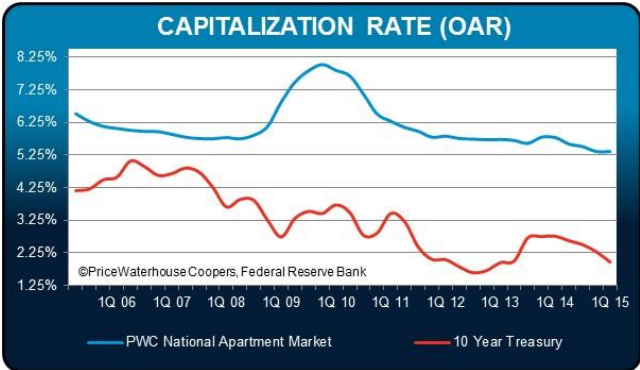
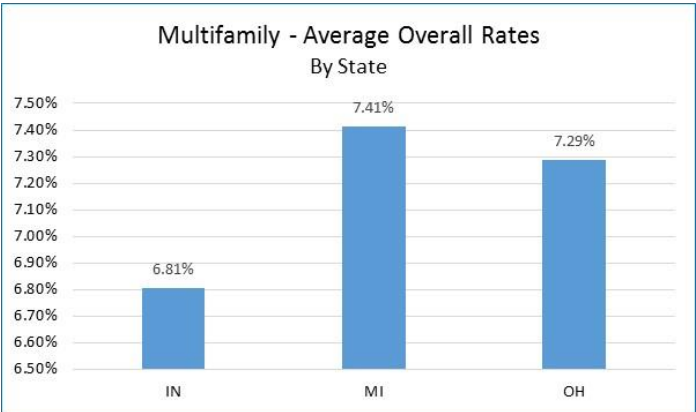
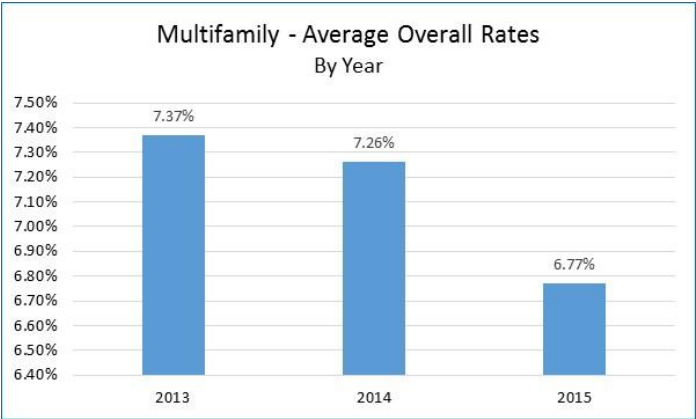


# 1<sup>st</sup> QUARTER 2015 MIDWEST & DETROIT MULTIFAMILY HIGHLIGHTS

## Capitalization Rates Continue their Decline

Capitalization Rates for multifamily housing continued to contract in 2014, and seem to be headed lower. This study presents data from 2013 to the end of June 2015. It encompasses 93 transactions of larger investment-grade multifamily properties in Michigan, Ohio and Indiana. The data provided overall rates (OARs) ranging from 4.00% to 9.29%, with an average rate of 7.22%. The charts (right) show how the averages vary when looked at by state and by year. The chart below looks at rates on a national level, and shows that the 10-Year Treasury rate declined from 2.76% to 1.97%, a decline of 79 basis points from the previous quarter.



## Occupancy in the Detroit Market Remains High

The Detroit Market has an average physical occupancy rate of around 96% (MPF Research), which is slightly above fourth quarter 2014 vacancy. Generally speaking, occupancy rates have been slowly increasing since 2009, marking a recovery from the sharp decline in occupancy during the recessionary period between 2008 and early 2010. Post-recessionary years have been marked by the absorption of excess supply that was delivered in 2005 - 2008, and with few new projects on the horizon in the Greater Detroit Metro, occupancy rates continue to move upward from a relatively stable base established in 2012 and 2013. This trend is expected to continue through 2017, and should allow for rental rate increases as supply lags demand.

### Rental Rates are Likely to Continue Increasing

Rents have been generally trending upward in the metro market since 2010, in both pre-1970 and low-rise type units. Annual growth rates of 0.5% and 3.6% are indicated for the trailing 5 year period, respectively. Annual rent levels are expected to increase about 3.0% in 2015. The anticipated rent growth is not expected to be limited by a re-emerging for-sale market in the local area, as the trend has been away from privately owned single family homes and condominiums. The following chart by MPF Research © provides an insight into the Detroit Metro rental rates for various unit types.



### Completions and Planned Development is Minimal

The following table shows construction activity, by submarket, for conventional properties in the market.

CONVENTIONAL CONSTRUCTION DETAIL		DETROIT METRO
CATEGORY	UNITS UNDER CONSTRUCTION	UNITS COMPLETED <sup>1</sup>
Downtown/Midtown/Rivertown	891	235
Flint	120	14
Detroit City	36	0
Westland/Canton/Livonia	93	0
Pontiac/Waterford/Auburn Hills	45	0
Royal Oak/Oak Park	48	0
Monroe	15	0
Ann Arbor	641	0
<b>TOTAL</b>	<b>1,889</b>	<b>249</b>

Source: MPF Research © <sup>1</sup>Properties completed in the last 4 quarters

The greater Detroit market has approximately 328,000 apartment units. With 1,889 units under construction, an increase of just over one-half percent is likely to come online within the next year. The 249 units completed in the overall market in the last four quarters have not been enough to stay the current trend of increasing rental rates and declining vacancies. It is unlikely that units under construction in the overall market or the submarket will have a substantial impact on rental rates or occupancies.