

Multifamily Metro Outlook:

Detroit - Q4 2023

Overview:

- Detroit was in the midst of a long-term economic and demographic transition prior to the pandemic, and it had managed to stem the outflow of jobs and people, at least temporarily. But the economic shock in the metro was deep and painful, and though it rebounded like the rest of the nation, it did so at a slower pace. The metro lost over 400,000 jobs in the first half of 2020, which brought the number of jobs in the metro back to the level it had in 1984. All of these jobs have been recovered since then, but the long-term structural issues remain, and the lack of population growth continues to be a key issue for the economy.
- Detroit's multifamily rental market was stable prior to the outbreak, and only softened modestly in the wake of the shutdowns, with some remarkably stable performance through 2021. The metro saw positive job numbers for much of the past three years and an improvement in vacancies. However, asking rents in Detroit remained steady. Economic and apartment market conditions are better in the submarkets surrounding the city of Detroit, and there has been recent efforts to revitalize parts of the formerly vital downtown central business district, but these efforts are likely not strong enough to make Detroit's overarching economic and demographic problems irrelevant.

Market Strengths:

- The cost of living in Detroit is significantly below national averages due to low housing prices. Even though Detroit is struggling in many ways, it remains a very large metro and a complete abandonment of the area is not feasible. The foundational industry of the Detroit economy, manufacturing, had seen modest growth over the past few years.

Market Weaknesses:

- Detroit's journey through bankruptcy highlighted a prolonged and painful transition the metro must make its way through, headlined by significant cuts to government payrolls. The significant industry-spanning job losses from COVID only worsened this problem though the rebound in 2022 saw some of these jobs recovered. But the city has very poor economic and demographic prospects, with persistent out-migration and frequent population contractions, and there are no expectations for these conditions to be reversed.
- The city also has a structural problem: a diminishing tax base, a shrinking population, widespread blight, and many poor people, yet the municipality's operating costs and long-term liabilities remain high. The city also has such an enormous inventory of abandoned property that the idea of small-scale farming or re-forestation has been floated now that the city has begun demolishing its many vacant structures (though COVID related budget cuts have curtailed the demolition). If Detroit is ever going to have a metro-wide renaissance, it will be long after the period of this forecast and in a much smaller Detroit.

Development:

- New apartment completions were modest recently with only 2,268-unit deliveries in 2023. At the end of 2023 there were 4,718 units under construction with 3,794 of those units scheduled to complete in the next four quarters.

Outlook

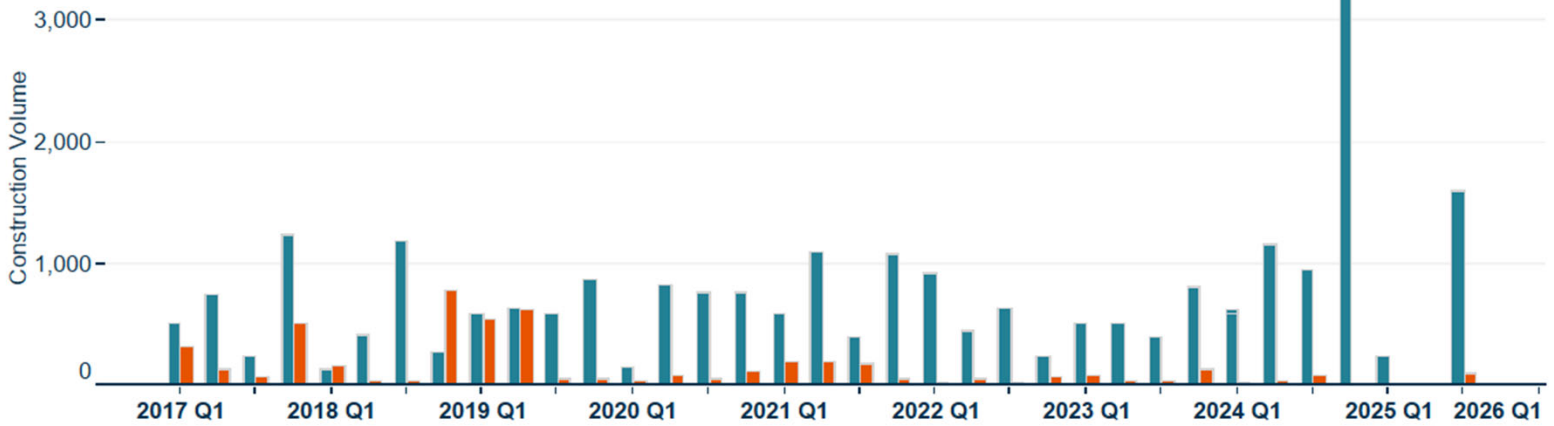
- Detroit's rental market recently experienced positive signs prior to COVID, with fairly positive rent growth and tightening vacancies. Furthermore, the market has held up remarkably well and rebounded since the depths of the pandemic. While risks remain that could further upset the job and apartment market, the previous spurt of local job growth has been sustained for several years, and general stability in the local apartment market is likely once a national expansion is sustained and the risks of a national recession abate. However, the metro has some of the weakest demographic trends in the nation, and investment in housing, in a shrinking metro with a vast inventory of obsolete and abandoned real estate, should be made with the utmost caution.
- Detroit is among the more predictable metros in the nation, but not in a good way: it's been shrinking economically and demographically for the past 25+ years. Jobs and population have seen occasional positive periods during this era, but the overall trend has remained downward, and it will take a long time to recover from the COVID related job losses, especially compared to the rest of the country's recovery. Although there have been signs of resurgence in spots of the metro area, a sustained transition from the metro's longer-term growth



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

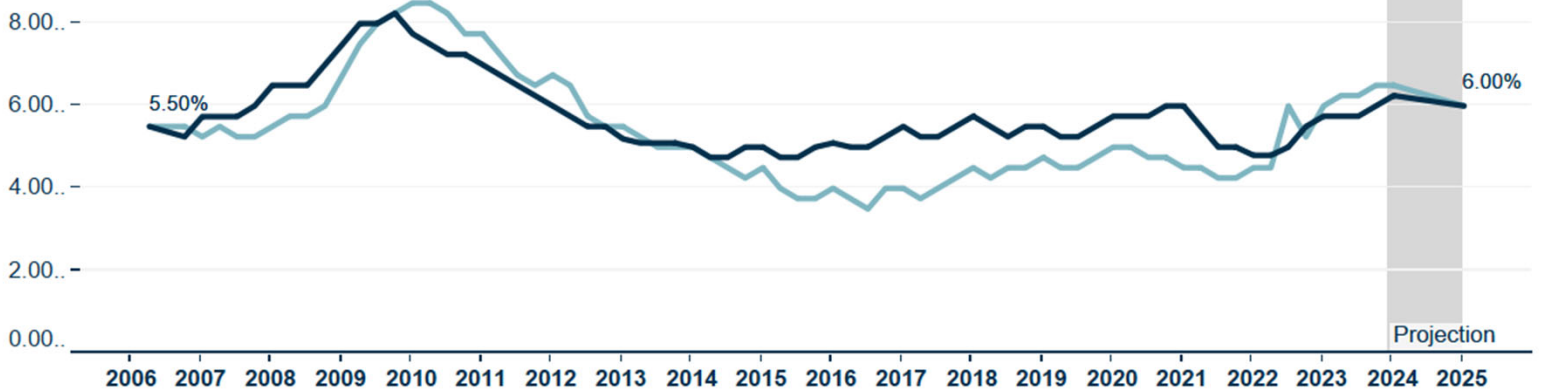
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Detroit | National

Q4 2023 Vacancy Rate:

6.50%



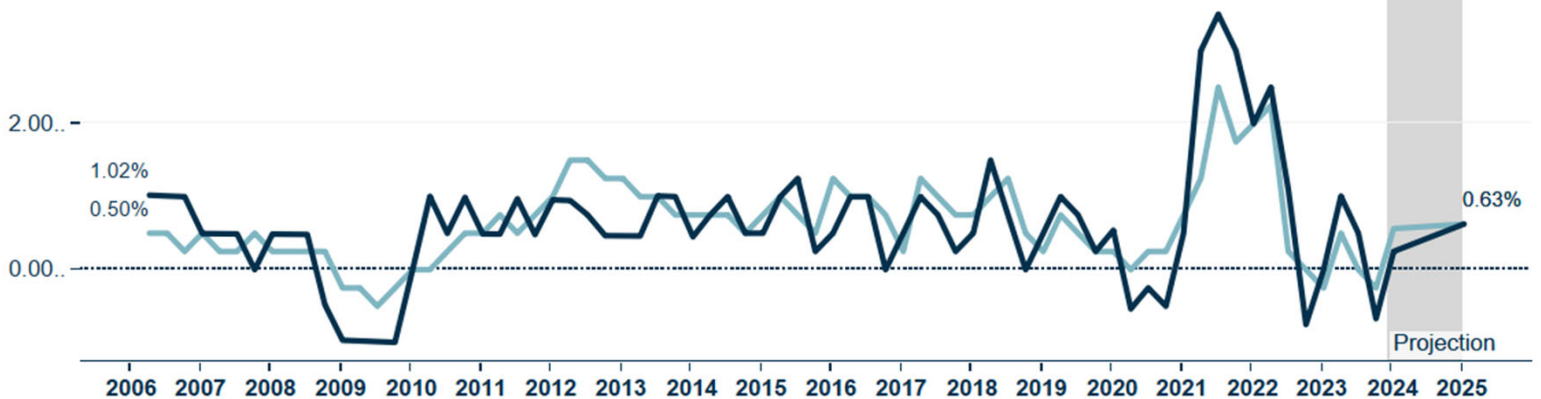
Projection

Asking Rent Growth

Detroit | National

Q4 2023 Asking Rent:

\$1,250

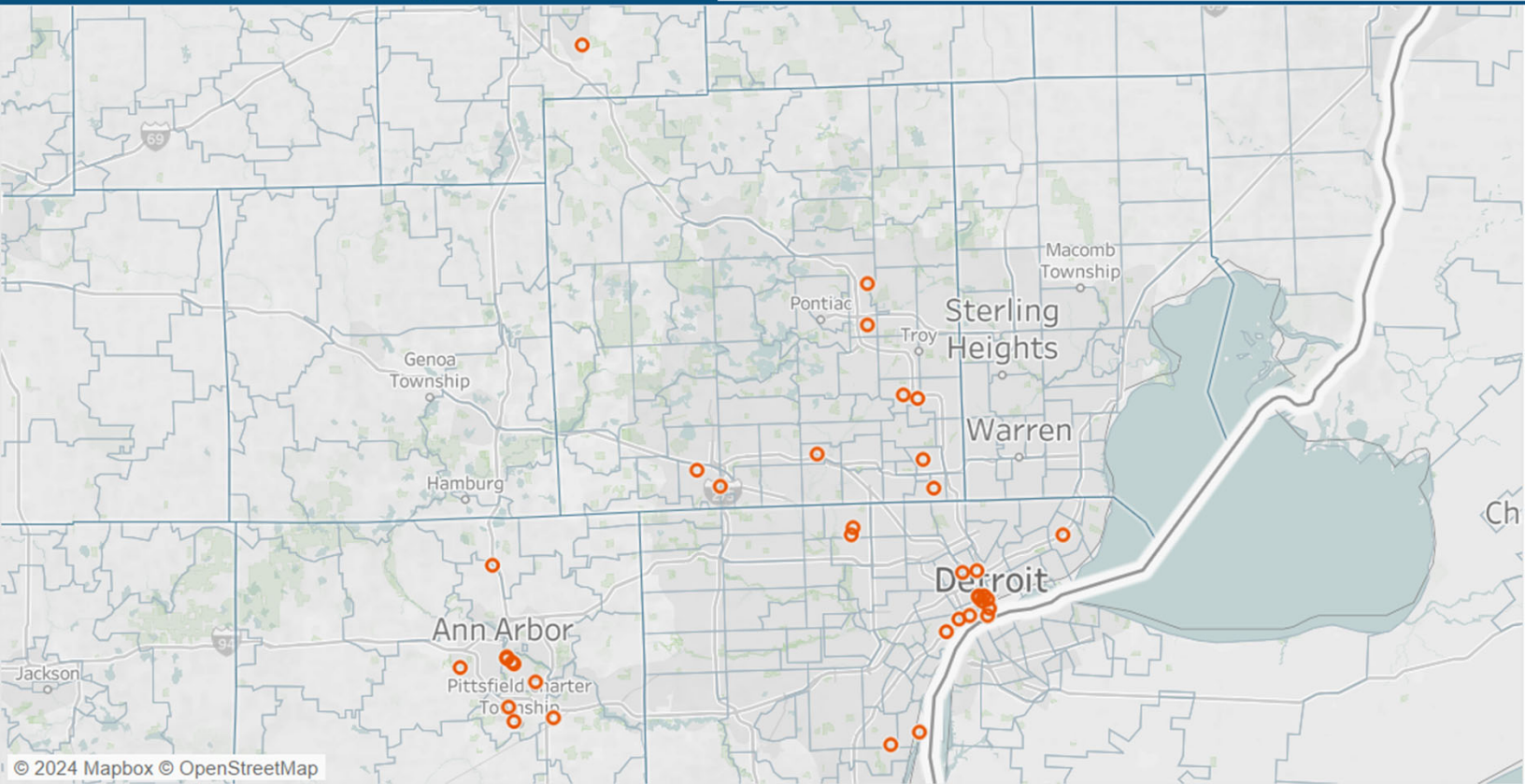


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Ann Arbor	9	1,241
Detroit City	8	446
Downtown/Midtown/Rivertown	7	3,324
Farmington Hills/West Bloomfield	1	272
NA	1	5
Novi/Livingston County	1	132
Pontiac/Waterford/Auburn Hills	2	153
Royal Oak/Oak Park	2	107
South Wayne County	2	251
Southfield	1	1,339
Troy/Rochester Hills	2	204
Ypsilanti	1	250
Grand Total	37	7,724

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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