

Detroit, Michigan

Multifamily Housing Update

April 2010

EXECUTIVE SUMMARY

Conditions in the Detroit metro economy remained weak in the fourth quarter. Area employers eliminated -150,100 (-8.0%) positions from payrolls year-over-year in 4Q09, the second fastest rate of job loss in the **RED 50**. The motor vehicle manufacturing sector was partially to blame. Automobile and parts producers eliminated a combined -21,500 jobs y-o-y in 4Q09. Business service firms also reduced staffs aggressively, trimming -35,600 positions y-o-y.

On the other hand, job trends were more constructive in the first two months of 2010. On an annual basis, the pace of job loss decelerated to -91,500 (-5.2%) in February, as compared to -147,000 (-7.9%) in December. Similarly, seasonally-adjusted payroll headcounts fell only -2,500 in January and February, following an average loss of -12,100 jobs per month in 2009.

The Manpower Employment Outlook Survey from March suggested that employment will begin to rebound this year. Among survey respondents, 17% expected to add workers in 2Q10, while 10% planned to reduce staffs. In the previous survey, 9% of surveyed businesses anticipated growth in 1Q10, versus 22% that planned to contract.

The **RED CAPITAL Research (RCR)** econometric model projects that payroll employment will decrease -34,900 (-1.9%) in 2010 and -7,700 (-0.4%) jobs next year. Economy.com, on the other hand, forecast robust growth of 37,200 (2.1%) new jobs next year, following a modest -12,260 (-0.7%) job decrease in 2010.

The metro housing market stabilized to a degree in 4Q09. According to the Case-Shiller home price index, metro home prices declined -10.3% y-o-y in December as compared to the -19.1%

annual decline observed in September. On the other hand, foreclosure activity remained elevated as Realty-Trac.com calculate a 3.64% 2009 foreclosure rate, higher than the 2.21% US average.

Apartment demand was weak (-684 units) and supply was tame in the fourth quarter. As a result, the metro occupancy rate fell 30 basis points sequentially to 91.9%. Moreover, occupancy declined 120 basis points on an annual basis as tenants vacated 2,459 units during 2009. Demand was particularly weak for Class B/C properties, posting negative net absorption of 1,710 units during 2009, whereas Class-A assets lost a net of 747 tenants during the period.

Asking and effective rents both trended lower. Following a 0.1% increase in 3Q09, the average effective rent fell -0.7% to \$752 in 4Q09. Likewise, asking rent declined -1.2%, after gaining 0.4% in the previous period. Rent trends favored Class B/C units as the average asking rent fell -0.7% y-o-y to \$713 in 4Q09, as compared to the -2.6% annual decrease observed among Class-A rentals.

Reis expect occupancy to fall, but effective rent to remain stable this year. The source projects a 91.7% occupancy rate in 4Q10, down 20 basis points from 4Q09. But the average effective rent is forecast to remain unchanged. Rents are projected to advance at a 2.1% average annual rate from 2011 to 2014.

Real Capital Analytics estimate that apartment sales volume totaled \$46.8 million in 2009. The average price per unit was \$68,068. Based on an assumed 9.0% cap rate, **RCR** calculate an above average 8.6% expected rate of total return. Modest historic NOI growth volatility produces the 7th highest measure of risk-adjusted return in the **RED 50**.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (8.1% - 4Q09)	↑120bps	↑20bps
Effective Rents (\$752 - 4Q09)	↓2.1%	↔
Cap Rate (N/A - 4Q09)	↔	↑
Employment (1,733.2m - 4Q09)	↓150.1m	↓34.9m

KEY POINTS

- Following the -160,500 (-8.4%) job decrease last year, **RCR** forecast a more moderate -34,900 (-1.9%) job decline in 2010.
- Vacancy increased 30 basis points sequentially to 8.1%, as negative net absorption totaled 684 units in 4Q09. On an annual basis, vacancy rose 120 basis points owing to weak demand (-2,459 units).
- Effective rent decreased -0.7% sequentially and -2.1% year-over-year to \$752 in 4Q09. Increased concessions were partially to blame. The size of the average concession package rose from 8.0% of asking rent in 4Q08 to 8.5% in 4Q09.
- Detroit registered a -9.1% year-over-year decrease in the FHFA home price index in 4Q09. Similarly, the Case-Shiller home price index dropped -10.3% in the twelve-month period ended in December.
- At an assumed 9.0% going-in yield, **RCR** estimate an 8.6% expected rate of total return, above the 6.7% **RED 50** mean. Moreover, Detroit ranked 7th highest with regard to risk adjusted returns, owing to tame historic NOI growth volatility.



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