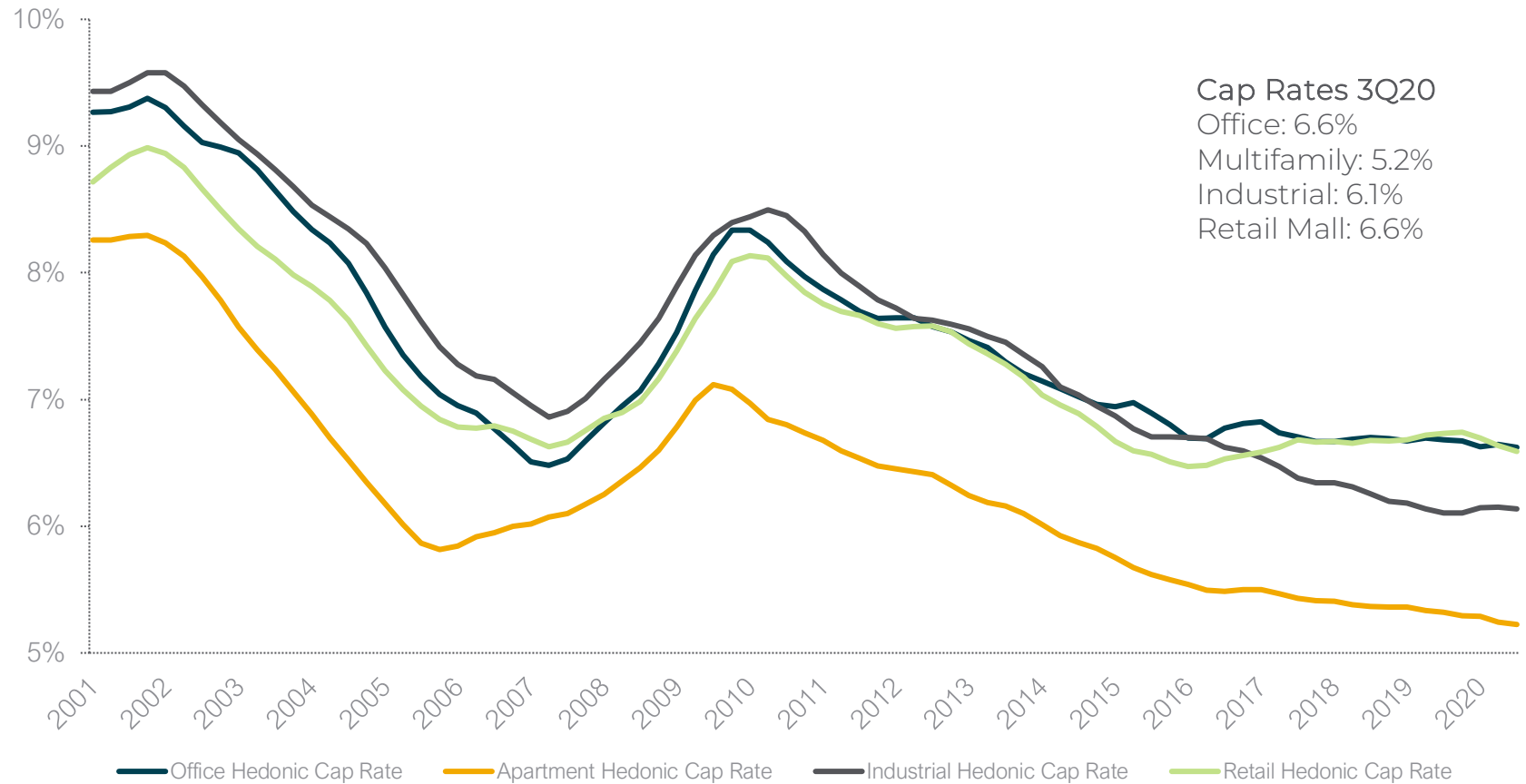


Source: Berkadia Research; Real Capital Analytics; Federal Reserve of St. Louis; CoStar.



CRE – Cap Rates

The RCA Hedonic Series (RCA HS) cap rate for multifamily properties dropped 10 bps annually to 5.2% in 3Q20, the lowest RCA HS cap rate among all commercial property assets.



* Based on independent reports of properties and portfolios \$2.5 million and greater.
Source: Berkadia Research; Real Capital Analytics; CoStar.



Multifamily Market Capital Trends

Multifamily Buyer Composition - National

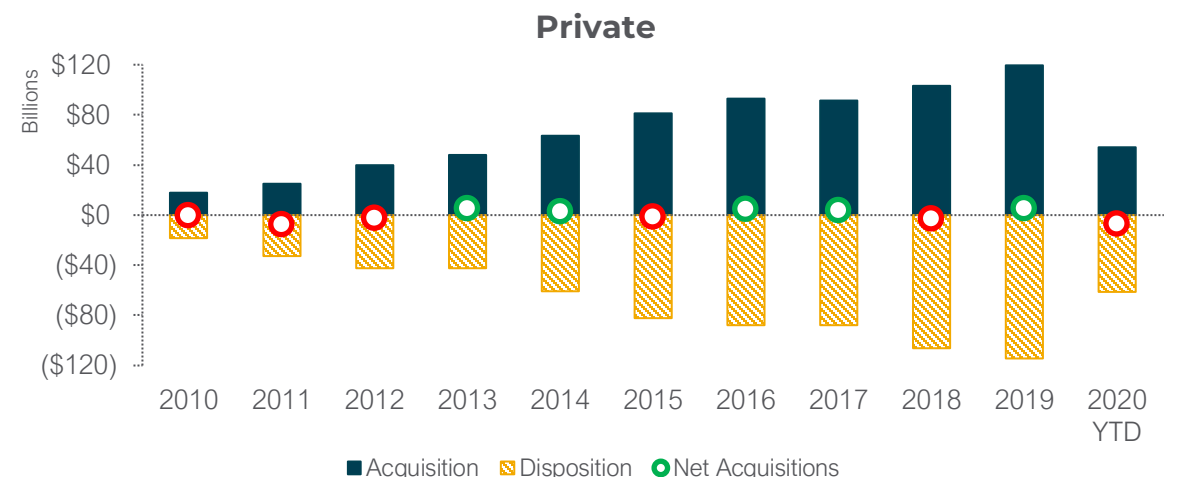
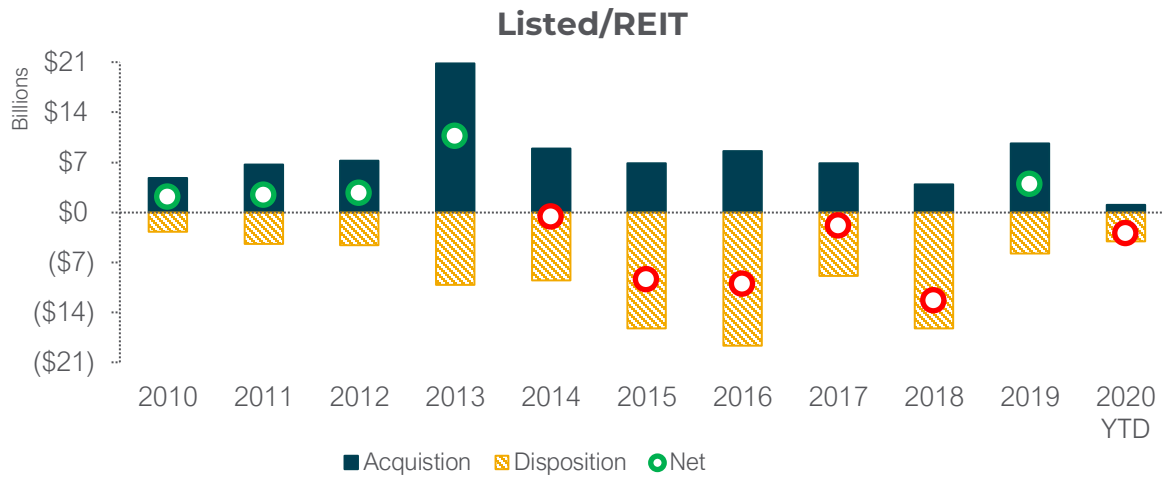
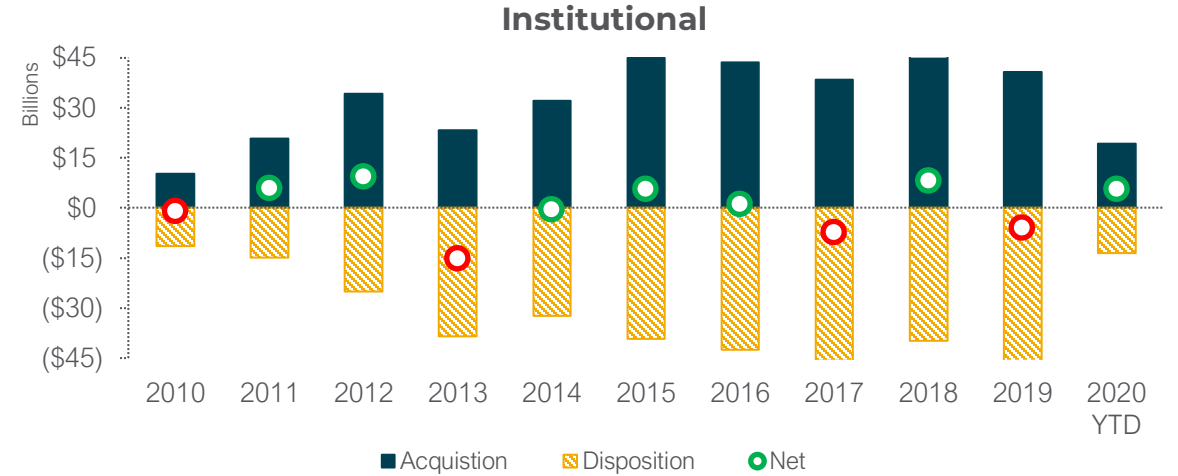
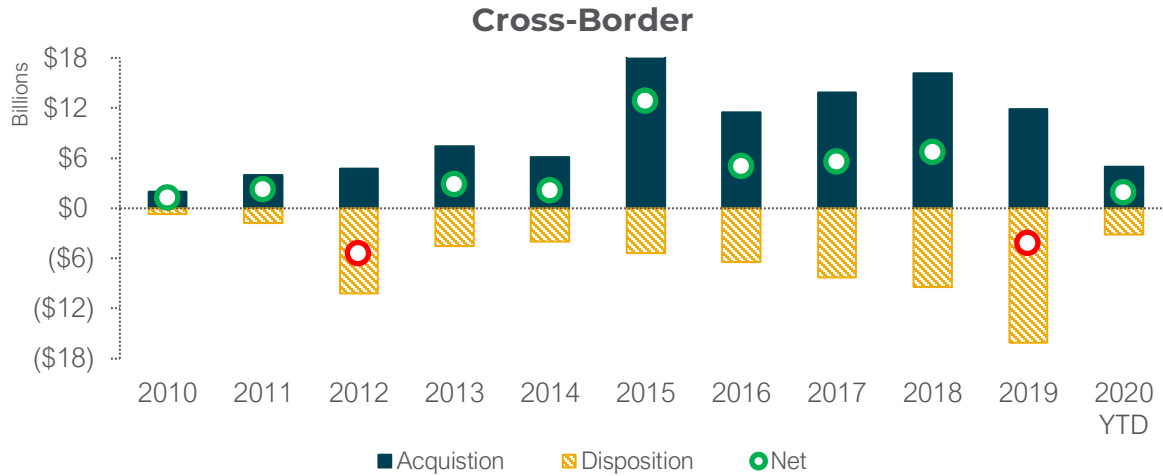
- Private investors have been the most active through the first three quarters of 2020, making up nearly 65% of buyer composition nationwide.
- Local players were relatively more active: Acquisitions by local and regional investors were about 30% of the previous year's levels.

	Cross-Border	Institutional	REITs	Private	User / Other	Unknown
Total	\$4.8b	\$18.8b	\$1.1b	\$51.4b	\$976m	\$2.4b
Market Share	6.0%	23.7%	1.3%	64.8%	1.2%	3.0%
Y-o-Y Change	(50%)	(66%)	(16%)	(60%)	(48%)	(85%)
Net Buyer / Seller	Seller	Buyer	Seller	Seller	Buyer	Buyer

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

Source: Berkadia Research; Real Capital Analytics; CoStar.

Multifamily Capital Flows

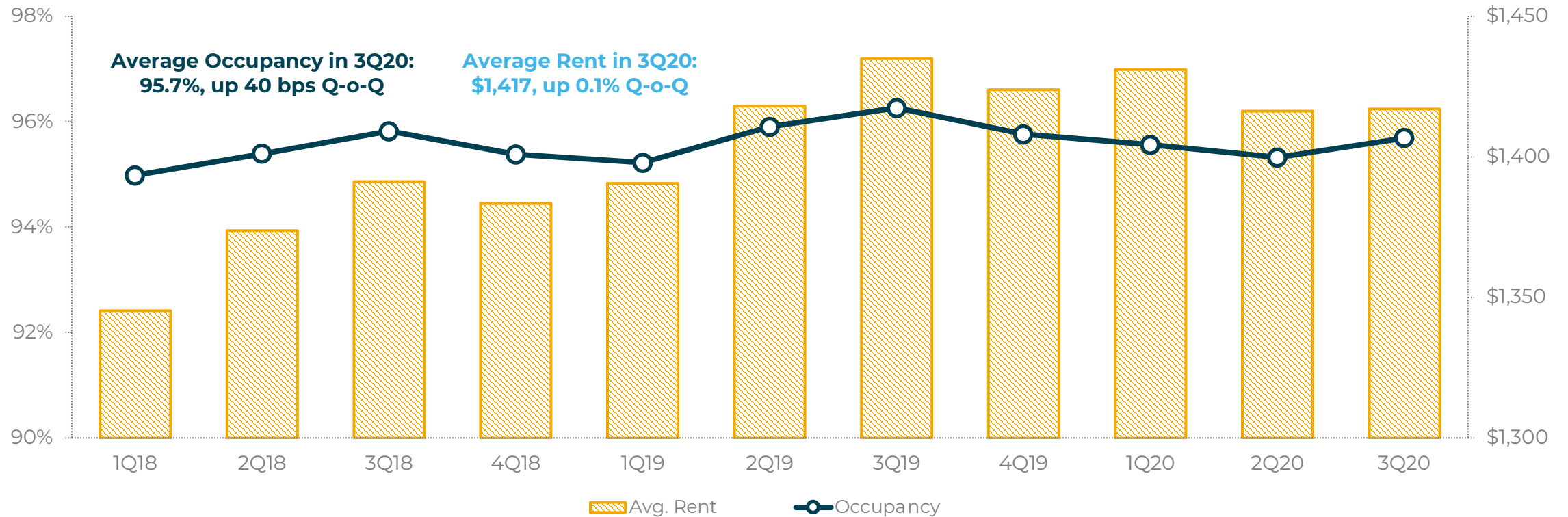


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Source: Berkadia Research; Real Capital Analytics; CoStar



U.S. Multifamily Market by the Numbers

Leasing of suburban product powered the third quarter total, though absorption of downtown units turned positive after declining in the second quarter.

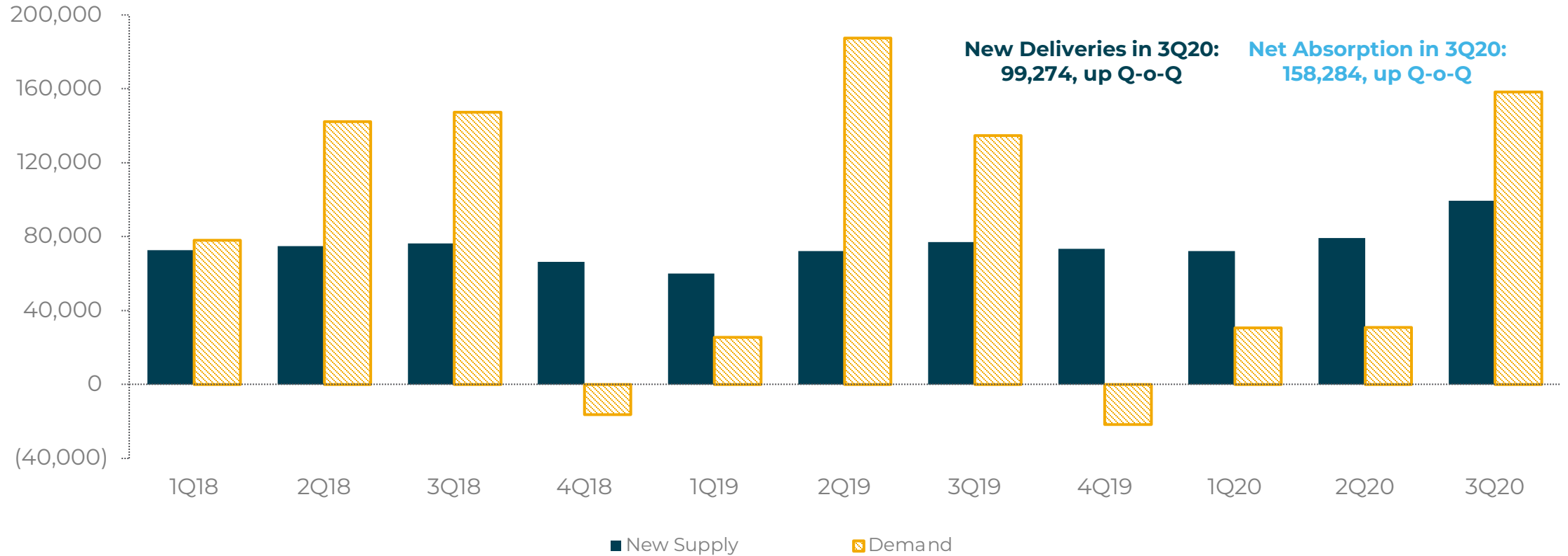


Source: Berkadia Research; Axiometrics; CoStar.



U.S. Multifamily Market by the Numbers

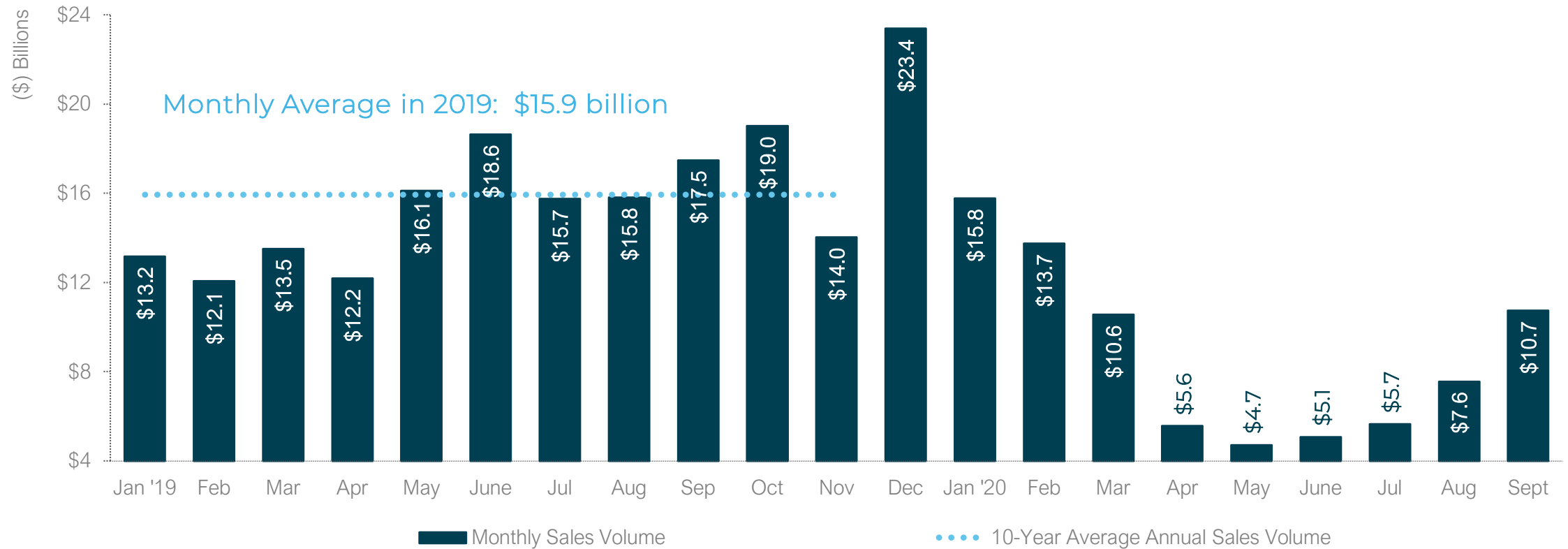
Apartment net absorption surged to more than 158,000 units in the third quarter, easily the best third quarter on record, and a sign that the weak second quarter absorption was the result of lockdown restrictions rather than a reduction in underlying demand for housing.



Source: Berkadia Research; Axiometrics; CoStar

Multifamily Transaction Volume | Nation

There are clear seasonal patterns in deal activity for the apartment sector. For instance, the market always sees a surge in deal activity in December as investors rush to get deals completed before year-end.

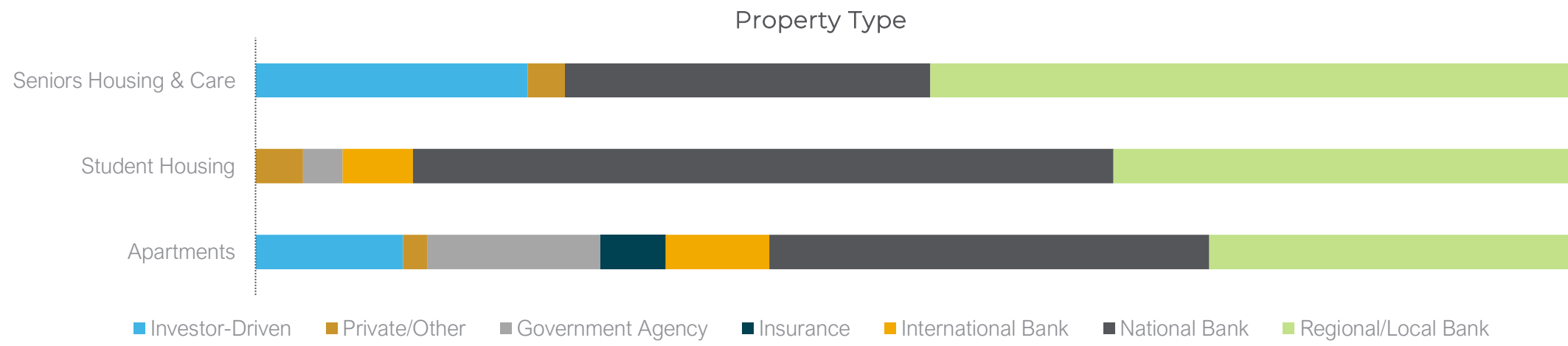
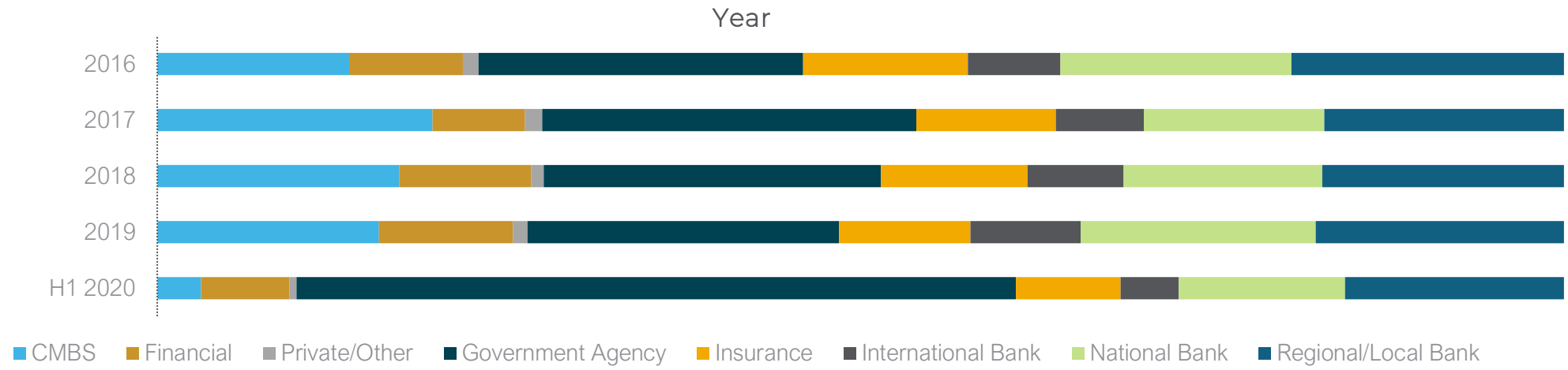


* Based on independent reports of properties and portfolios \$2.5 million and greater.

Source: Berkadia Research; Real Capital Analytics; CoStar



Lender Composition | Nation



• *Based on independent reports of properties and portfolios \$2.5 million and greater.
 • **2Q20 is the latest data available
 Source: Berkadia Research; Real Capital Analytics; CoStar

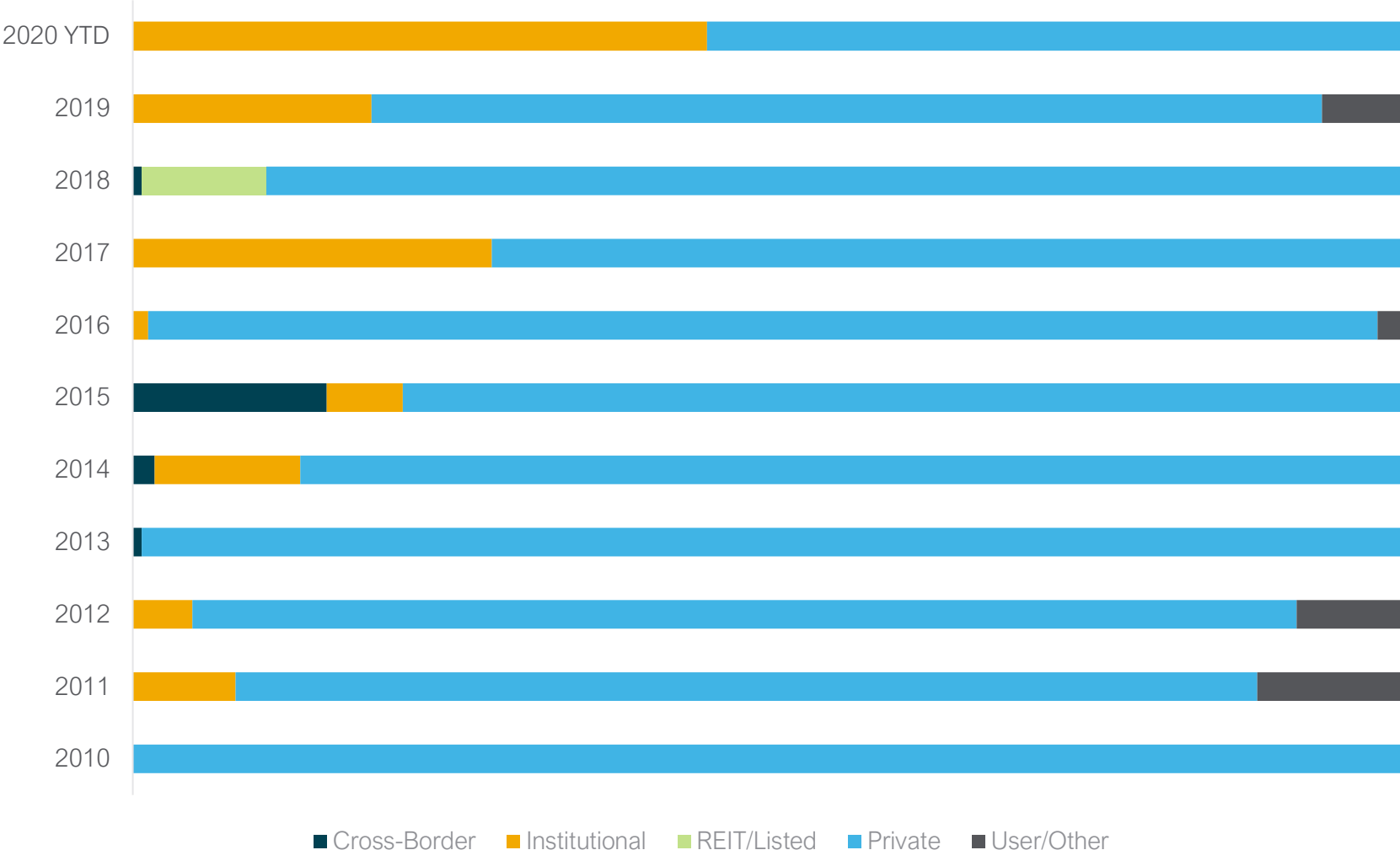


A person in a dark suit and white shirt is walking away from the camera on a transit platform. The background is a blurred train, suggesting motion. The entire image has a blue color cast. A yellow-outlined box frames the text on the left side.

Metro Detroit Multifamily Market Trends

CAPITAL TRENDS

Multifamily Buyer Composition – Detroit Metro



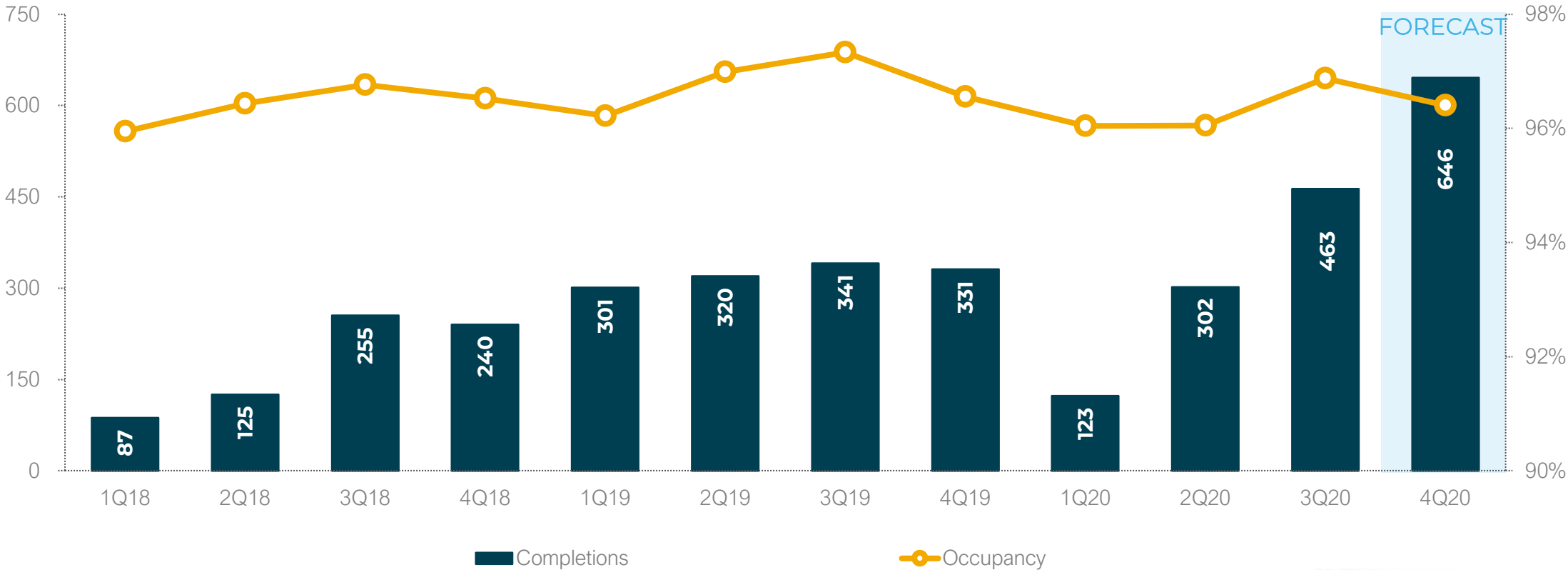
* Based on independent reports of properties and portfolios \$2.5 million and greater.

Source: Berkadia Research; Real Capital Analytics; CoStar



Completions vs. Occupancy | Detroit, MI MSA

Bedrock's redevelopment of Midtown's historic Brush Park is nothing short of transformative, with their City Modern community seeking to create a mixed-use, mixed-income neighborhood that blends existing, historic structures with modern, ground-up development.

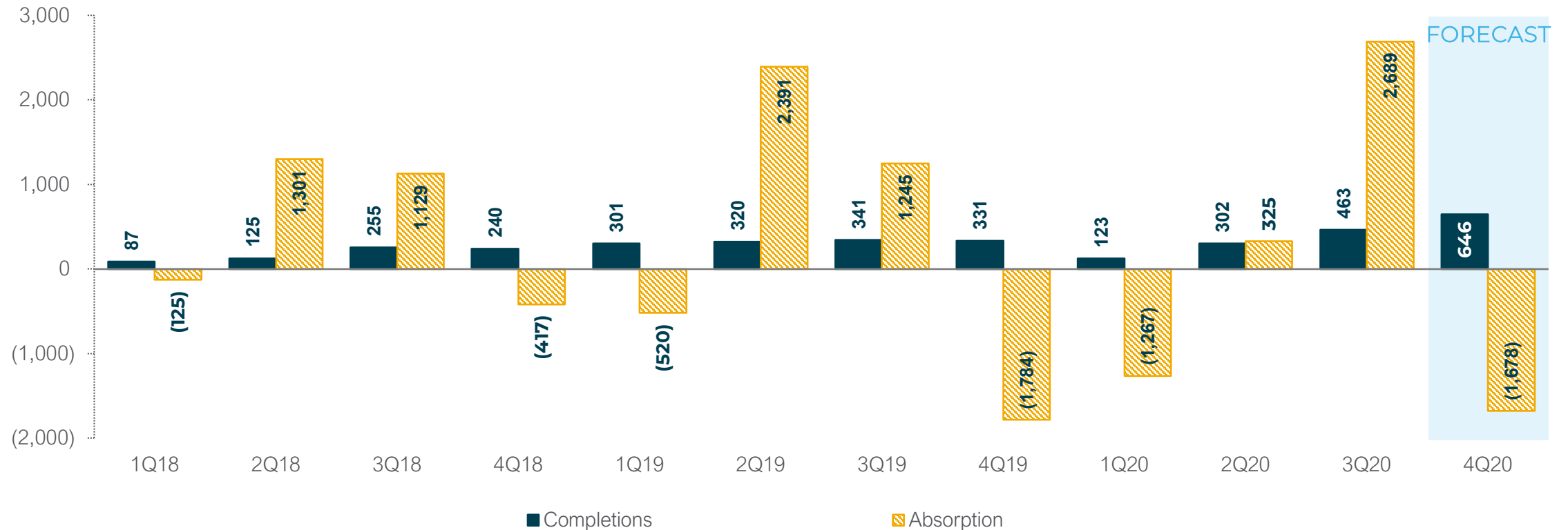


Source: Berkadia Research; CoStar; Axiometrics; CoStar



Completions vs. Absorption | Detroit, MI MSA

Search activity highlights tenant interest and prospective demand remain elevated, sitting above pre-pandemic levels after declining in March. This is especially noteworthy considering the time of year, with search activity typically slowing as summer leasing season wraps up.

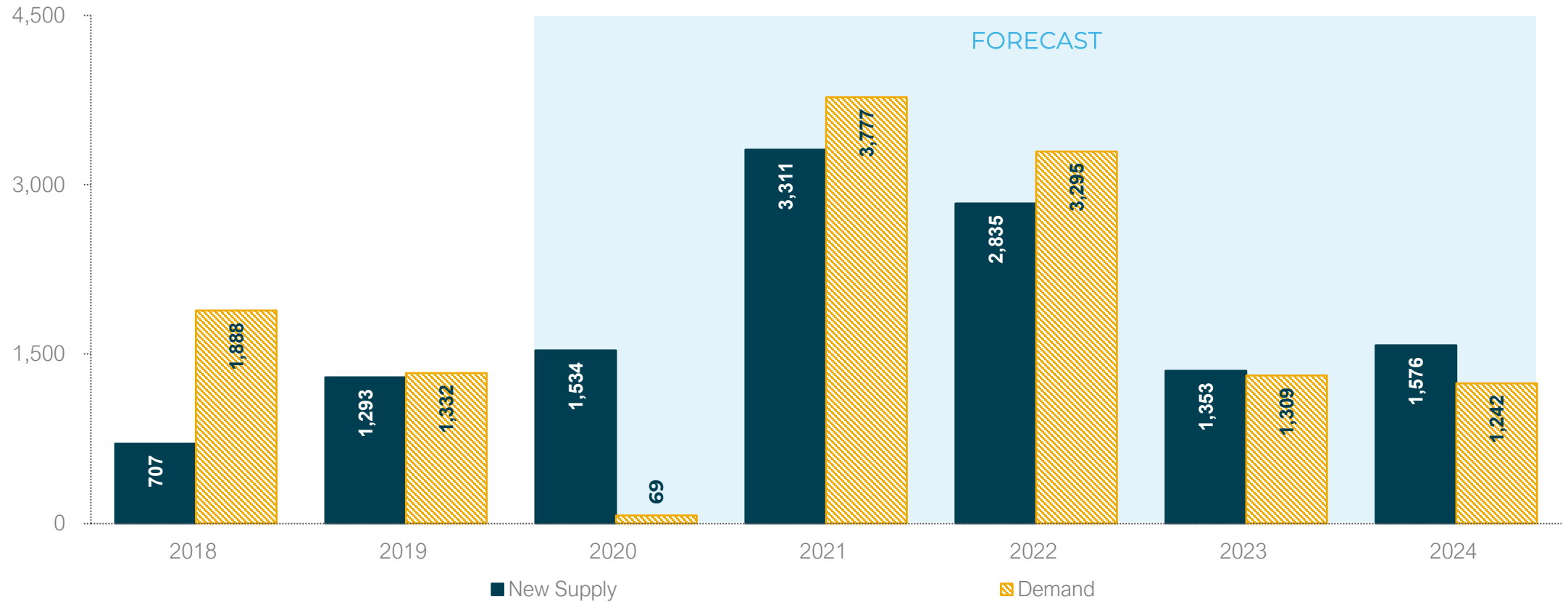


Source: Berkadia Research; Axiometrics



Projected Supply vs. Demand | Detroit, MI MSA

Local firm Berkadia is leading the development charge both Downtown and in Midtown, responsible for about 25% of the pipeline market wide and half of all units underway in these two submarkets.



Source: Berkadia Research; Axiometrics



Quarterly Trends – Rent Growth in Submarkets

Detroit's apartment market exceeded expectations in recent months, with effective rent growth accelerating and demand hitting record highs, bumping the Q-o-Q occupancy rates up 80 BPS to 96.9% in 3Q20.

Rank	Submarket	3Q20 Effective Rent	Q-o-Q Rent Change	3Q20 Occupancy Rate	Q-o-Q Occ. Change (BPS)
1	Sterling Heights/Shelby Township	\$1,052	4.0%	97.3%	110
2	Clinton Township/St. Clair County	\$966	3.2%	97.8%	150
3	Novi/Livingston County	\$1,117	3.1%	97.7%	120
4	Farmington Hills/West Bloomfield	\$1,237	2.9%	96.2%	80
5	Pontiac/Waterford/Auburn Hills	\$981	2.4%	97.9%	60
6	Westland/Canton/Livonia	\$1,002	2.2%	98.1%	150
7	South Wayne County	\$910	2.0%	97.3%	70
8	Southfield	\$1,084	2.0%	97.6%	30
9	Troy/Rochester Hills	\$1,190	1.6%	97.0%	30
10	Dearborn/Dearborn Heights	\$1,162	1.5%	94.8%	20
11	Warren/Roseville	\$843	1.3%	98.2%	260
12	Royal Oak/Oak Park	\$1,003	0.9%	97.2%	120
13	Detroit City	\$855	0.5%	94.8%	(10)
14	Downtown/Midtown/Rivertown	\$1,300	-0.1%	94.7%	50
Detroit Market Average		\$1,023	1.9%	96.9%	80

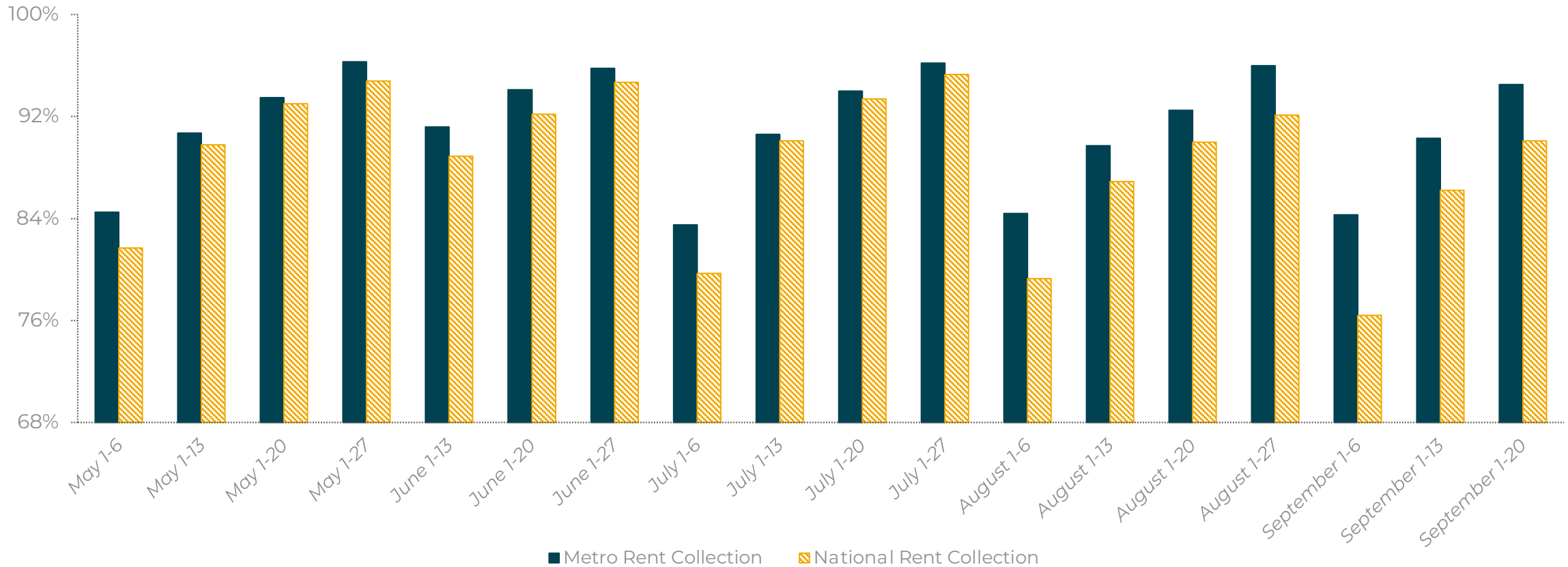
Annual Trends – Rent Growth in Submarkets

Detroit's apartment market has surged ahead of expectations with demand hitting record highs and effective rent growth accelerating, increasing 2.5% annually through 3Q20 to settle at \$1,023 per month in September 2020.

Rank	Submarket	3Q20 Effective Rent	Y-o-Y Rent Change	3Q20 Occupancy Rate	Y-o-Y Occ. Change (BPS)
1	South Wayne County	\$910	6.2%	97.3%	(30)
2	Clinton Township/St. Clair County	\$966	5.8%	97.8%	60
3	Novi/Livingston County	\$1,117	5.0%	97.7%	(30)
4	Pontiac/Waterford/Auburn Hills	\$981	3.7%	97.9%	0
5	Sterling Heights/Shelby Township	\$1,052	3.2%	98.4%	20
6	Warren/Roseville	\$843	3.0%	98.2%	120
7	Westland/Canton/Livonia	\$1,002	2.6%	98.1%	60
8	Royal Oak/Oak Park	\$1,003	1.5%	97.2%	60
9	Detroit City	\$855	1.4%	94.8%	(290)
10	Dearborn/Dearborn Heights	\$1,162	1.0%	94.8%	100
11	Downtown/Midtown/Rivertown	\$1,300	0.7%	94.7%	(160)
12	Troy/Rochester Hills	\$1,190	-0.4%	97.0%	(60)
13	Southfield	\$1,084	-0.5%	97.6%	(10)
14	Farmington Hills/West Bloomfield	\$1,237	-1.0%	96.2%	(60)
Detroit Market Average		\$1,023	2.5%	96.9%	(40)

Rent Collection | Metro vs. Nationwide

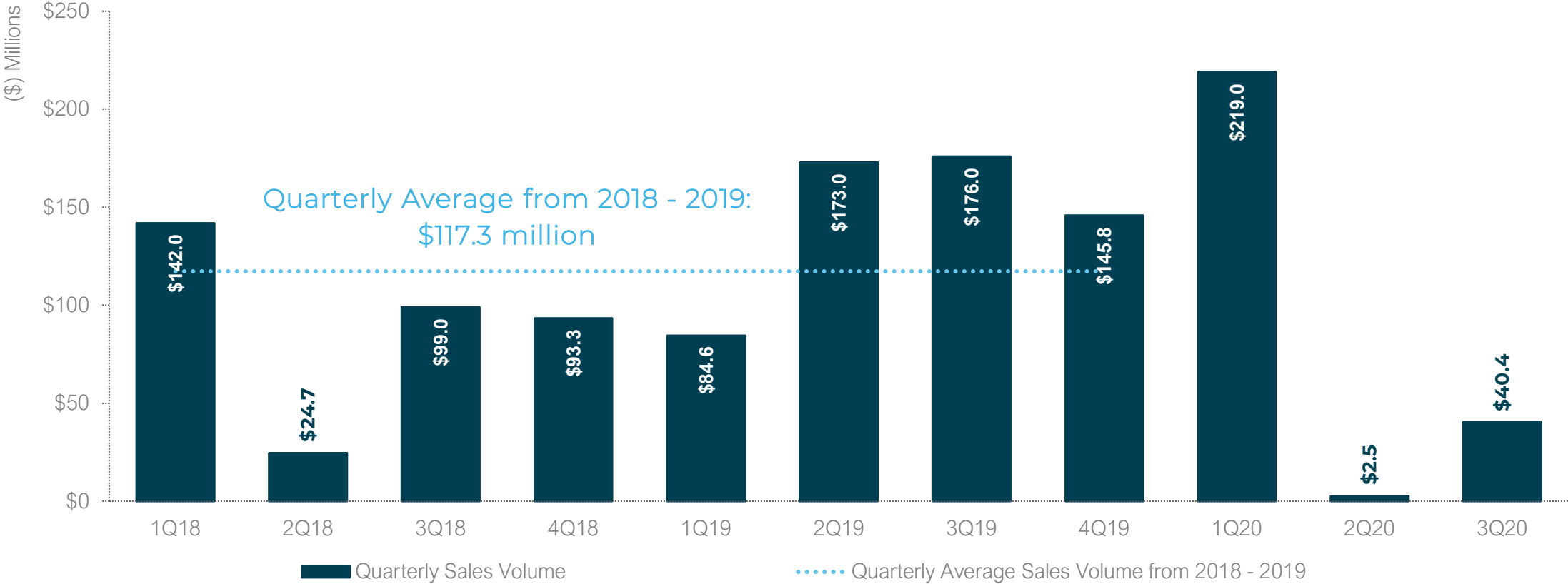
Apartment managers in Greater Detroit have fared better collecting rent than apartment managers around the nation. Across the region, 94.5% of apartment renters paid their rents through September 1 - 20, compared to 90.1% nationwide over the same time.



Source: Berkadia Research; U. S. Census Bureau



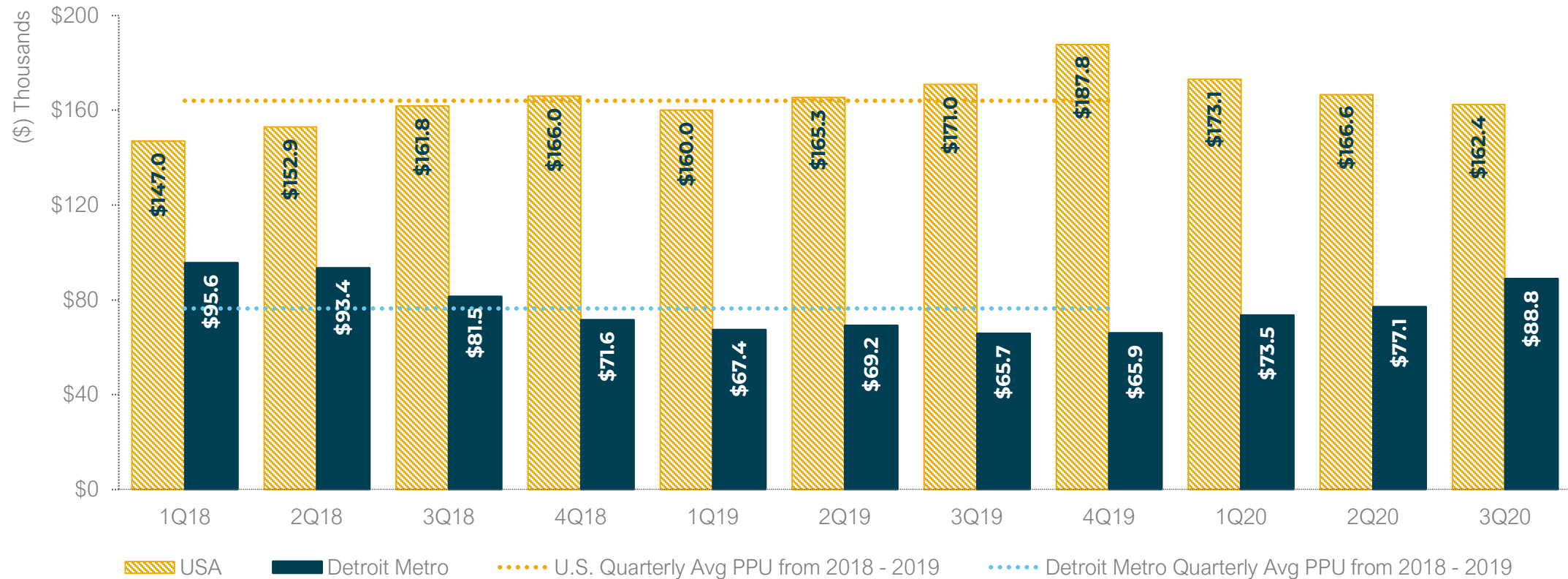
Multifamily Transaction Volume | Detroit Metro



* Based on independent reports of properties and portfolios \$2.5 million and greater.
 Source: Berkadia Research; Real Capital Analytics; CoStar



Average Price Per Unit (PPU) | Nation vs. Detroit Metro



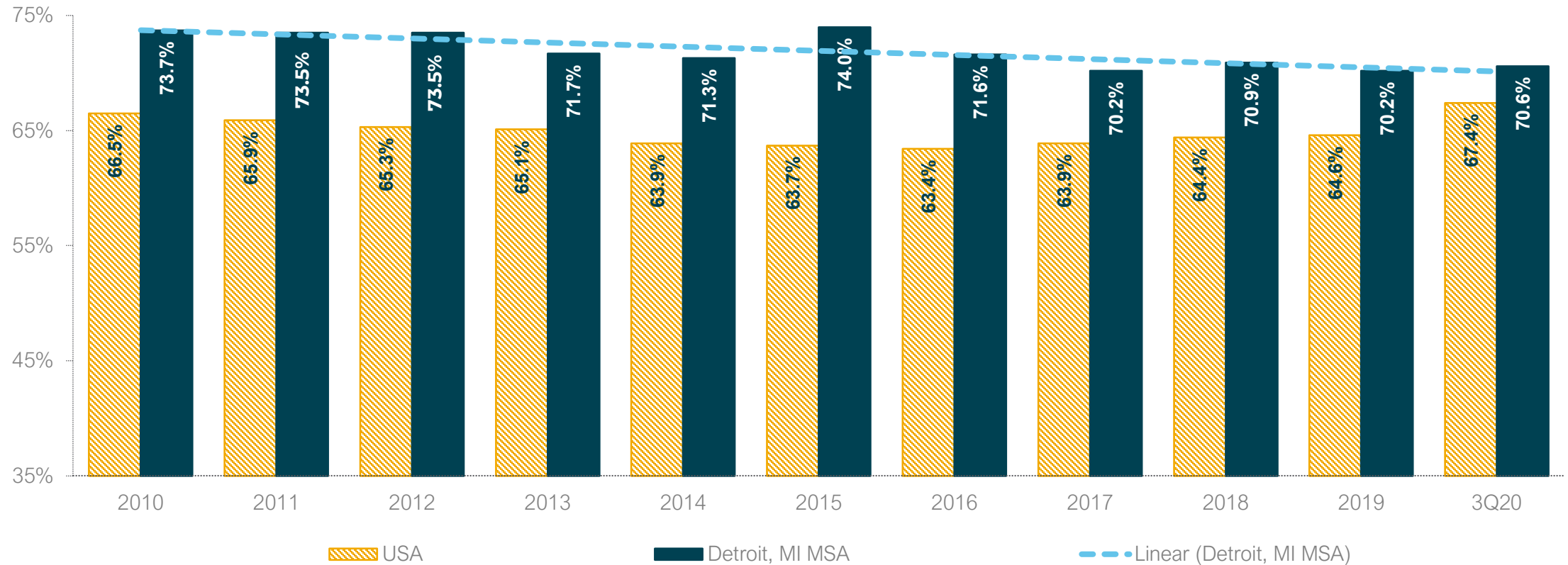
* Based on independent reports of properties and portfolios \$2.5 million and greater.

Source: Berkadia Research; Real Capital Analytics; CoStar



Homeownership Rate

With homebuyers competing in a tight single-family housing market, the median home sale price across Greater Detroit appreciated a robust 4.6% annually, settling at \$234,000 in August 2020.

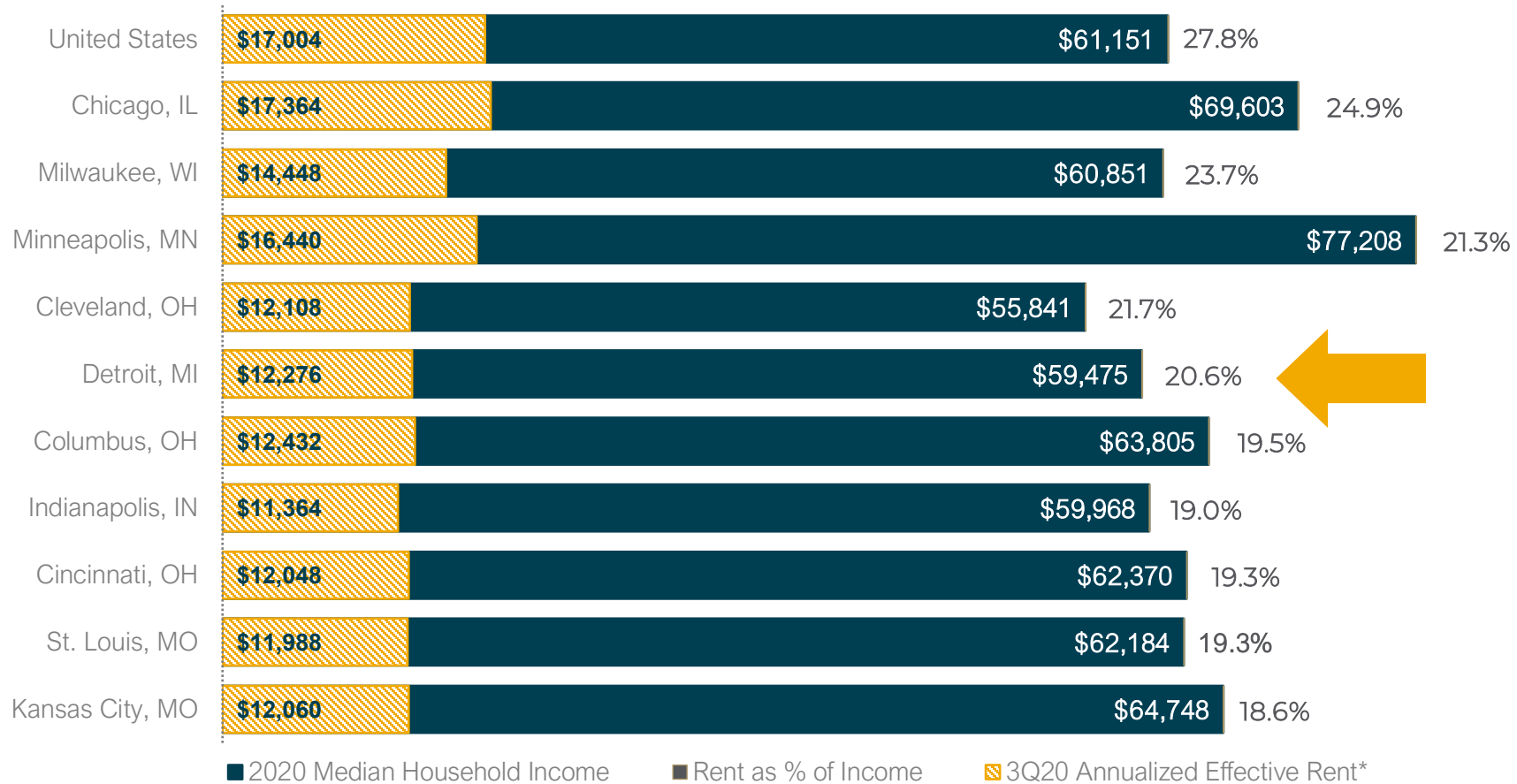


Source: Berkadia Research; U. S. Census Bureau



Housing Affordability | Midwest Metro Areas

Median Household Income vs. Annualized Effective Rent



Source: Berkadia Research; Tetrad; Axiometrics; CoStar



Recovery from the Pandemic | Rent and Concessions

In terms of rent growth and concessions, the Greater Detroit apartment market fared better than all its peer metros, including major region's like Chicago, Washington, San Francisco, and New York.

Rank	Metro	Occupancy Rates 3Q20	Effective Rent 3Q20	Y-o-Y Rent Change	Conc. as % of Asking Rent 3Q20	Y-o-Y Conc. Change
1	Detroit	96.9%	\$1,023	2.5%	2.9%	(30)
2	St. Louis	95.0%	\$999	1.9%	4.3%	110
3	Las Vegas	96.2%	\$1,112	1.8%	3.1%	120
4	Philadelphia	96.4%	\$1,443	0.7%	5.2%	120
5	Milwaukee	96.6%	\$1,204	0.3%	5.7%	100
6	Atlanta	95.3%	\$1,280	0.3%	5.1%	150
7	Miami	95.1%	\$1,670	-1.5%	5.9%	150
8	Chicago	95.0%	\$1,447	-2.3%	6.6%	290
9	Washington	95.2%	\$1,802	-2.9%	4.8%	170
10	Los Angeles*	95.2%	\$2,219	-4.8%	6.0%	310
11	New York	96.5%	\$2,505	-6.3%	7.2%	230
12	San Francisco	93.3%	\$2,765	-9.8%	6.1%	380

*Metro Division
 Ranked by Y-o-Y Rent Growth
 Source: Berkadia Research; Tetrad; Axiometrics; CoStar

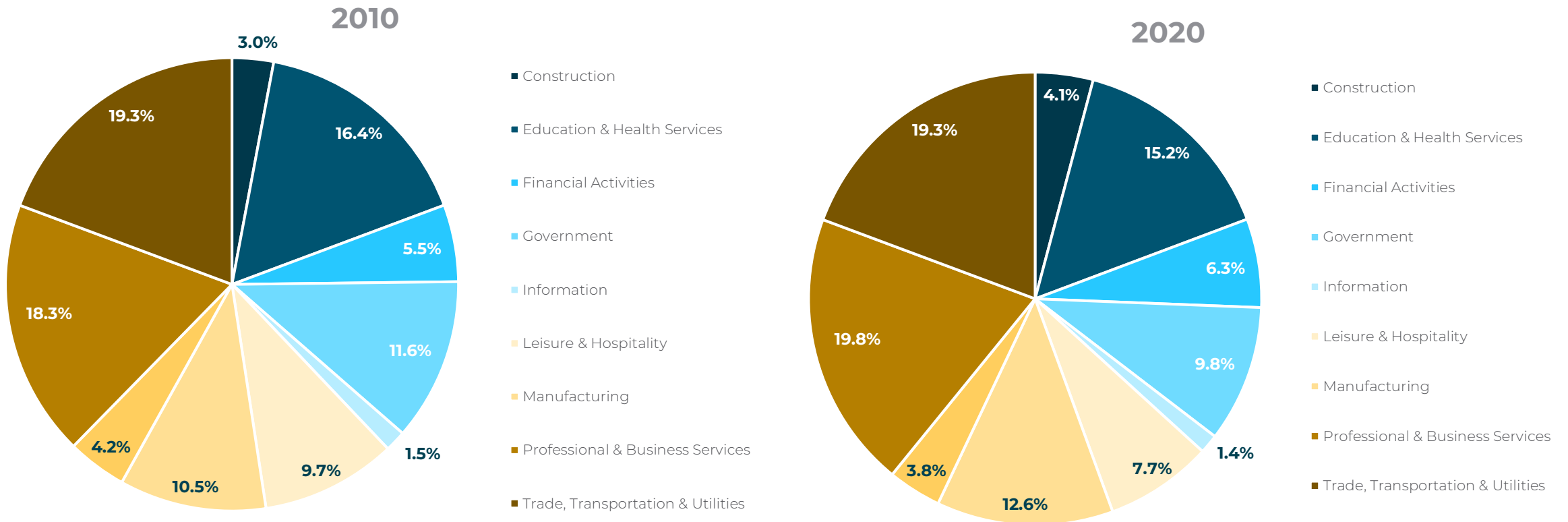


A person in a dark suit and white shirt is walking away from the camera on a train platform. The platform has a metal railing and a concrete pillar. The entire image is overlaid with a semi-transparent blue color. A yellow rectangular frame is positioned on the left side, partially overlapping the text.

Metro Detroit Economic Trends

Metro Employment Sectors | 2010 vs. 2020

Looking longer term, Detroit is well-positioned to deliver steady job growth over the coming decade. The city's status as a powerhouse of manufacturing and industrial supply will be a key factor in the economic recovery of the region and the nation.

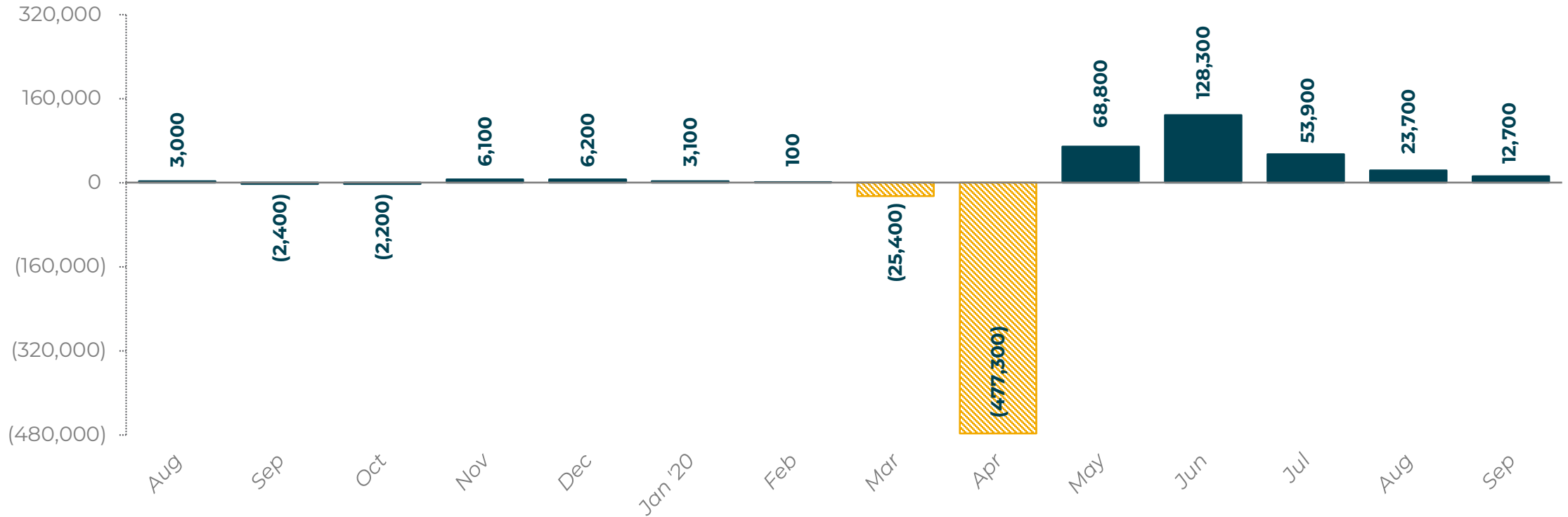


Source: Berkadia Research; Moody's Analytics; CoStar



Monthly Job Growth

One-Month Net Change | Seasonally Adjusted



From May 2020 to September 2020, Greater Detroit's economy recovered nearly 60% of the jobs lost between March 2020 to April 2020.

Source: Berkadia Research; Moody's Analytics; CoStar



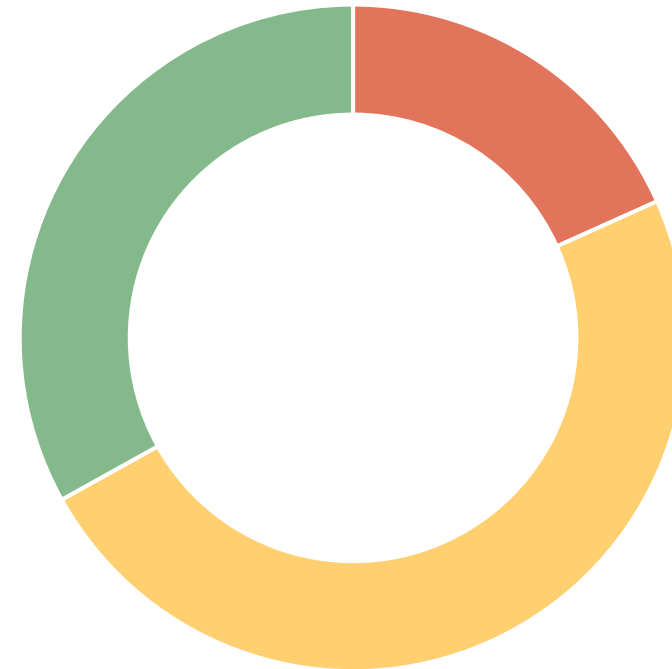
Market Resiliency | Detroit, MI MSA

81.8% of positions within Greater Detroit are NOT in high-risk industries, compared to 79.7% across the U.S.

Industry Composition				
Risk Level	Sector Name	# Employees	% of Market	National Avg
Low				
	Agriculture, forestry, fishing and hunting	2,278	0.1%	0.9%
	Finance and insurance	81,905	4.2%	4.3%
	Health care and social assistance	286,416	14.8%	14.8%
	Information	25,224	1.3%	2.1%
	Public administration	65,227	3.4%	4.7%
	Transportation and warehousing	93,056	4.8%	4.6%
	Utilities	8,040	0.4%	0.6%
	Wholesale trade	78,562	4.1%	4.1%
	Total	640,708	33.1%	36.1%
Medium				
	Administrative and waste services	120,179	6.2%	6.6%
	Educational services	98,416	5.1%	6.4%
	Manufacturing	253,134	13.1%	8.9%
	Mining, quarrying, and oil and gas extraction	1,017	0.1%	0.5%
	Other services, except public administration	60,108	3.1%	3.2%
	Professional and technical services	196,172	10.1%	6.8%
	Retail trade	213,659	11.0%	11.3%
	Total	942,685	48.7%	43.6%
High				
	Accommodation and food services	171,775	8.9%	9.7%
	Arts, entertainment, and recreation	24,155	1.2%	1.7%
	Construction	73,235	3.8%	5.4%
	Management of companies and enterprises	49,967	2.6%	1.7%
	Real estate and rental and leasing	30,755	1.6%	1.6%
	Unclassified	4,388	0.2%	0.2%
	Total	354,275	18.3%	20.3%

Jobs Exposure

■ High ■ Medium ■ Low



Source: Berkadia Research; Moody's Analytics; CoStar