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Staying steady: Apartment market stabilizes

Siegle & Associates typically appraises 30-50 apartment complexes per year in Macomb, Oakland, Wayne, and surrounding counties. These apartments range from four units to a 400+ unit complex, and include LITC, Section 8, and senior housing. Most, however, are conventional apartment complexes. Dozens of complex owners, investors, managers, and real estate brokers have recently reported some interesting trends in the apartment market.

Over the past five or six years, apartments have been a hot commodity. Sale prices and rental rates have skyrocketed, especially in those areas with highest demand. Clawson/Royal Oak is one such example. From 2011 to 2015, Siegle & Associates surveyed several complexes showing rental rate increases of up to 25 percent in two years, with an average of over 40 percent in four to five years.

Continued on Page 2
First Quarter 2017

Apartment Trends

Change in Apartment Rental Rates - Clawson/Royal Oak

	June 2011	Aug 2017	% Increase	Months	% Annualized
1502 W 13 Mile - 1 BD	\$620	\$820	32.26%	75	5.16%
1502 W 13 Mile - 2 BD	\$665	\$930	39.85%	75	6.38%
1502 W 13 Mile - 2 BD TH	\$860	\$1,245	44.77%	75	7.16%
1502 W 13 Mile - 3 BD TH	\$880	\$1,350	53.41%	75	8.55%
4119 W 14 Mile - 2 BD TH	\$850	\$1,265	48.82%	75	7.81%
3105 Coolidge - 1 BD	\$650	\$820	26.15%	75	4.18%
3105 Coolidge - 2 BD	\$725	\$910	25.52%	75	4.08%
4605 Coolidge - 1 BD	\$625	\$820	31.20%	75	4.99%
4605 Coolidge - 2 BD	\$700	\$920	31.43%	75	5.03%
226 Elmwood - 1 BD	\$665	\$920	38.35%	75	6.14%
226 Elmwood - 2 BD TH	\$725	\$1,145	57.93%	75	9.27%
403 N Rochester - 1 BD	\$600	\$990	65.00%	75	10.40%
403 N Rochester - 2 BD	\$650	\$1,145	76.15%	75	12.18%
425 N Rochester - 1 BD	\$700	\$990	41.43%	75	6.63%
Average		43.73%		7.00%	

Siegle & Associates' surveys of numerous complexes have revealed the following current rates in Clawson and Royal Oak:

Current rental rates in Clawson/Royal Oak

Unit - Newer Construction	Monthly Rate	Rate PSF
Studio	\$825-\$1,075	\$1.76-\$2.28
1 BD, 1 BA	\$1,125-\$1,255	\$1.73-\$1.94
2 BD, Multiple BA	\$1,295-\$1,900	\$1.38-\$1.90
3 BD, Multiple BA	\$1,825-\$2,175	\$1.39-\$1.62
Unit	Monthly Rate	Rate PSF
Studio	\$705-\$755	\$1.82-\$2.05
1 BD, 1 BA	\$850-\$995	\$1.17-\$1.50
2 BD, 1 BA	\$1,025-\$1,260	\$1.23-\$1.83

One complex Siegle & Associates appraised in Royal Oak was recently purchased and the new owner updated the units with stainless steel appliances and granite countertops. After renovations, the unit rents were increased by \$300 per month, or 42-55 percent to \$925 for one-bedroom units and \$1,025 per month for two-bedroom units. This complex has minimal amenities — only common laundry and carports.

Siegle & Associates has found that well-managed and well-maintained properties are in demand, regardless of location. Some areas of Detroit have seen whole complexes vacated due to decreased population. Yet, one complex in the same area with updated units, a gated entry, and new steel entry-doors has a waiting list and potential tenants calling every day.

It appears that the boom has now leveled off. There is some pent-up demand, however, and more development in the Brush Park area of Detroit will no doubt bring more tenants to the new hockey arena district, but the strong increases in rents and 75-100 percent sale-resale days appear to be behind us. Vacancy

rates are typically less than 5 percent, which is basically frictional vacancy, allowing for move-outs and move-ins. One broker who works in Downtown/Midtown confirmed that rental rates for most existing properties have peaked, but added that better product will demand higher rental rates. Real estate professionals see a need for new development in Detroit. They estimate 10,000 more units will be needed, but only 3,600 rental units are planned through 2019.

Cap rates have been falling and it appears they have stabilized, as well. One local broker estimates cap rates in high-demand areas range from 6 percent to 7 percent. This would include areas such as Rochester, Rochester Hills, Clawson, and Royal Oak. The following is cap rate data we have collected from verifying apartment sales. The trend is clearly downward, with the lowest rates in more recent years below 6 percent.

Cap. Rate Year Range	Average	Min.	Max.
2011-2012	11.19%	5.88%	21.82%
2013-2014	9.90%	6.32%	18.96%
2015-2017	9.43%	5.45%	16.04%

One trend Siegle & Associates has noticed is owners trying to maximize profits with upgrades. As older complexes require updates, the installation of high-efficiency boilers and high-efficiency lighting brings big return on their investment. Newer boilers are smaller and more efficient, reducing utility costs by 30 percent or more. High-efficiency lighting, especially LEDs, reduces electrical costs in common areas.

Another trend for older complexes where utilities are not individually metered is passing along some of the cost to tenants. Approximately 80 percent of the larger complexes (100+ units) use RUBS (Ratio Utility Billing System) or other systems to reimburse for utility expenses. Water is the easiest to reimburse because of the consistency of use. Reimbursement for heating costs present challenges in having year-round estimated billing that may be disputed during warmer winter months. Most complexes get some type of reimbursement, even if it is just \$25-\$50 per month toward overall utilities. Siegle & Associates recently appraised an apartment complex in Troy where tenants reimbursed the landlord for water cost at rates of \$50 for a one-bedroom to \$60 for a two-bedroom per month.

The apartment market remains strong, especially as it seems that the younger generation prefers apartment living. It appears the apartment market will hold steady and remain stable in the near future.

In the next issue of *Trends*, we'll explore the development activity along one of southeast Michigan's most active retail corridors.

Who we are...

Founded in 2003 by Ken and Kathy Siegle, Siegle & Associates is a full-service commercial and residential appraisal services firm specializing in property valuation, consulting, feasibility analysis, and appraisal review services in Macomb, Oakland, Wayne, St. Clair, Monroe, and Lapeer counties. We also service other counties across Michigan, as well.



Kenneth R. Siegle, MAI, M.S.F., was a commercial real estate loan servicing officer for seven years and a staff appraiser for six years. He has expertise in appraising a variety of properties, including: apartments, general office buildings, medical office buildings, retail centers, subdivisions, industrial buildings, vacant land, single-family residential, self-storage facilities, car washes, and more. Ken holds a bachelor's degree in business administration with a minor in systems analysis from Taylor University, and a master's of science degree in finance from Walsh College. He is a Designated Member of the Appraisal Institute (MAI), as well as a state certified general real estate appraiser. He presently serves as a member of the nominating committee of the Great Lakes Chapter of the Appraisal Institute (he previously served as a board director and regional rep), and he is also a member of the Macomb Township Board of Review.



Rhea D. Allen is a certified general real estate appraiser who began her appraisal career in 1997 as a research assistant at Stout Risius Ross Inc. After obtaining her limited license in 2003, she was promoted to an appraiser and then to senior appraiser in 2006, when she earned her certified general license. Rhea has appraised numerous properties including industrial buildings, retail buildings, general and medical office buildings, apartments, vacant land, and subdivisions. She joined Siegle & Associates in 2008. Rhea received a bachelor's degree in public relations from Grand Valley State University in 1992.



Gerald S. Daugherty has been involved in various aspects of the commercial and residential real estate industry since 1977. He was employed by a major financial institution for 25 years in a number of real estate related positions. As a residential REO property manager, he managed and sold hundreds of residential real estate properties. For nine years he was a commercial real estate loan senior analyst. His experience in this position included commercial real estate loan collateral analysis, and managing and selling foreclosed commercial real estate. He has been appraising real estate since the mid-1980s and has been a licensed real estate appraiser since the state appraisal licensing law was enacted in the 1990s. Jerry has a bachelor's degree in finance from Walsh College.



Kathy Siegle, chief financial officer, oversees the firm's financial operations. Her duties include supervising accounts receivables and accounts payable, as well as purchasing and tax preparation. Kathy also assists with a variety of office duties. She attended Prairie Bible Institute near Calgary, Alberta, Canada, and completed courses in business and accounting at Macomb Community College.



Don Pedde is a research assistant and limited license real estate appraiser. He is a graduate of Pensacola Christian College and holds a certificate of legal assistant studies from Oakland University, with specialties in business law and litigation. He has a wide range of professional experience, including teaching, production control, automotive management, and church ministry. Since joining Siegle & Associates in 2010, Don has gained valuable experience with commercial properties, and has focused on specialty properties including apartments, restaurants, and churches.



Karen Relph is the office manager, a research assistant, and a residential appraiser. Karen keeps the office running smoothly by setting up appointments, scheduling property inspections, filing reports, ordering supplies, and a host of other duties. In addition to managing the office, Karen assists in residential appraising, and researches industrial and commercial properties for the firm's commercial appraisers. Karen's experience and expertise in appraisal services has been an invaluable asset to the company.