

Multifamily Metro Outlook:

Detroit - Q2 2024

Overview:

- Detroit was the site of a major UAW strike in 2023, halting any sort of job growth for a few quarters. The strike ended, but the implications are a double-edged sword. Higher wages for auto union workers have significantly increased auto manufacturers' operating costs, driving car prices higher and muddying new vehicle demand. At the same time, however, increased wages for workers who likely live in the immediate area boosts spending in the local economy, something Detroit desperately needs.
- The metro saw positive job numbers for much of the past three years before the strike, with steady vacancies. However, asking rents in Detroit have remained flat. Economic and apartment market conditions are better in the submarkets surrounding the city of Detroit but are not strong enough to mitigate Detroit's overarching economic problems.

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. The foundational industry of the Detroit economy, manufacturing, saw modest growth over the past few years, and it is possible that auto expertise in the area will prove to be a benefit once the big three American automakers likely increase investment in EV manufacturing infrastructure.

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. Auto manufacturing remains a critical sector for employment alongside health care, professional services, and local government. With the recent CHIPS Act in 2022, it was expected that robust electric vehicle investment was on the horizon for the metro, but activity has been muted, as other areas of the country, such as Nashville, have won contracts for EV factories due to more favorable tax incentives and local benefits. The result has been continued employment stagnation in Detroit, amplifying the already potent outmigration issue.
- The city also has a structural problem: a diminishing tax base, a shrinking population, widespread blight, and many low-income 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. 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.
- Of the metro's apartment units, 84% were built before 2000, and 38% of units are over 50 years old. This will likely prove to be a major thorn in Detroit's side in terms of average rent growth, as housing providers might not be able to increase rents on an already undesirable living situation for residents. It will also hurt the income prospects for housing providers due to operating cost increases for unavoidable repairs and modernization of existing units.

Development:

- Around 3,200 units were delivered over the past 12 months, signaling incredibly strong development growth. In fact, it is just a step below the record of completions the metro saw in the 12 months ending Q1 2024, at 3,900 units.
- More than 500 units have been demolished over the past year, meaning new deliveries have a softened impact on the total inventory base in the metro.

Outlook:

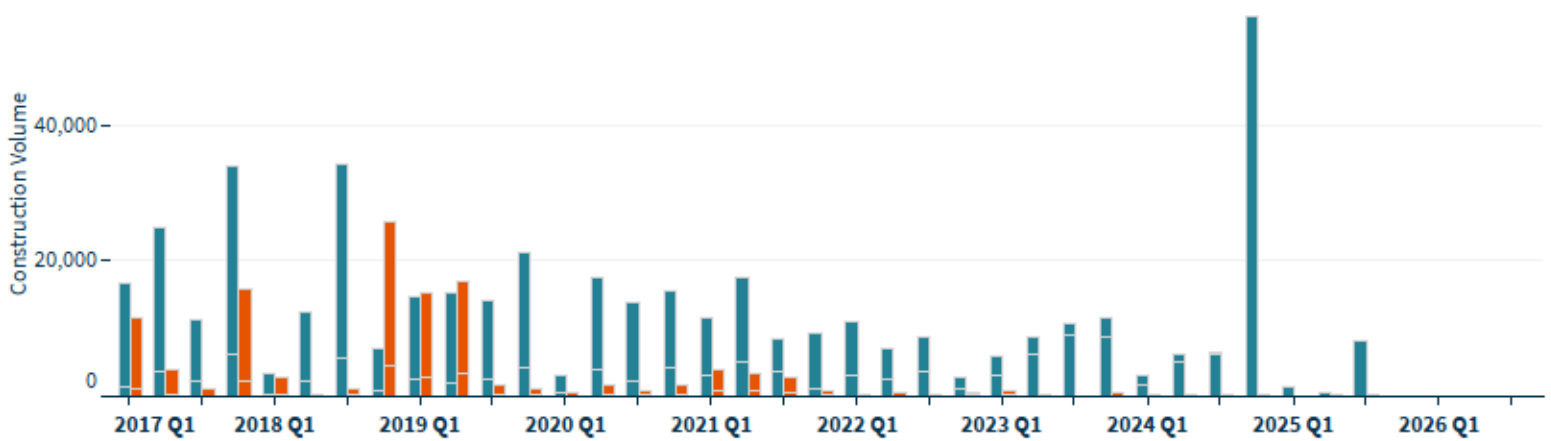
- Absorption in the year ending Q2 2024 was estimated to be around 3,300 units, according to CoStar, closely matching new unit delivery metrics. This is a bright light in the otherwise dark situation that Detroit has found itself in over the past decade. CBRE Econometric Advisors forecasts that total absorption may reach an estimated 2,300 units next quarter. And as borrowing costs ease, builders should be able to maintain production levels to meet this growing demand.
- Risks remain that could further upset the job and apartment market, but vacancy stability (~5.1%) and slight rent growth (1.5%) could prove to be promising if trends continue. However, the metro still has some of the weakest demographic trends in the nation, especially among the 20-34-year-old cohort. 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 has been shrinking economically and demographically for the past 25-plus years. Jobs and population have seen occasional positive periods during this period, but the overall trend has remained downward, and until the economy can support a more diversified economy, it will likely experience unpredictable volatility. Although there have been signs of resurgence in spots of the metro area, a sustained transition from the metro's longer-term growth patterns is fairly unlikely.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

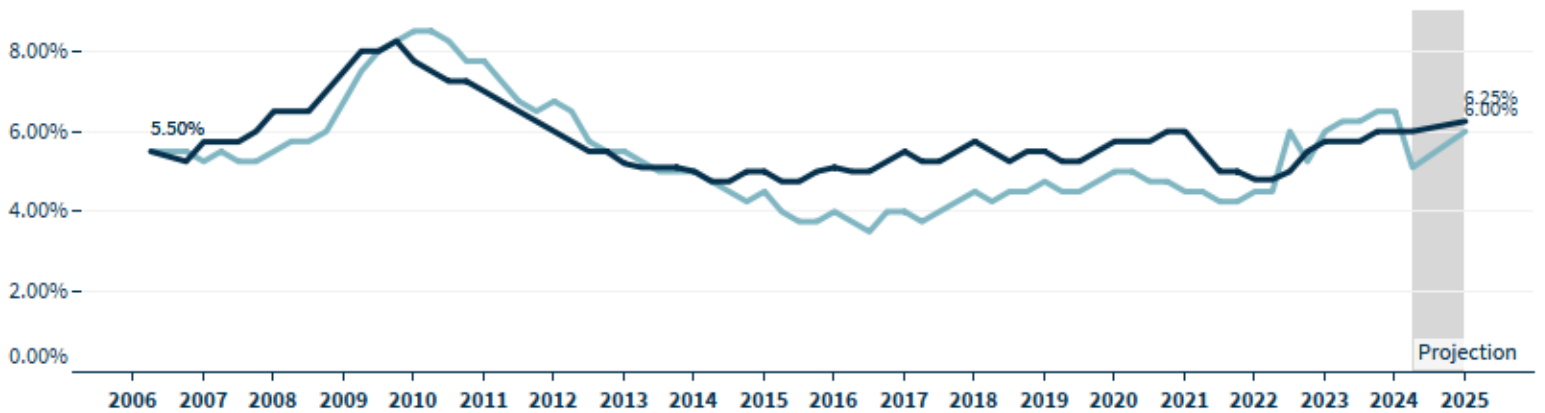
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Detroit | National

Q2 2024 Vacancy Rate:

5.10%



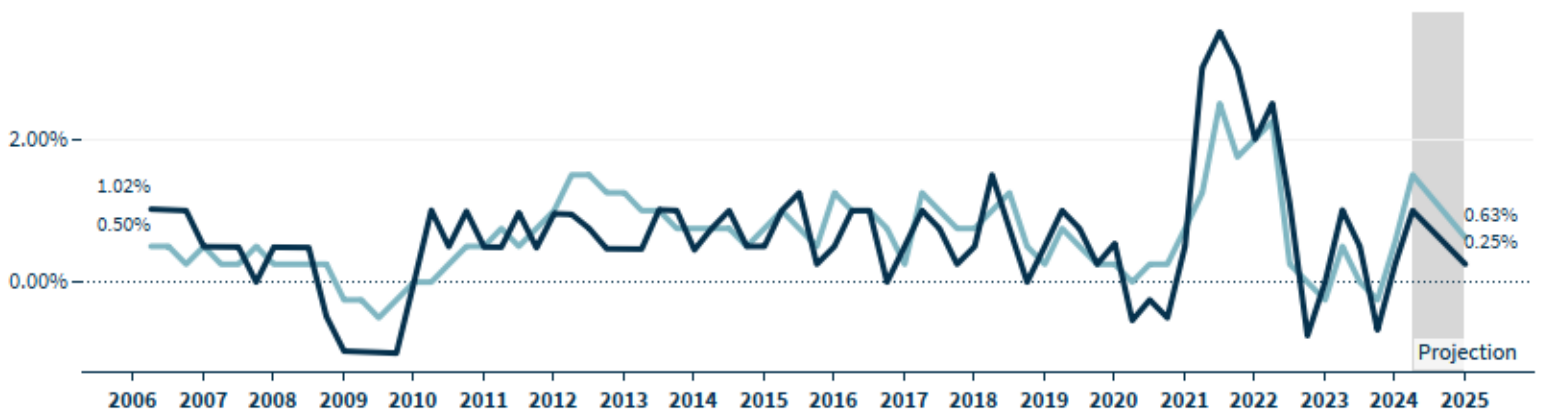
Projection

Asking Rent Growth

Detroit | National

Q2 2024 Asking Rent:

\$1,270

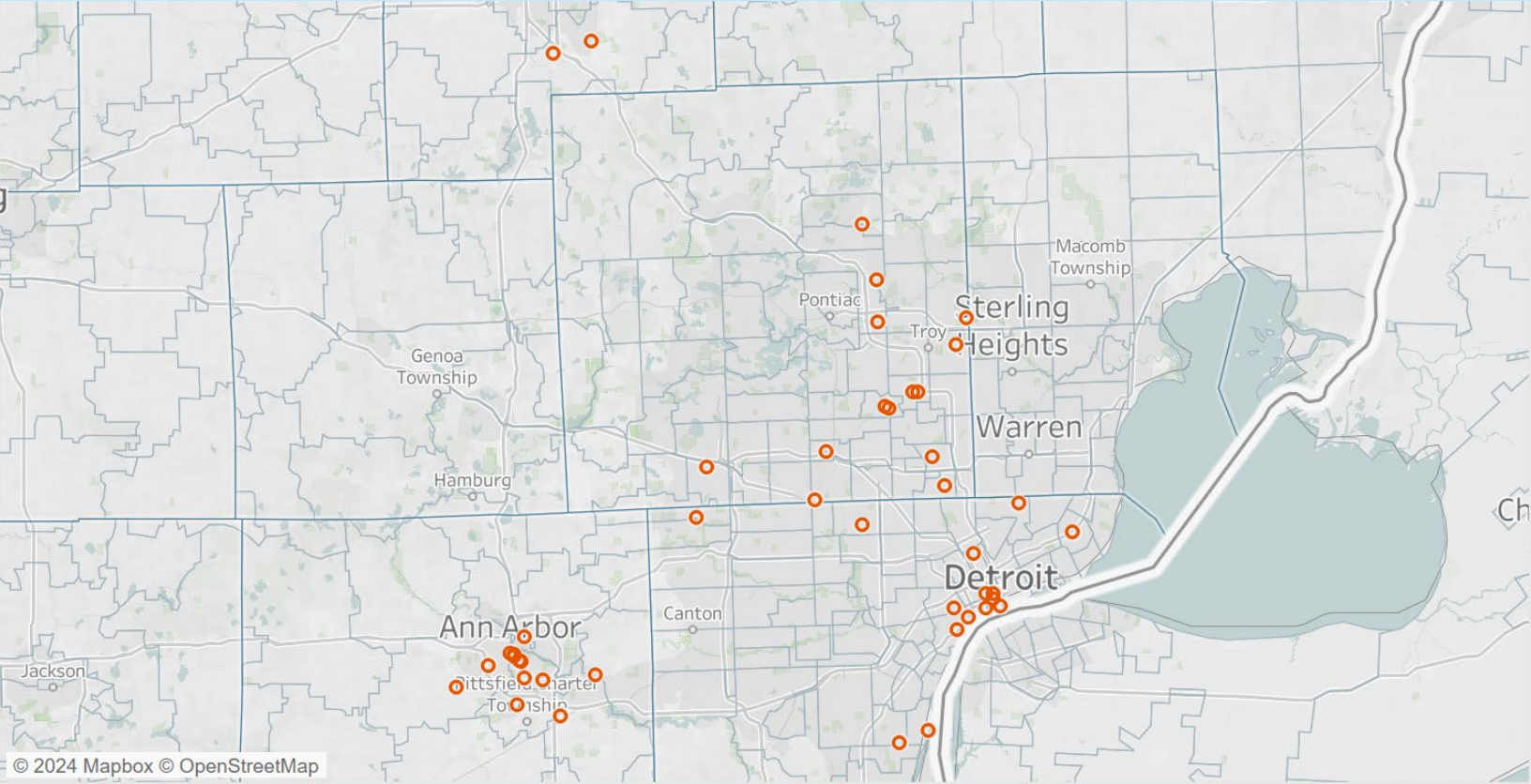


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Ann Arbor	12	1,424
Detroit City	8	474
Downtown/Midtown/Rivertown	4	2,748
NA	2	41
Novi/Livingston County	1	132
Pontiac/Waterford/Auburn Hills	3	177
Royal Oak/Oak Park	2	107
South Wayne County	2	251
Southfield	2	1,399
Troy/Rochester Hills	6	369
Westland/Canton/Livonia	1	
Ypsilanti	2	406
Grand Total	45	7,528

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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