Real Estate Report Card

Grading the Metro Detroit real estate market since the end of the recession in June 2009.

If we were to grade the residential real estate market, it would get a C.

Housing prices have recovered but are exhibiting signs of moderation.

Single-family construction remains depressed and is decelerating.

Multi-unit construction has not improved but is showing signs of recovery.

The S&P/Case-Shiller Home Price Index for Metro Detroit dropped 32 percent during the recession, which lasted from December 2007 through June 2009. Since the end of the recession through November 2014, the index gained 39.8 percent.

The comparable figures for the S&P/Case-Shiller 20 City Composite Index are a decrease of 23 percent and an increase of 22.2 percent. Housing prices have recovered more in Metro Detroit than in the 20-city composite index. In the last six months, there is a noticeable slowdown in housing price increases in Metro Detroit: June had a year-over-year increase of 10 percent while November registered a year-over-year gain of only 2.3 percent.

Single family construction collapsed during the recession and has not recovered. In 2004, the peak year, the Census Bureau reported 16,916 single family housing starts in Metro Detroit. At the end of the recession in 2009, single-family housing starts plummeted to 1,200. In 2014, the market had improved to 4,751 single-family starts, but that was a decline of 10.6 percent from 2013. The experience in Metro Detroit is similar to the nation, with single-family housing starts remaining substantially below pre-recession levels.

Where Metro Detroit diverges from the nation is in multi-family construction. A surge in apartment construction followed the housing bust, but not in Metro Detroit, which has among the lowest percentage of population in rental housing of any major metropolitan area at 33 percent, according to American Factfinder 2013. Local builders are now responding with 1,386 multifamily starts in 2014, up from 778 in 2013, according to the Home Builders Association of Southeastern Michigan.

Office Grade: D

Improvement in the Downtown Detroit office market is offset by weakness in the suburban markets.

Central Business District (CBD) real estate accounts for only 22.5 percent of total office space in Detroit, among the lowest of all metro areas.

Suburban vacancy rate is high compared with other cities and average asking rent is low.

Office vacancy rates have declined in the Downtown market to 17.7 percent in Q4 2014 from 26 percent in Q2 2009, and average rent per square foot has increased to $21.86 from $20.10. The Detroit CBD accounts for only 22.5 percent of available inventory.

In Minneapolis, Cleveland and Pittsburgh, the CBD accounts for a respective 47.2, 53.3, and 53.7 percent of available inventory. The vacancy rate in Detroit for CBD properties is comparable to other cities. Average asking rent is lower for Detroit than other cities. Cleveland, Minneapolis and Pittsburgh have average asking rent of $19.27, $25.37 and $23.26 per square foot, respectively, compared with Detroit at $19.08.

In the suburban market, vacancy rates have increased to 27 percent in Q4 2014 from 23.1 percent in Q2 2009, and the average rent has declined to $18.18 from $20.42.

Compared with other cities, the suburban Detroit market has a high vacancy rate and low average asking rent.

Suburban vacancy rates for Q4 2014 in Atlanta, Chicago, Cleveland, Minneapolis and Pittsburgh are 20.2, 22.6, 14.8, 15.9, and 18 percent respectively, compared with 27 percent in Detroit. The average asking rent in the same suburban markets is $20.97, compared with $17.30 for Detroit.

Industrial Grade: B

Substantial improvement in vacancy rates and average asking price are comparable to other cities.

Average asking price is on the rise.

Industrial vacancy rates declined to 7.9 percent in Q4 2014 from 12.9 percent in Q2 2009. The peak of vacancy rates was in Q3 2010 at 14.2 percent. Over this period of time, average asking rent also declined to $4.19 from $4.39. The year-over-year increase in average asking rent is 3.8 percent.

Compared with other cities, Metro Detroit’s industrial vacancy rate of 7.9 percent and average asking rent of $4.19 are in the medium range. By comparison, the vacancy rate and average asking rent for Cleveland, Milwaukee, Minneapolis and Pittsburgh are a respective 10.8 percent and $3.48, 6.4 percent and $3.99, 9.3 percent and $4.71, and 7.3 percent and $4.96.

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