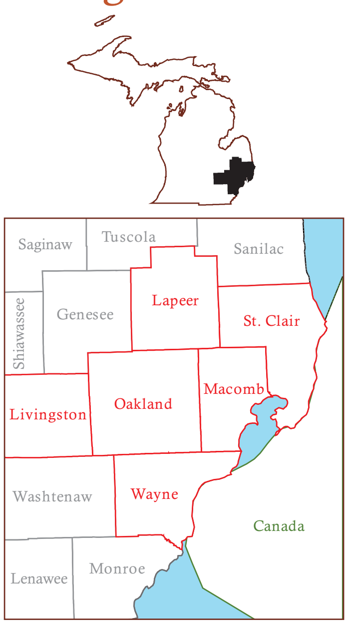
COMPREHENSIVE HOUSING MARKET ANALYSIS

Detroit-Warren-Livonia, Michigan

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of October 1, 2011

PD&R

Housing Market Area



The Detroit-Warren-Livonia Housing Market Area (HMA) (hereafter, the Detroit HMA), located in southeastern Michigan, is coterminous with the Detroit-Warren-Livonia Metropolitan Statistical Area (MSA). For purposes of this analysis, the HMA is divided into three submarkets: the Wayne County submarket, comprising Wayne County, including the principal city of Detroit; the Western Detroit submarket, comprising Livingston and Oakland Counties; and the Northeastern Detroit submarket, comprising Lapeer, Macomb, and St. Clair Counties.

Summary

Economy

Economic conditions have strengthened in the Detroit HMA during the past year. Nonfarm payrolls increased by 37,000 jobs, or 2.1 percent, to 1.77 million jobs during the 12 months ending September 2011 compared with the number of jobs during the previous 12 months. Job gains were strongest in the manufacturing; mining, logging, and construction; and professional and business services sectors. Nonfarm payroll jobs are expected to increase an average of 0.7 percent a year during the 3-year forecast period, with most gains likely to occur in the aforementioned sectors. Table DP-1 at the end of this report provides employment data for the HMA.

Sales Market

Sales housing market conditions in the HMA are currently soft. During the 12 months ending September 2011, new and existing home sales declined 6 percent, to 76,750 homes. Demand during the 3-year forecast period is expected to total 10,150 new market-rate homes (Table 1). During the forecast period, no demand is anticipated for additional homes in the Wayne County submarket. The 710 units currently under construction will meet a portion of the expected demand in the Western Detroit and Northeastern Detroit submarkets. In addition, a portion of the 111,500 other vacant units in the HMA may come back on the market and also satisfy some of the demand.

Rental Market

The rental housing market in the HMA is currently soft, with an estimated overall rental vacancy rate of 11.9 percent, down from the 12.9-percent rate recorded in 2010. Out-migration, along with a large number of single-family homes for rent, has kept the overall rental vacancy rate elevated. During the forecast period, no demand is anticipated for additional rental units in the HMA (Table 1). The 260 units under construction and the supply of excess vacant units are expected to exceed demand for rental housing units for the forecast period.

Market Details

Table 1. Housing Demand in the Detroit HMA,* 3-Year Forecast, October 1, 2011 to October 1, 2014

	Detroit-Warren-Livonia HMA		Wayne County Submarket		Western Detroit Submarket		Northeastern Detroit Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total Demand	10,150	0	0	0	5,325	0	4,850	0
Under Construction	710	260	150	70	260	30	300	160

** Detroit-Warren-Livonia HMA.*

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of October 1, 2011. A portion of the estimated 111,500 other vacant units in the HMA will likely satisfy some of the forecast demand. Numbers may not add to totals because of rounding.

Source: Estimates by analyst

Economic Conditions

The Detroit HMA is the economic base of Michigan, accounting for approximately 45 percent of all Michigan nonfarm payroll jobs in 2010. During the 12 months ending September 2011, the economy of the HMA strengthened, adding 37,000 nonfarm payroll jobs, an increase of 2.1 percent, to 1.77 million jobs (Table 2). In comparison, nonfarm payrolls decreased by 46,800 jobs, or 2.6 percent, during the 12 months ending September 2010. Increases in employment during the past 12 months were broad, with eight sectors recording increased employment and three recording declines. Employment gains in the HMA led to a decrease in the average unemployment rate from 14.5 percent for the 12 months ending September 2010 to a current average of 12.1 percent, the lowest rate reported in the HMA since 2008. Figure 1 shows trends in the labor force, resident employment, and average unemployment rate in the HMA from 2000 through 2010.

Detroit, the historic home of automobile manufacturing in America, includes three Fortune 500 companies: Chrysler Group LLC, General Motors Company, and Ford Motor Company. The manufacturing sector increased 7.7 percent, or by 14,200 jobs, during the 12 months ending September 2011 to 199,800 jobs, which was approximately 11 percent of all nonfarm payroll jobs in the HMA. Despite recent job gains, the number of manufacturing jobs in the HMA remains nearly 50 percent below the peak of 391,600 jobs recorded in 2000,

Table 2. 12-Month Average Nonfarm Payroll Jobs in the Detroit HMA,* by Sector

	12 Months Ending September 2010	12 Months Ending September 2011	Percent Change
Total Nonfarm Payroll Jobs	1,730,000	1,767,000	2.1
Goods Producing	235,900	253,500	7.5
Mining, Logging, & Construction	50,300	53,700	6.8
Manufacturing	185,600	199,800	7.7
Service Providing	1,495,000	1,514,000	1.3
Wholesale & Retail Trade	270,900	275,200	1.6
Transportation & Utilities	54,200	57,000	5.2
Information	27,300	26,000	– 4.8
Financial Activities	95,400	97,600	2.3
Professional & Business Services	300,900	320,500	6.5
Education & Health Services	283,900	288,000	1.4
Leisure & Hospitality	169,600	170,800	0.7
Other Services	82,200	80,000	– 2.7
Government	210,100	198,700	– 5.4

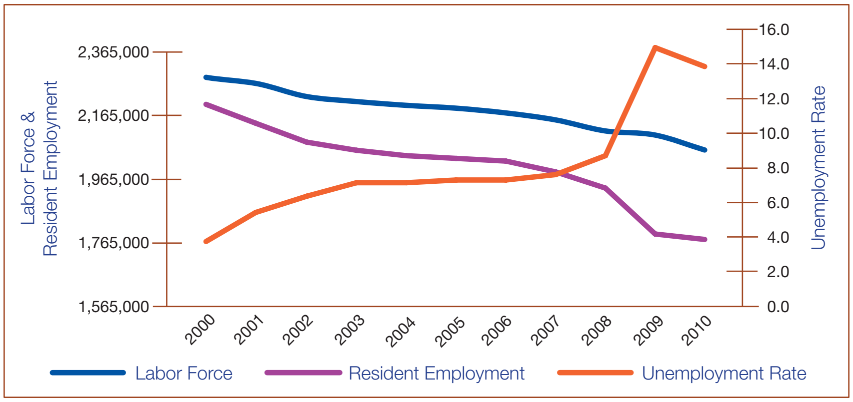
** Detroit-Warren-Livonia HMA.*

Notes: Based on 12-month averages through September 2010 and September 2011. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics when the sector accounted for 18 percent of all nonfarm payrolls. The largest decline in manufacturing employment occurred between 2008 and 2009, when both Chrysler and General Motors, two of the largest employers in the HMA (Table 3), filed for Chapter 11 bankruptcy. Job losses in the sector in 2008 and 2009 totaled 22,700 and 51,000 jobs, or declines of 9 and 22 percent, respectively. Manufacturing employment increased in 2010 and 2011, with the three domestic automakers each gaining market share for the first time since 1988. Automotive industry analysts predict that the number of new automobiles sold will increase in 2012 to between 13.3 and 13.9 million compared with the 12.8 million new vehicles that were sold in 2011. Ford and General Motors have announced plans for new hiring in the HMA in 2012 and beyond, including up to 2,500 jobs in General Motors' Detroit-Hamtramck assembly plant and up to 1,200 jobs at Ford's Van Dyke, Sterling, Livonia, and Dearborn plants. Figure 2 shows the share of total nonfarm payroll jobs in the HMA by sector and Figure 3 illustrates sector growth in the HMA from 2000 to the current date.

During the past 12 months, the mining, logging, and construction sector gained 3,400 jobs, an increase of 6.8 percent, mostly due to additional investments in residential, commercial, and industrial construction projects in the HMA. The current total of 53,700 jobs in this sector is approximately 56 percent of the 96,500 jobs recorded in 2000, and employment in this sector had declined every year since 2000 with the exception of 2004. The professional and business services sector, the largest employment sector in the HMA, increased by 19,600 jobs, or 6.5 percent, during the 12 months ending September 2011, after a 2-percent decline during the previous 12 months. Approximately 9,200 of the new professional and business services sector jobs were

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Detroit HMA,* 2000 Through 2010



** Detroit-Warren-Livonia HMA.*

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Detroit HMA*

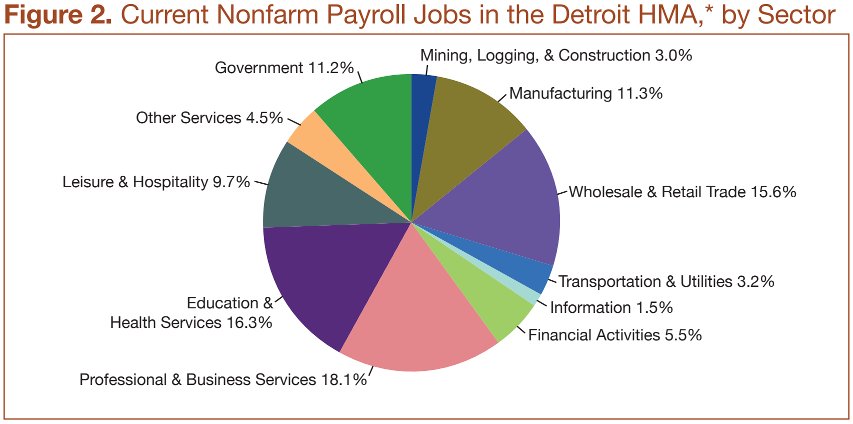
Name of Employer	Nonfarm Payroll Sector	Number of Employees
Ford Motor Company	Manufacturing	38,000
General Motors Company	Manufacturing	25,900
Henry Ford Health System	Education & Health Services	18,400
Chrysler Group LLC	Manufacturing	18,250
Beaumont Health System	Education & Health Services	14,500
St. John Providence Health System	Education & Health Services	12,850
Trinity Health	Education & Health Services	12,600
Detroit Medical Center	Education & Health Services	11,800
DTE Energy Company	Transportation & Utilities	6,575
Blue Cross Blue Shield of Michigan	Professional & Business Services	6,200

** Detroit-Warren-Livonia HMA.*

Notes: Excludes local school districts. As of January 2011. Employment at Chrysler Group LLC is estimated by Crain's Detroit Business.

Source: Crain's Detroit Business

Figure 2. Current Nonfarm Payroll Jobs in the Detroit HMA,* by Sector

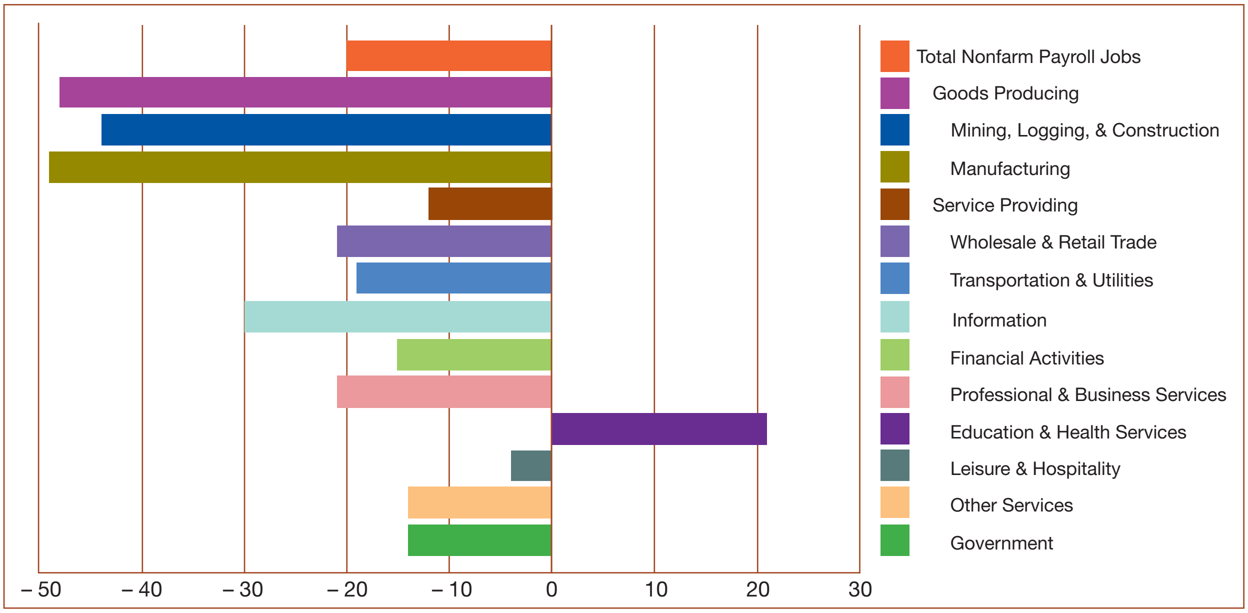


** Detroit-Warren-Livonia HMA.*

Note: Based on 12-month averages through September 2011.

Source: U.S. Bureau of Labor Statistics

Figure 2. Current Nonfarm Payroll Jobs in the Detroit HMA,* by Sector



** Detroit-Warren-Livonia HMA.*

Note: Current is based on 12-month averages through September 2011.

Source: U.S. Bureau of Labor Statistics

in the professional, scientific, and technical services industries and 6,000 were in employment services. In June 2009, General Electric (GE) constructed a new Advanced Manufacturing and Software Technology Center in Van Buren Township in Wayne County, west of Detroit, with plans for approximately 1,200 jobs, predominately for scientists and engineers. As of February 2011, GE had filled nearly one-half of the proposed positions and expected to fill the balance by 2013. GE expects this center to become the largest concentration of GE information technology experts worldwide. In November 2010, General Motors announced it would hire 1,000 engineers in 2011 and 2012 to help expand the line of electric vehicles. Detroit Venture Partners, a venture capital firm founded in December 2010, has provided more than $9.5 million in funding for 11 startup/expansion efforts to spur entrepreneurial activity in Detroit.

Declining employment sectors in the HMA include the government, other services, and the information sectors, which declined by 11,400, 2,200, and 1,300 jobs, or 5.4, 2.7, and 4.8 percent, respectively. The decrease in government sector employment followed a 2.4-percent decline during the 12 months ending September 2010, because of significant cutbacks in state and local government employment, as local units of government responded to declining tax revenues. Local government employment in the HMA has declined each year since 2003 and the current local government figure of 145,100 jobs is approximately 29,000 fewer jobs than the number recorded in 2000, representing an annual decline of 1.4 percent. In the other services sector, the decline of 2.7 percent, or 2,200 jobs, follows a decline of 2.4 percent, or 2,000 jobs during the previous 12 months. In the information sector, the telecommunications subsector accounted for more than 60 percent of the 1,300 jobs lost during the 12 months ending September 2011.

During the 3-year forecast period, nonfarm payrolls are expected to increase 0.4 percent in the first year and accelerate by 0.7 and 1.0 percent in the second and third years of the forecast period, respectively.

Population and Households

The population of the Detroit HMA is estimated at 4,266,000 as of October 1, 2011, an average decline of approximately 0.4 percent, or 16,200 people, annually since 2000. The decline in population is a result of out-migration from the HMA, which has occurred every year since 1996. Out-migration averaged approximately 34,850 people annually between 2000 and 2010, coinciding with declining nonfarm payrolls each year. According to data from the Internal Revenue Service, between 2006 and 2010, 69 percent of out-migration from the HMA left Michigan. Currently, approximately 42 percent of the HMA population resides in the Wayne County submarket, down from 46 percent in 2000. The Western Detroit and Northeastern Detroit submarkets include approximately 32 and 26 percent of the HMA population, up from 30 and 24 percent, respectively, in 2000.

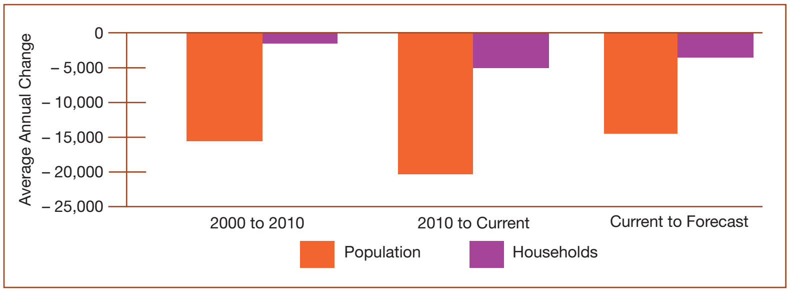
In the Wayne County submarket, the population declined by an average of 24,050 annually between 2000 and 2010, or an average annual loss rate of 1.2 percent. An average out-migration of 32,900 people far exceeded net natural increase (resident births minus deaths) of 8,850 each year. Within the Wayne County submarket, the population of the city of Detroit declined by 23,750 annually between 2000 and 2010, accounting for almost all the population loss in the submarket. As of April 1, 2010, the population of the city of Detroit was 713,777, which represents only 39 percent of the largest decennial census population of 1,849,568, in 1950. Local analysts estimate that approximately 25 percent of the 237,500 people leaving the city of Detroit between 2000 and 2010 moved out of Michigan, 35 percent moved beyond the city limits but remained in Wayne County, and 40 percent moved to different Michigan counties. An increase of 59 percent in the number of college-educated residents less than the age of 35 moving to downtown Detroit between 2000 and 2010 somewhat limited the out-migration from the city of Detroit. Since 2010, the population in the Wayne County submarket has continued to decline, although at a lower rate of 1.1 percent, or 20,700 residents annually; improvements in the local labor market slowed the decline.

In the Western Detroit and Northeastern Detroit submarkets, the population increased 0.2 and 0.5 percent annually between 2000 and 2010. Both submarkets recorded net in-migration earlier in the decade before turning negative in the Western Detroit submarket in 2002 and in the Northeastern Detroit submarket in 2007. Net natural increase in both submarkets was sufficient to offset the later out-migration so that both submarkets reported positive population growth each year of the decade. As the economy in the HMA continued to weaken after 2006, out-migration began to accelerate and has continued to accelerate to the current date. Since 2010, the rate of population change has slowed in each submarket; the Western Detroit submarket gained 0.1 percent, or 1,125 people, annually and the Northeastern Detroit submarket was relatively unchanged. Figure 4 shows population and household growth in the HMA and Figure 5 shows the components of population change in the HMA from 2000 through the forecast period.

Between 2000 and 2010, the number of households in the HMA declined by an average annual rate of 1,475, or 0.1 percent, to 1,682,000 households as of April 1, 2010. Since 2010, the decline in the number of households has increased to 4,750, or 0.3 percent, annually due to lower household growth in the Western Detroit and Northeastern Detroit submarkets, resulting in less offset to out-migration of households from the Wayne County submarket. Figures 6, 7, and 8 show the number of households by tenure in each submarket since 2000.

During the forecast period, the rate of population and household losses in the HMA is expected to slow, with the population expected to decline 0.3 percent annually, to 4,222,000, and the number of households expected to decline 0.2 percent annually, to 1,663,300. Partially offsetting losses in the Wayne County submarket, the two other submarkets are expected to grow. In the Western Detroit submarket, the population and the number of households both are expected to increase 0.1 and 0.2 percent annually, respectively, while in the Northeastern Detroit submarket, annual increases in the population and the number of households are expected to average 0.3 and 0.4 percent, respectively.

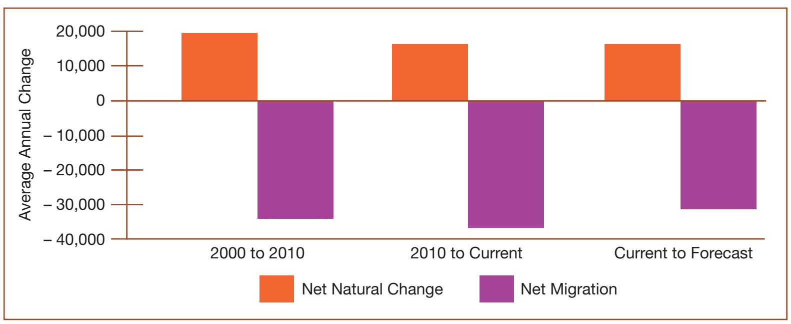
Figure 4. Population and Household Growth in the Detroit HMA,* 2000 to Forecast



** Detroit-Warren-Livonia HMA.*

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

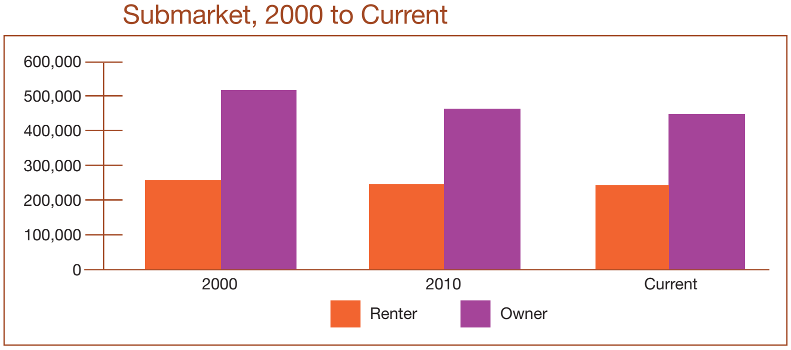
Figure 5. Components of Population Change in the Detroit HMA,* 2000 to Forecast



** Detroit-Warren-Livonia HMA.*

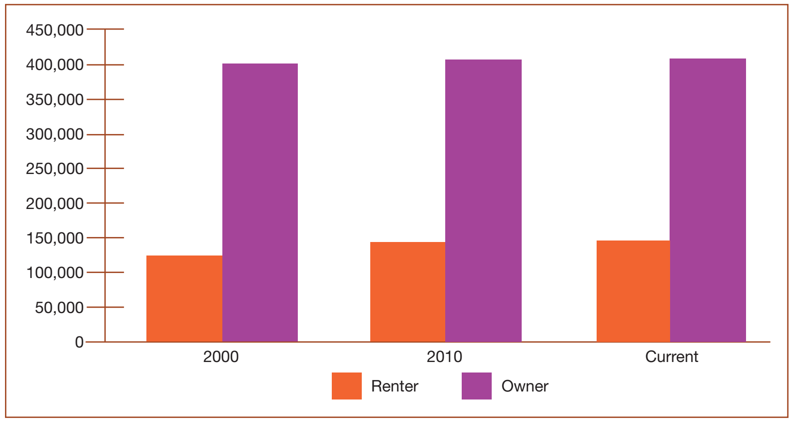
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 6. Number of Households by Tenure in the Wayne County Submarket, 2000 to Current



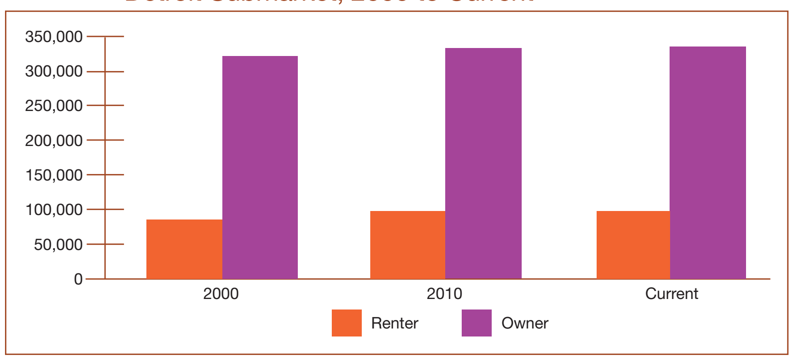
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 7. Number of Households by Tenure in the Western Detroit Submarket, 2000 to Current



Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 8. Number of Households by Tenure in the Northeastern Detroit Submarket, 2000 to Current



Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Housing Market Trends

Sales Market—Wayne County Submarket

The sales housing market in the Wayne County submarket is currently soft, with a vacancy rate of 3.2 percent (Table DP-2 at the end of the report), due primarily to the loss of jobs and population. According to data from Hanley Wood, LLC, sales of existing homes has remained generally stable, but the type of home sale has changed dramatically. Increasing numbers of distressed homes, either foreclosed or Real Estate Owned (REO), comprise a larger percentage of total existing home sales. Sales of existing homes in the submarket totaled 44,000 in 2005, which declined almost 0.5 percent annually, to 43,200 in 2009. Home sales have increased since 2009 and, during the 12 months ending September 2011, existing home sales, including distressed sales, totaled 49,550, almost 10 percent more than the 45,250 homes sold in the previous 12 months.

Home sales in the submarket have shifted since 2005, with comparatively fewer sales in the city of Detroit and an increasing number of sales in the balance of the county. In 2005, home sales in the city of Detroit were 61 percent of the total home sales in the submarket. For the 12 months ending September 2011, home sales in the city of Detroit accounted for fewer than 50 percent of the total home sales in the Wayne County submarket.

In the submarket and in the Detroit HMA, home sales are currently driven by the sale of distressed properties. Homes in this status accounted for approximately 29 percent of all home sales in the submarket in 2005, a proportion that has increased each year. Approximately 84 percent of all home sales in the submarket were REO or foreclosed properties during the 12 months ending September 2011, according to data from Hanley Wood, LLC. The largest increase in distressed home sales in the submarket occurred between 2005 and 2008, nearly tripling from 13,950 distressed sales in 2005 to 37,900 distressed sales in 2008, and has increased slightly since 2008.

In the city of Detroit, 95 percent of all home sales during the 12-month period ending September 2011 were distressed properties, a proportion that increased dramatically from 2005, when the proportion was 38 percent, through 2008, when 87 percent of all home sales were distressed. In the balance of Wayne County, outside of the city of Detroit, the significant increase of home sales of distressed properties also occurred between 2005 through 2008, when the proportion of distressed home sales to all sales increased from 17 to 66 percent. Data from LPS Applied Analytics indicate the number of home loans 90 or more days delinquent, in foreclosure, or in REO may be decreasing. The proportion of distressed loans in the Wayne County submarket declined to 13.5 percent in September 2011, from 15.9 percent in September 2010. According to the same source, distressed loans peaked in September 2009 at 16.4 percent. Local REALTORS®, however, indicate a large number of bank-owned properties have yet to enter the market, which could affect sales and depress sales prices in the near future.

The large and growing proportion of distressed home sales has contributed to the decreasing average sales price of existing, nondistressed homes in the submarket. From 2005 through 2008, the average sales price for a nondistressed home in Wayne County remained relatively stable at approximately $141,000, declining less than 1 percent in total during the 4 years. Between 2008 and 2009, however, the average sales price declined more than 9 percent, to $129,000, as the average sales price for distressed homes declined 17 percent, to $88,450.

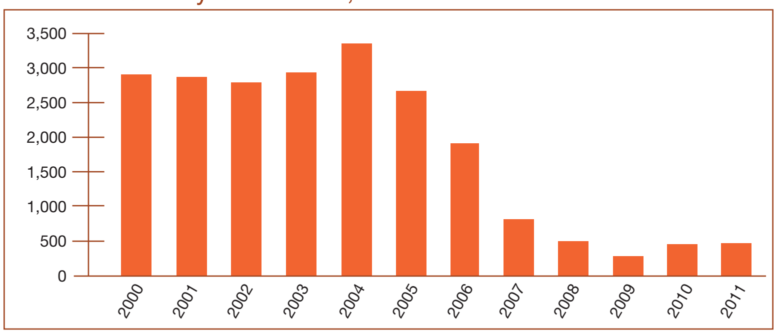
Since 2000, approximately 24 percent of single-family construction in the HMA has been concentrated in the submarket. Single-family home construction, as measured by the number of building permits issued, has slowed significantly since averaging 2,750 homes annually from 2000 through 2006, according to data from the Southeast Michigan Council of Governments (Figure 9). Single-family home construction activity from 2007 through 2009 averaged 510 homes permitted annually. Single-family construction activity increased during the 12 months ending September 2011, to

680 homes permitted, up from 310 homes in the previous 12-month period but still well below the earlier levels.

In Detroit, attached residential properties, including lofts and condominium units, have been developed Downtown and in Midtown, about 3 miles northwest of downtown Detroit, a neighborhood that has experienced growth related to Wayne State University and a large medical center campus. Willy's Overland Lofts, which opened in 2009, is a refurbished automobile factory, with 75 loft units ranging in price from $142,900 to more than $644,000 for the largest, top-floor penthouse. As of October 1, 2011, 19 units have sold and are occupied; contracts are pending on 6 additional units. In Canton, west of Detroit, new home construction includes Westchester, a new development that includes 72 home sites, 35 of which are occupied; home prices range from $315,000 to $415,000.

During the next 3 years, no demand is expected for new sales housing because of expected out-migration of population and an estimated 72,000 other vacant units that may come back on the market. Approximately 150 homes are currently under construction (Table 1).

Figure 9. Single-Family Building Permits Issued in the Wayne County Submarket, 2000 to 2011



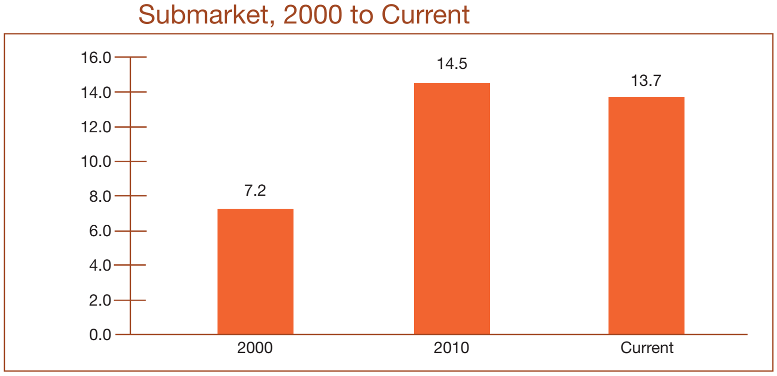
Notes: Includes townhomes. Includes data through September 2011.

Sources: U.S. Census Bureau, Building Permits Survey; Southeast Michigan Council of Governments; estimates by analyst

Rental Market—Wayne County Submarket

The Wayne County submarket rental housing market is soft. The overall rental vacancy rate is currently estimated at 13.7 percent, down from 14.5 percent in April 2010 (Figure 10). Although the overall population is declining, the number of renter households is not declining as rapidly as the number of owner households. Some former owners who lost homes to foreclosure have become renters, fueling demand for single-family home rentals. According to data from Reis, Inc., during the third quarter of 2011, apartment vacancy rates averaged 8.5 percent in the Downtown portion of the submarket and 12.9 percent in the Midtown/West Detroit portion, down from 9.4 and 13.9 percent, respectively, in the third quarter of 2010. The apartment market was nearly balanced in suburban Wayne County submarket communities. According to Reis, Inc., vacancy rates averaged 5.8 and 6.3 percent in the Downriver portion of the submarket (south of Detroit) and the Dearborn portion (western Wayne County), down from 6.8 and 7.9 percent a year ago, respectively. As the rental market has improved, average

Figure 10. Rental Vacancy Rates in the Wayne County Submarket, 2000 to Current

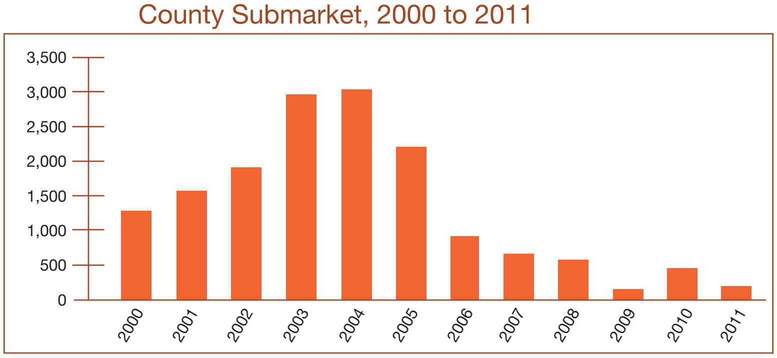


Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

rents have become stable or increased. In the Midtown/West Detroit portion of the submarket, the average rent remained stable at $580, unchanged from the third quarter of 2010, and, in the Downtown portion, the average rent increased nearly 4 percent, to $910. In the suburban Wayne County submarket communities, average asking rents increased nearly 3 percent each, to $730 in the Downriver portion of the submarket and to $820 in the Dearborn portion.

From 2000 through 2006, in the Wayne County submarket, multifamily construction activity, as measured by the number of multifamily permits issued, averaged 1,975 units annually, before declining to an average of 450 units permitted annually from 2007 through 2009, reflecting the slow economy in the HMA, out-migration, and more stringent lending standards (Figure 11). During the past year, the number of multifamily units permitted increased to 570 units, according to data from the Southeast Michigan Council of Governments, compared with 180 units in the previous 12 months as a result of tighter apartment markets and the improving economy. In the early part of the decade, most multifamily units permitted were for owner occupancy, a ratio that has slowly shifted to a renter propensity in the latter part of the decade. Many properties originally developed as sales units are now renting unsold units. One such property is the Residences at the Westin Book-Cadillac, which offers luxury units on the top floors of a highrise historic building in downtown Detroit. The Westin renovated the property into a luxury hotel and 67 condominium units; these units are currently available, starting at $159,900 for purchase and from $1,400 monthly for rent.

Figure 11. Multifamily Building Permits Issued in the Wayne County Submarket, 2000 to 2011



Notes: Excludes townhomes. Includes data through September 2011.

Sources: U.S. Census Bureau, Building Permits Survey; Southeast Michigan Council of Governments; estimates by analyst

Recent rental properties developed in the submarket include Broadway Lofts, in the Downtown Detroit "Stadium District." The nine-story property, originally built in 1916 and rehabilitated in 2005, currently has 14 of 16 units occupied, with rents ranging from $1,450 to $2,250. Outside the city of Detroit, Marycrest Heights, a 60-unit independent property for elderly people in Livonia, to the west of Detroit, opened in 2011; monthly rents start at $1,150 and $1,550.

During the forecast period, no rental housing demand is anticipated for the submarket due to excess rental vacancy and continued out-migration. As of October 1, 2011, an estimated 70 rental units are under construction in the submarket (Table 1).

Sales Market—Western Detroit Submarket

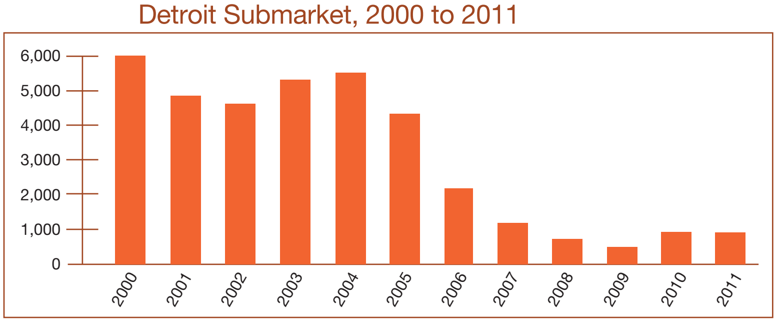
The sales housing market in the Western Detroit submarket is soft but showing signs of improvement. The current estimated sales housing vacancy rate is 2.4 percent, the same rate as reported in April 2010 (Table DP-3 at the end of the report). Out-migration and a rapid increase in the proportion of distressed home sales contributed to declining home sales prices from 2005 through 2009. Since 2010, home sales prices have begun to increase. According to Hanley Wood, LLC, 10,550 existing, nondistressed single-family homes sold during the 12 months ending September 2011, up 8 percent from the number of homes sold during the previous 12 months. From 2005 through 2009, nondistressed home sales averaged 13,800 annually, but they declined each year during that period before starting to increase in 2010.

As in the Wayne County submarket, distressed homes made up an increasing share of existing home sales in the Western Detroit submarket. Distressed homes made up 10 percent of all existing home sales in the submarket in 2005, and this proportion increased to 72 percent in 2009, before declining in 2010, according to data from Hanley Wood, LLC. For the 12 months ending September 2011, 16,850 distressed homes were sold in the submarket, 60 percent more than the 10,550 nondistressed home sales in the submarket during the same period. Distressed home sales during the past 12 months are down nearly 24 percent from the 22,150 distressed homes sold during the previous 12 months, the first annual decline since 2005. According to LPS Applied Analytics, the proportion of home loans 90 or more days delinquent, in foreclosure, or in REO was 6.6 percent in September 2011, a decline from 8.1 percent in September 2010. Local REALTORS®, however, caution that more distressed homes may enter the market as the economy improves and homes held off the market are made available for sale.

The average nondistressed home sales price in the submarket declined from $237,700 in 2005 to $186,600 in 2009, an annual rate of decline of more than 5 percent. Since 2009, average home sales prices have improved, and the $195,500 average home sales price for the 12 months ending September 2011 is nearly 3 percent higher than the $190,200 price reported for the 12 months ending September 2010. The significant number of distressed properties contributed to the decline in home sales prices, according to local REALTORS®. During the past 12 months, the average distressed property sold for approximately $134,500, or 70 percent of the average nondistressed property sales price.

Single-family home construction, as measured by the number of single-family building permits issued, averaged 4,675 permits issued annually from 2000 through 2006 and then declined 83 percent, to an average of 780 homes permitted from 2007 through 2009 (Figure 12). As home

Figure 12. Single-Family Building Permits Issued in the Western Detroit Submarket, 2000 to 2011



Notes: Includes townhomes. Includes data through September 2011.

Sources: U.S. Census Bureau, Building Permits Survey; Southeast Michigan Council of Governments; estimates by analyst sales prices and housing demand began to recover in 2010, the number of single-family homes permitted increased to 1,150 homes for the 12-month period ending September 2011, nearly 42 percent more than the 810 single-family homes permitted during the 12-month period ending September 2010. Approximately 72 percent of single-family homes permitted in the submarket since 2000 have been in Oakland County, with the balance in Livingston County. Arbors of Lyon, a new subdivision development in western Oakland County on the border with Livingston County, includes 60 home sites, with 35 sold; homes are 5-Star Energy PLUS efficient and sales prices range from $182,000 to $276,000.

During the next 3 years, demand is estimated for 5,325 new market-rate homes in the submarket (Table 1). The 260 homes currently under construction will meet a portion of that demand. In addition, a portion of the 21,000 other vacant units in the submarket may come back on the market and satisfy a portion of that demand. Demand is expected to be strongest for homes priced between $200,000 and $299,999. Table 4 shows estimated demand by price range for new market-rate sales housing during the forecast period.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Western Detroit Submarket, October 1, 2011 to October 1, 2014

Price Range ($)		Units of Demand	Percent of Total
From	To		
100,000	149,999	270	5.1
150,000	199,999	800	15.0
200,000	249,999	1,200	22.5
250,000	299,999	1,200	22.5
300,000	399,999	800	15.0
400,000	499,999	530	9.9
500,000	749,999	270	5.1
750,000	and higher	260	4.9

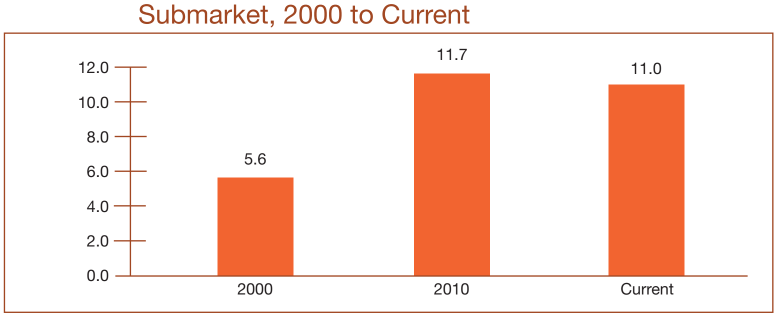
Note: The 260 homes currently under construction and a portion of the estimated 21,000 other vacant units in the submarket will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Rental Market—Western Detroit Submarket

Rental housing market conditions in the Western Detroit submarket are currently soft but improving. The estimated 11-percent rental vacancy rate is down from the 11.7-percent rate recorded in 2010 (Figure 13). The improvement has resulted from recent strengthened economic conditions and low levels of new apartment construction in the submarket. Data from Reis, Inc., indicate the apartment market in the submarket is outperforming the overall rental market. During the third quarter of 2011, markets in south Oakland County had vacancy rates ranging from 4.6 percent in Farmington Hills to 7.8 percent in Novi, down from 5.9 and 8.8 percent, respectively, compared with rates during the third quarter of 2010. In central Oakland County, during the third quarter of 2011, the apartment vacancy rate was 5.3 percent in Troy and 6.5 percent in Pontiac/Waterford, down from 7.0 and 7.6 percent, respectively, from the third quarter of 2010. Average rent increases throughout the submarket

Figure 13. Rental Vacancy Rates in the Western Detroit Submarket, 2000 to Current



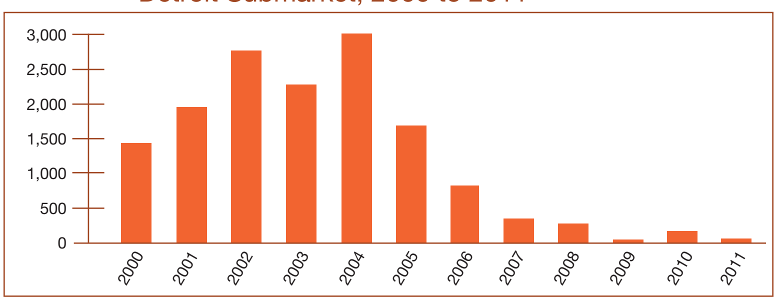
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

ranged from nearly 2 percent in Pontiac/Waterford to 3 percent in Troy between the third quarter of 2010 and the third quarter of 2011.

Multifamily construction activity, as measured by the number of units permitted, began to slow in 2006 in the submarket. According to data from the Southeast Michigan Council of Governments, the number of multifamily units permitted averaged 1,975 from 2000 through 2006, before declining to an average of 210 from 2007 through 2009 (Figure 14). More recently, 50 multifamily units were permitted in the submarket during the 12 months ending September 2011 compared with 150 units during the previous 12-month period. Approximately 70 percent of multifamily units permitted in the submarket since 2000 have been intended for owner occupancy, but local REALTORS® indicate a significant number of condominium units are currently in the rental market because of the soft home sales market.

Nearly all new construction rental housing in the submarket since 2003 was built for low-income or elderly occupancy, or both. The Village of Royal Oak Senior Living is a new independent-living property with 147 market-rate and low-income housing tax credit units that opened in January 2010. It is currently full and maintaining a waiting list. Market-rate rents start at $874 and go up to $1,285 for one- and two-bedroom apartments and two-bedroom, cottage-style apartments. During the forecast period, no demand is anticipated for additional rental housing units in the submarket (Table 1). An estimated 30 rental units are currently under construction.

Figure 14. Multifamily Building Permits Issued in the Western Detroit Submarket, 2000 to 2011



Notes: Excludes townhomes. Includes data through September 2011.

Sources: U.S. Census Bureau, Building Permits Survey; Southeast Michigan Council of Governments; estimates by analyst

Sales Market—Northeastern Detroit Submarket

The sales housing market in the Northeastern Detroit submarket is currently soft, with an estimated vacancy rate of 2.6 percent (Table DP-4 at the end of the report), because of overbuilding in the single-family housing market and out-migration in response to weak economic conditions. The number of owner households increased by an average of approximately 950 households annually since 2000, accounting for only one-third of the 2,725 new single-family homes that were permitted annually in the submarket during the same period.

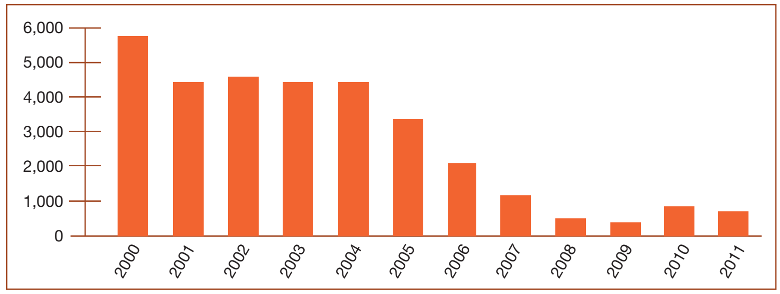
The number of home sales in the submarket increased steadily from 2005 through 2010, before dropping in 2011, according to data from Hanley Wood, LLC. Existing home sales averaged 19,050 annually from 2005 through 2007 and increased to an average of 22,450 in 2008 and 2009. The number of existing home sales declined 10 percent, to 22,500, for the 12 months ending September 2011 compared with approximately 25,100 homes sold during the previous 12 months. As in the other submarkets, the sale of REO and foreclosed homes has increased since 2005, when 16 percent of all existing home sales were distressed properties. In 2007, 50 percent of all existing home sales were distressed, which then increased further to peak at 74 percent of existing home sales during 2009. The proportion of distressed sales dropped to a current rate of 67 percent of home sales for the 12 months ending September 2011, from 73 percent during the previous 12 months. Data from LPS Applied Analytics indicate the percentage of distressed loans in the submarket peaked in September 2009, at 10 percent, and decreased to 8.2 percent in September 2011. As in the other submarkets, local REALTORS® indicate that distressed property sales will continue to be a major part of the home sales market and continue to negatively influence nondistressed home sales prices.

The average sales price of existing, nondistressed homes in the submarket has declined each year since 2005, according to data from Hanley Wood, LLC, although the rate of decline has slowed slightly since 2009. The average existing nondistressed home sales price was $170,400 in 2005, but it declined to $142,600 in 2008, an average decline of 4 percent annually. Between 2008 and 2009, the average home sales price dropped nearly 13 percent more, to $124,500, coinciding with the large employment declines in the HMA that occurred during that same period. The average home sales price has continued to decrease, with an average sales price of $117,300 for the 12 months ending September 2011, almost 5 percent below the $123,000 average sales price reported for the 12 months ending September 2010. For distressed properties, the average sales price declined 19 percent, to $114,600, between 2007 and 2008 and decreased an additional 19 percent, to $92,850, between 2008 and 2009.

Single-family home construction activity, as measured by the number of single-family building permits issued, averaged 4,150 homes permitted annually between 2000 through 2006, before declining to an average of 680 homes permitted annually from 2007 through 2009. According to data from the Southeast Michigan Council of Governments, for the 12 months ending September 2011, approximately 900 single-family homes were permitted, an increase of 14 percent from the 790 single-family homes permitted during the previous 12 months (Figure 15). Several new-construction, single-family developments are under way in the submarket. Partridge Creek, a new subdivision with 210 of 360 total home sites complete, is located in Clinton Township in Macomb County. New homes priced between $230,000 and $330,000 are currently offered by four builders.

During the next 3 years, demand is estimated for 4,850 new market-rate homes in the submarket (Table 1). The 300 homes currently under construction will meet a portion of this demand. In addition, some of the estimated 18,500 other vacant units in the submarket may return to the sales housing market and satisfy a portion of the demand. Demand is expected to be strongest for new homes in the $150,000-to-$299,999 price range (Table 5).

Figure 15. Single-Family Building Permits Issued in the Northeastern Detroit Submarket, 2000 to 2011



Notes: Includes townhomes. Includes data through September 2011.

Sources: U.S. Census Bureau, Building Permits Survey; Southeast Michigan Council of Governments; estimates by analyst

Table 5. Estimated Demand for New Market-Rate Sales Housing in the Northeastern Detroit Submarket, October 1, 2011 to October 1, 2014

Price Range ($)		Units of Demand	Percent of Total
From	To		
100,000	149,999	480	9.9
150,000	199,999	1,100	22.7
200,000	249,999	1,100	22.7
250,000	299,999	720	14.8
300,000	349,999	490	10.0
350,000	399,999	490	10.0
400,000	499,999	240	4.9
500,000	and higher	240	4.9

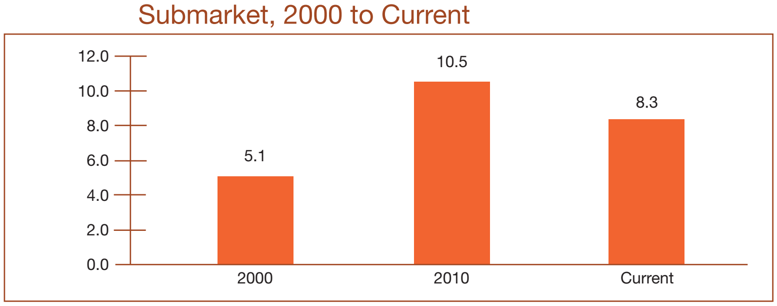
Note: The 300 homes currently under construction and a portion of the estimated 18,500 other vacant units in the submarket will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Rental Market—Northeastern Detroit Submarket

Rental housing market conditions in the Northeastern Detroit submarket are currently soft, with a rental vacancy rate of 8.3 percent, improved from 2010 when the rental vacancy rate was 10.5 percent (Figure 16). According to data from Reis, Inc., the apartment vacancy rate in Macomb County, the Reis, Inc., submarket that most closely corresponds to the submarket, was 4.5 percent during the third quarter of 2011, down from 6.1 percent in the previous year. During the same period, the average rent in Macomb County increased nearly 2 percent, to approximately $750.

Figure 16. Rental Vacancy Rates in the Northeastern Detroit Submarket, 2000 to Current



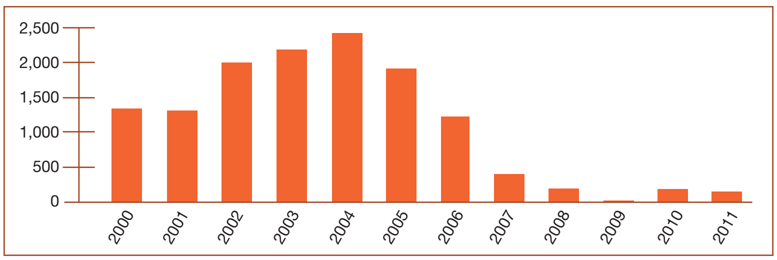
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Multifamily construction activity, as measured by the number of units permitted, has declined since averaging 1,875 units permitted from 2004 through 2006, according to data from the Southeast Michigan Council of

Governments (Figure 17). From 2007 through 2009, an annual average of 210 units were permitted. During the 12 months ending September 2011, permits for 290 multifamily units were issued in the submarket, up from the 50 units permitted during the previous 12-month period. From 2000 through 2008, an estimated 82 percent of multifamily units permitted in the submarket were intended for owner occupancy. Since 2009, the percentage of multifamily units intended for owner occupancy has declined to an estimated 35 percent.

Since 2000, approximately 68 percent of multifamily rental housing development in the submarket has been for elderly households, including new units at existing Continuing Care Retirement Communities, and new independent elderly and assisted-living facilities. The Michigan State Housing Development Authority has allocated tax credits to help develop approximately 2,500 units in the submarket since 2000, of which approximately 530, or 21 percent, have been new construction. Approximately 160 rental units are currently under development in this submarket. Despite improvements in the local rental housing market, no demand is anticipated for additional rental units during the forecast period (Table 1).

Figure 17. Multifamily Building Permits Issued in the Northeastern Detroit Submarket, 2000 to 2011



Notes: Excludes townhomes. Includes data through September 2011.

Sources: U.S. Census Bureau, Building Permits Survey; Southeast Michigan Council of Governments; estimates by analyst

Data Profiles

Table DP-1. Detroit HMA* Data Profile, 2000 to Current

				Average Annual Change (%)	
	2000	2010	Current	2000 to 2010	2010 to Current
Total Resident Employment	2,200,000	1,773,000	1,780,000	– 2.1	0.5
Unemployment Rate	3.7%	13.8%	12.1%		
Nonfarm Payroll Jobs	2,203,000	1,737,000	1,767,000	– 2.3	2.3
Total Population	4,452,557	4,296,250	4,267,000	– 0.4	– 0.5
Total Households	1,696,943	1,682,111	1,674,000	– 0.1	– 0.3
Owner Households	1,232,190	1,193,402	1,189,000	– 0.3	– 0.2
Percent Owner	72.6%	70.9%	71.0%		
Renter Households	464,753	488,709	485,300	0.5	– 0.5
Percent Renter	27.4%	29.1%	29.0%		
Total Housing Units	1,797,185	1,886,537	1,885,000	0.5	– 0.1
Owner Vacancy Rate	1.3%	2.6%	2.8%		
Rental Vacancy Rate	6.4%	12.9%	11.9%		
Median Family Income	$60,500	$71,000	$60,600	1.6	– 14.6

** Detroit-Warren-Livonia HMA.*

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 1990, 2000, and the 12 months through September 2011. Median family incomes are for 1999, 2009, and 2010.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-2. Wayne County Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total Population	2,061,162	1,820,584	1,790,000	– 1.2	– 1.1
Total Households	768,440	702,749	693,900	– 0.9	– 0.8
Owner Households	511,837	454,706	449,900	– 1.2	– 0.7
Percent Owner	66.6%	64.7%	64.8%		
Rental Households	256,603	248,043	244,000	– 0.3	– 1.1
Percent Renter	33.4%	35.3%	35.2%		
Total Housing Units	826,145	821,693	819,500	– 0.1	– 0.2
Owner Vacancy Rate	1.4%	2.9%	3.2%		
Rental Vacancy Rate	7.2%	14.5%	13.7%		

Note: Numbers may not add to totals because of rounding.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-3. Western Detroit Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total Population	1,351,107	1,383,329	1,385,000	0.2	0.1
Total Households	526,499	551,078	551,700	0.5	0.1
Owner Households	400,882	408,491	409,000	0.2	0.1
Percent Owner	76.1%	74.1%	74.1%		
Rental Households	125,617	142,587	142,700	1.3	0.1
Percent Renter	23.9%	25.9%	25.9%		
Total Housing Units	550,925	600,064	600,400	0.9	0.0
Owner Vacancy Rate	1.2%	2.4%	2.4%		
Rental Vacancy Rate	5.6%	11.7%	11.0%		

Note: Numbers may not add to totals because of rounding.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-4. Northeastern Detroit Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total Population	1,040,288	1,092,337	1,092,000	0.5	0.0
Total Households	402,004	428,284	429,000	0.6	0.1
Owner Households	319,471	330,205	330,400	0.3	0.0
Percent Owner	79.5%	77.1%	77.0%		
Rental Households	82,533	98,079	98,600	1.7	0.4
Percent Renter	20.5%	22.9%	23.0%		
Total Housing Units	420,115	464,780	465,200	1.0	0.1
Owner Vacancy Rate	1.3%	2.3%	2.6%		
Rental Vacancy Rate	5.1%	10.5%	8.3%		

Note: Numbers may not add to totals because of rounding.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census

2010: 4/1/2010—U.S. Decennial Census

Current date: 10/1/2011—Analyst's estimates

Forecast period: 10/1/2011–10/1/2014—Analyst's estimates

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In HUD's analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_Detroit-Warren-LivoniaMI_12.pdf.

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This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to www.huduser.org/publications/econdev/mkt_analysis.html.