



# METRO DETROIT

## 2022 MIDYEAR MULTIFAMILY REPORT

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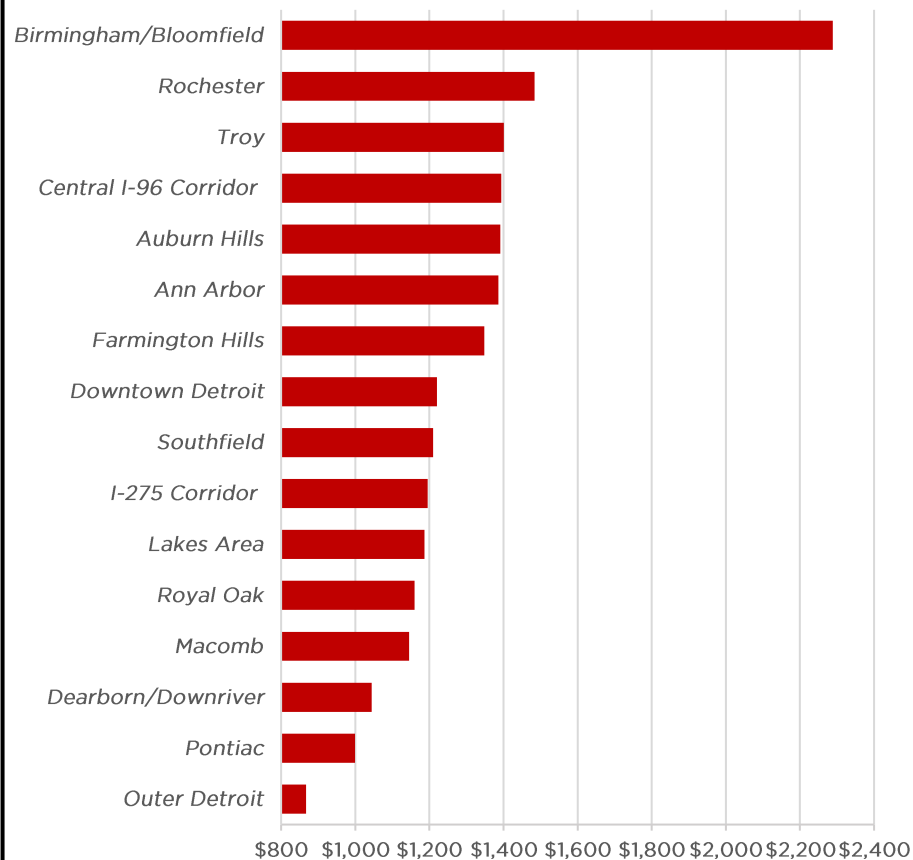
## MARKET AT A GLANCE (H1 2022)



Note: ▲ or ▼ indicates change compared to H2 2021.

Note: H1 = Q1 & Q2 ; H2 = Q3 & Q4

## AVERAGE EFFECTIVE RENT BY SUBMARKET



## MARKET OVERVIEW

In the first half of 2022, the Metro Detroit multifamily market has continued to strengthen after recording historic levels of rent growth, sales volume and pricing, and net absorption in 2021. Market fundamentals including net absorption and occupancy decreased, while historic rent growth continued, and the market has the largest construction pipeline on record.

## SUPPLY AND DEMAND

Occupancy decreased 0.40% from a record high of 95.7% in H2 2021 to 95.3%, but remains above the 94.6% pre-covid five-year average. Submarkets with more affluent demographics and sustained population growth typically have the lowest vacancy levels including Farmington Hills (2.7%) and Royal Oak (2.9%). Urban submarkets have among the highest vacancy levels with Downtown and Outer Detroit recording 6.50% and 7.40%, respectively. Notably, Class A multifamily occupancy increased 7.6% from H1 2021 to 94.4%.

Increased construction and labor costs, low vacancy, along with the high inflation and interest rate environment, has resulted in sustained unprecedented effective rent growth of 6.7% from H1 2021, which is roughly double the pre-covid five-year average of 3.3%. Suburban submarkets have seen the largest effective rent growth from H1 2021, specifically Central I-96 Corridor (12.7%), Rochester (11.6%), and Royal Oak (11.4%).

Increased vacancy in select submarkets and an overall constrained supply resulted in only 78 units of overall net absorption in H1 2022. While concerning, given the all-time high occupancy and net absorption recorded in 2021, as well as the 50% reduction in deliveries in H2 2022 (768 units), the meagre net absorption does not reflect overall declining demand.

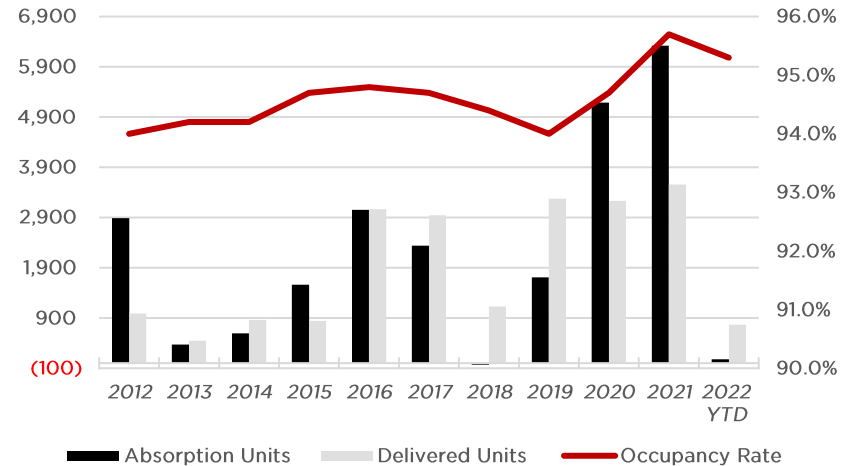
Class A multifamily accounted for a disproportionate 273 units of net absorption (2.7% of total inventory), which exceeded the 197 Class A units delivered. Class B multifamily remains stable (95.2% occupancy) and captured a majority of market demand with 428 units of net absorption to meet the 427 units delivered. Notably, despite 95.6% occupancy, Class C multifamily recorded (-623) units of net absorption, indicating there is a flight to quality underway as consumers increasingly prefer amenity-rich communities as more Millennials/Generation Z individuals enter the renter market and remote work remains prevalent.

There are currently 8,450 units under construction representing the largest construction pipeline on record and a 2.5% increase in the Metro Detroit multifamily market. Notably, Downtown Detroit recorded 182 units of positive net absorption and accounts for 39.5% (3,341 units) of the total units under construction. Given the below market rental growth of 2.9% from H1 2021, 3,341 units under construction, and 6.50% vacancy rate, there's a risk of supply/demand imbalance if urban demand stagnates.

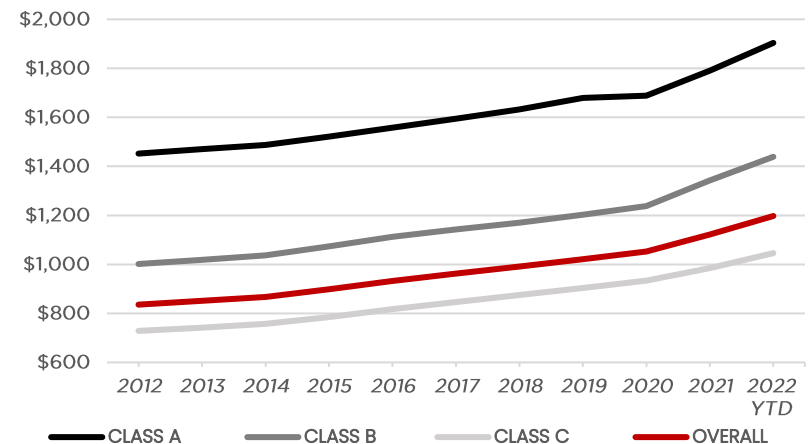
## SALES AND INTEREST RATES

Total sales volume (\$783MM) has decreased from H2 2021 when Lightstone Group acquired the 27 property, 7,810-unit Hartman & Tyner Portfolio for \$1BB (\$128K per unit), but still remains at historic levels indicating multifamily continues to attract significant investor interest. The submarkets with the highest sales volume include Dearborn/Downriver (\$118MM), Farmington Hills (\$107MM), and Ann Arbor (\$103MM). Despite strong fundamentals, the increased interest rates so far this year have created upward pressure on capitalization rates as investors are apprehensive to acquire multifamily with negative financial leverage (cap rate < loan interest rate), which resulted in a 0.30% average cap rate increase from H1 2021 to 6.20%.

## OCCUPANCY AND ABSORPTION



## AVERAGE EFFECTIVE RENT BY CLASS



## MARKET OUTLOOK

### CONSTRUCTION TO MIRROR POPULATION GROWTH:

Multifamily development is expected to continue to be located where population growth and demand for Class A communities are most evident (i.e. Downtown/Outer Detroit, Central I-96 Corridor, and Rochester).

**INCREASED CLASS A OCCUPANCY:** Consumer preferences for amenity-rich communities are expected to accelerate and continue to account for a disproportionate amount of total net absorption with a resulting increase in occupancy, which increased 7.6% YOY to 94.4% in H1 2022.

**CONTINUED RENT GROWTH:** We expect overall effective rent growth to continue above the pre-covid five-year average of 3.3% due to the high inflation/interest rate environment and ongoing lack of single or multifamily residential inventory.

**DECREASED PRICE PER UNIT & CAP RATE ADJUSTMENTS:** Despite strong fundamentals, we expect a moderate sales price per unit decrease and increased cap rates due to the rising interest rate environment directly impacting acquisition pricing.

**ADAPTIVE REUSE:** Repurposing vacant office assets to multi-family is expected to increase as investors attempt to reposition functionally obsolete office assets.

## TOP SALE TRANSACTIONS (BASED ON SALES PRICE)

PROPERTY NAME	CITY	UNITS	SALE PRICE	PRICE/UNIT
Hunters Ridge	Farmington Hills	487	\$107,000,000	\$219,713
The George	Ann Arbor	249	\$67,750,000	\$272,088
Dearborn View	Inkster	462	\$43,775,811	\$94,753
Newburgh Square Apartments	Westland	376	\$38,438,392	\$102,230
Bloomfield Square Apartments	Auburn Hills	257	\$38,375,000	\$149,319
The Edge at Oakland	Auburn Hills	144	\$30,240,000	\$210,000
Macomb Manor Apartments	Roseville	217	\$30,182,652	\$139,091
Lexington Village	Detroit	351	\$29,341,739	\$83,595
Riverview Crossings	Riverview	300	\$28,000,000	\$93,333
Sunnymede Apartments	Troy	168	\$27,800,000	\$165,476
Troy Place	Troy	168	\$27,000,000	\$160,714
The Cove on Thirteen	Roseville	266	\$24,500,000	\$92,105
Fountain Park South Apartments	Southgate	264	\$24,500,000	\$92,803



**Top Sale:**  
Hunters Ridge - Farmington Hills, MI  
Sale Price: \$107,000,000



**Top Sale:**  
The George - Ann Arbor, MI  
Sale Price: \$67,750,000



# 2022 MIDYEAR MULTIFAMILY REPORT - METRO DETROIT

SUBMARKET	# BLDGS	INVENTORY (UNITS)	NET ABS. (UNITS)	UNITS UNDER CONST	TOTAL VAC. (%)	OVERALL OCC. (%)	AVG. EFFECTIVE RENT PER UNIT				TOTAL SALES VOLUME	AVG. PRICE PER UNIT
							Overall	Class A	Class B	Class C		
Ann Arbor	633	41,311	(209)	454	3.90%	96.10%	\$1,386	\$2,895	\$1,672	\$1,155	\$102,505,547	\$148,658
Auburn Hills	28	5,797	87	61	3.50%	96.50%	\$1,391	\$2,385	\$1,520	\$1,061	\$68,615,000	\$159,440
Birmingham/Bloomfield	46	4,575	57	58	4.20%	95.80%	\$2,289	\$2,661	\$2,281	\$1,804	\$0	-
Central I-96 Corridor	114	19,706	11	998	4.20%	95.80%	\$1,394	\$2,448	\$1,773	\$984	\$0	-
Dearborn/Downriver	418	44,537	(224)	0	4.00%	96.00%	\$1,044	N/A	\$1,295	\$948	\$118,315,380	\$72,542
Downtown Detroit	276	15,289	182	3,341	6.50%	93.50%	\$1,220	\$1,728	\$1,393	\$994	\$5,988,032	\$97,954
Farmington Hills	73	12,488	(7)	0	2.70%	97.30%	\$1,348	N/A	\$1,446	\$1,303	\$107,000,000	\$127,592
I-275 Corridor	270	30,754	(210)	0	3.40%	96.60%	\$1,195	\$2,271	\$1,617	\$1,061	\$49,908,792	\$101,823
Lakes Area	77	8,489	19	0	4.30%	95.70%	\$1,187	\$1,688	\$1,256	\$1,139	\$5,910,000	\$104,898
Macomb	519	60,925	(35)	353	4.20%	95.80%	\$1,145	\$1,572	\$1,295	\$1,040	\$101,600,071	\$94,079
Outer Detroit	903	46,581	15	744	7.40%	92.60%	\$867	\$1,571	\$961	\$803	\$0	-
Pontiac	91	7,385	(8)	258	3.40%	96.60%	\$999	\$2,108	\$958	\$857	\$0	-
Rochester	41	7,476	19	487	5.00%	95.00%	\$1,484	\$1,824	\$1,418	\$1,238	\$0	-
Royal Oak	369	16,217	38	200	2.90%	97.10%	\$1,160	\$2,123	\$1,430	\$1,012	\$0	-
Southfield	78	14,862	9	1,292	7.00%	93.00%	\$1,210	N/A	\$1,236	\$1,197	\$32,463,000	\$107,533
Troy	42	7,897	334	204	5.90%	94.10%	\$1,401	N/A	\$1,621	\$1,299	\$54,800,000	\$134,959
<b>TOTAL</b>	<b>3,978</b>	<b>344,289</b>	<b>78</b>	<b>8,450</b>	<b>4.60%</b>	<b>95.30%</b>	<b>\$1,197</b>	<b>\$1,904</b>	<b>\$1,439</b>	<b>\$1,046</b>	<b>\$782,968,584</b>	<b>\$101,962</b>

## TOP MULTIFAMILY PROPERTIES DELIVERED (H1 2022)

PROPERTY NAME	CITY	UNITS	DELIVERED	PROPERTY TYPE	AVG. ASKING RENT (PER UNIT)
The Alcove Troy	Troy	152	Q2 2022	Garden Apartments	N/A
The Alcove Southfield	Southfield	144	Q2 2022	Garden Apartments	\$1,032
Rolling Hills Retirement Community	Commerce Township	128	Q2 2022	Low-Rise Apartments	N/A
Andover Woods	Rochester Hills	42	Q1 2022	Garden Apartments	\$4,250
Elevate	Royal Oak	32	Q2 2022	Low-Rise Apartments	\$2,906
Elliott Park	Clawson	30	Q2 2022	Low-Rise Apartments	\$1,380

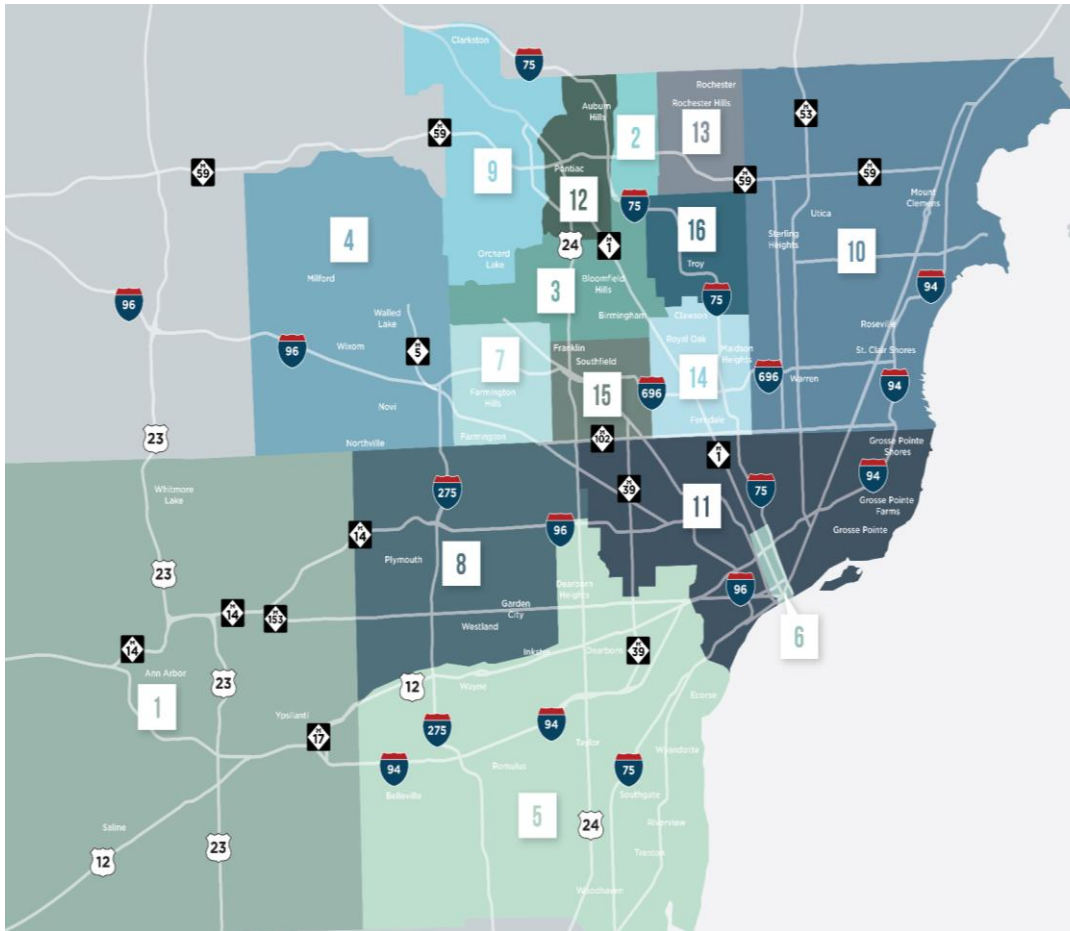


## TOP MULTIFAMILY PROPERTIES UNDER CONSTRUCTION (H1 2022)

PROPERTY NAME	CITY	UNITS	DELIVERED	PROPERTY TYPE	RENT TYPE
Northland Center - Phase 1	Southfield	1,292	Q4 2023	Mixed-Use	Market
Frederick Douglass Homes	Detroit	900	Q3 2022	Mid-Rise Apartments	Market/Affordable
The Louis	Detroit	500	Q1 2024	Hi-Rise Apartments	Market
Monroe Blocks	Detroit	482	Q2 2023	Hi-Rise Apartments	Market
Legacy Rochester Hills	Rochester Hills	359	Q3 2022	Garden Apartments	Market
Hudson's Site	Detroit	330	Q3 2022	Hi-Rise Apartments	Market



## 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 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.

Friedman's MIDYEAR Multifamily Market Report provides our clients with a snapshot of pertinent market data and information to help them make informed commercial real estate decisions. The information contained in this report is gathered from multiple sources believed to be reliable.