MEMORANDUM

cityofnovi.org

TO: VICTOR CARDENAS, CITY MANAGER
FROM: JAN ZIOZIOS, DEPUTY ASSESSOR
SUBJECT: MULTIFAMILY MARKET INFORMATION
DATE: JUNE 28, 2023

The following information pertaining to the Novi/Farmington Hills Multifamily submarket is compiled from Costar and reports from Integra Realty Resources (appraisal firm) and Berkadia (multifamily brokerage). I've included data that focuses on supply, demand, rents, vacancy, new construction, and absorption.

Midway through 2023, the Farmington Hills/Novi Submarket has just over 17,000 units in inventory worth $2.7 billion, the third-highest asset value within the Detroit market. Demand has softened over the past year and is sitting below the three-year average, resulting in vacancy rising from a multi-year low of 2% during 21Q1 to 5.4% as of 23Q2, which is still below the broader Detroit area market average of 7%.

Rents have steadily risen over the past several years, with annual growth of 0.5% as of 23Q2. The average rent of $1,450/month is slightly above this submarket's three-year average of $1,360/month. Units in 4- & 5-Star properties command a premium within this submarket, averaging $1,960/month.

Residences at Sakura – 117 units
Innova – 272 units
Stonefield (F. Hills) – 202 units

KEY INDICATORS

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	1,289	2.6%	$1,982	$1,974	27	0	117
3 Star	9,924	6.6%	$1,486	$1,478	(1)	0	474
1 & 2 Star	6,035	4.2%	$1,298	$1,293	26	0	0
Submarket	**17,248**	**5.4%**	**$1,459**	**$1,451**	**52**	**0**	**591**

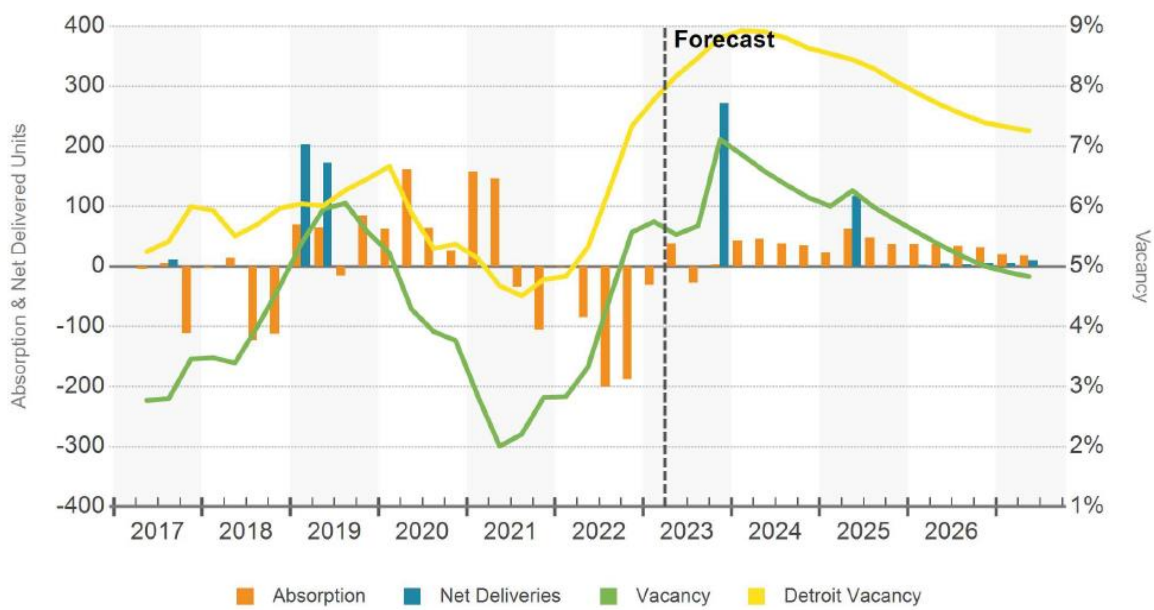
Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	2.2%	4.1%	5.7%	6.1%	2019 Q3	2.0%	2021 Q2
Absorption Units	(372)	22	76	408	2021 Q1	(504)	2023 Q1
Delivered Units	0	49	86	643	2004 Q2	0	2023 Q1
Demolished Units	0	1	8	24	2019 Q2	0	2023 Q1
Asking Rent Growth (YOY)	-0.3%	1.9%	3.7%	12.5%	2021 Q4	-3.4%	2009 Q3
Effective Rent Growth (YOY)	-0.5%	1.9%	3.6%	12.9%	2021 Q4	-3.4%	2009 Q3
Sales Volume	$55.9M	$35.8M	N/A	$355.8M	2022 Q2	$0	2020 Q3

Average vacancy over the past 12 months has been 2.2%, down from this historical average of 4.1%. The near term forecast is 5.7%, as the market anticipates the new construction deliveries at Innova, Stonefield and Residences at Sakura. Some vacancy is necessary in a balanced market, known as "frictional vacancy", which is typically modeled by analysts at 4% to 5%, but can vary per market. Frictional vacancy permits normal turnover, and space for landlords to refresh units for the next tenants. In the table below, anticipated deliveries are shown in 4th Q 2023, temporarily spiking the vacancy rate as the units are forecasted to absorb over 2024. The vacancy rate is anticipated to drop below 5% again at the end of 2026. The overall Metro Detroit market is shown in yellow, for comparison.

Vacancy

Farmington Hills/Novi Multi-Family

ABSORPTION, NET DELIVERIES & VACANCY



Construction

Farmington Hills/Novi Multi-Family

UNDER CONSTRUCTION

	Property Name/Address	Rating	Units	Stories	Start	Complete	Developer/Owner
1	Innova 39500 Champion Cir	★★★☆☆	272	3	Aug 2022	Oct 2023	BEZTAK Properties -
2	Stonefield 32681 Northwestern Hwy	★★★☆☆	202	5	Jun 2023	Dec 2024	Asmar Companies -
3	The Residences at Sakur... 42750 Grand River Ave	★★★★☆	117	3	Mar 2023	Dec 2024	Robertson Brothers Homes Sakura Novi Llc

OVERALL VACANCY & RENT

	Vacancy			Market Rent				Effective Rents	
Year	Units	Percent	Ppts Chg	Per Unit	Per SF	% Growth	Ppts Chg	Units	Per SF
2027	827	4.7%	(0.3)	$1,700	$1.65	4.6%	(0.9)	$1,689	$1.64
2026	882	5.0%	(0.8)	$1,624	$1.58	5.5%	0.8	$1,614	$1.57
2025	1,016	5.8%	(0.4)	$1,539	$1.50	4.8%	1.5	$1,529	$1.49
2024	1,076	6.1%	(1.0)	$1,469	$1.43	3.3%	2.1	$1,460	$1.42
2023	1,246	7.1%	1.5	$1,423	$1.38	1.2%	(1.0)	$1,414	$1.37
YTD	940	5.4%	(0.1)	$1,459	$1.42	-0.3%	(2.4)	$1,451	$1.41
2022	961	5.6%	2.8	$1,406	$1.37	2.2%	(10.4)	$1,399	$1.36
2021	486	2.8%	(0.9)	$1,377	$1.34	12.5%	10.7	$1,373	$1.33
2020	649	3.8%	(1.8)	$1,224	$1.19	1.8%	(1.5)	$1,216	$1.18
2019	962	5.6%	0.9	$1,202	$1.17	3.3%	(0.2)	$1,191	$1.16
2018	784	4.6%	1.2	$1,163	$1.13	3.5%	0.8	$1,148	$1.12
2017	584	3.5%	0.6	$1,124	$1.09	2.8%	(0.6)	$1,111	$1.08
2016	489	2.9%	0.1	$1,093	$1.06	3.4%	(1.7)	$1,083	$1.05
2015	464	2.7%	(1.5)	$1,058	$1.03	5.1%	2.9	$1,050	$1.02
2014	722	4.3%	0.2	$1,006	$0.98	2.2%	(1.0)	$984	$0.96
2013	692	4.1%	0	$985	$0.96	3.2%	0.3	$966	$0.94

OVERALL SUPPLY & DEMAND

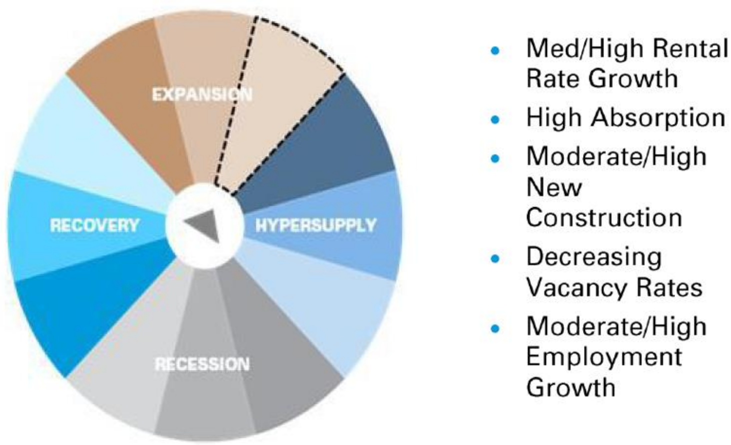
	Inventory			Absorption		
Year	Units	Growth	% Growth	Units	% of Inv	Construction Ratio
2027	17,640	19	0.1%	74	0.4%	0.3
2026	17,621	4	0%	140	0.8%	0
2025	17,617	109	0.6%	169	1.0%	0.6
2024	17,508	(8)	0%	162	0.9%	0
2023	17,516	268	1.6%	(17)	-0.1%	-
YTD	17,248	0	0%	22	0.1%	0
2022	17,248	0	0%	(476)	-2.8%	0
2021	17,248	0	0%	163	0.9%	0
2020	17,248	0	0%	313	1.8%	0
2019	17,248	375	2.2%	203	1.2%	1.8
2018	16,873	(24)	-0.1%	(224)	-1.3%	0.1
2017	16,897	11	0.1%	(84)	-0.5%	-
2016	16,886	0	0%	(26)	-0.2%	0
2015	16,886	0	0%	260	1.5%	0
2014	16,886	0	0%	(30)	-0.2%	0
2013	16,886	0	0%	2	0%	0

Overall Detroit Multifamily Market Overview (Integra Realty Resources)

Over the past 12 months the Detroit market has experienced strong rental growth with most communities having rent growth in the 5% to 10% range while vacancy has remained below 5% overall. This region has benefitted from improved economic conditions such as a solid automotive industry, a diversifying economy, and an expanding workforce. Multifamily developers continue to bring new inventory to the marketplace; however, the overall pace of construction is considered modest when compared to development activity in other regions in the U.S. With robust demand for multifamily properties in Michigan, the average per unit sale price has substantially increased in recent years, and strong competition for properties has supported a trend of decreasing capitalization rates. Overall, multifamily will continue to be in demand by investors and financial operations will benefit from low vacancy, rising rental rates, limited concessions and modest new development. Furthermore, Michigan is viewed as one of the more affordable regions for housing in the U.S., when comparing the ratio of household income allocated to housing expenses.

Integra views the metro Detroit economy to be in late cycle expansion.

Market Cycle: Expansion Stage 3



Metro Detroit Multifamily Overview - Berkadia 2023 Forecast

Manufacturers are poised to invest $11.1b and fill 9,200 jobs to reinforce apartment fundamentals. Job growth and the gradual return to a pre-pandemic work environment in the Detroit metro area are expected to reinforce apartment fundamentals in 2023. Rocket Companies, Inc., Ford Motor Company and DTE Energy are some of the local companies transitioning to a hybrid office/remote working arrangement with their employees. The return-to-office trend coincides with a concentration of apartment deliveries in 2023 near employment hubs in the urban core and suburbs in Oakland County.

Of the 1,931 apartment units scheduled for completion in 2023, two-thirds of the apartments will come online in the Downtown/Midtown/Rivertown submarkets and in the Troy/Rochester Hills submarket in Oakland County. The new, amenity-rich apartments in these submarkets will draw renters, resulting in robust leasing activity that supports the metro wide net absorption of 785 units. Apartment occupancy in the metro area is forecasted to be 95.8% by year-end 2023. IN 2023, the first phase of the 171-acre Romulus Trade Center mixed-use development will support 1,000 jobs. Over the next several years, Ford Motor Company, General Motors, Magna International and **Our Next Energy** will invest a combined $11.1 billion in new facilities, expansions, retooling, resulting in an aggregate addition of over 9,200 jobs in the Detroit metro area.