



MULTIFAMILY REPORT

Cleveland: Stumbling Blocks Ahead

Summer 2020

Deliveries Keep Rent Gains Stable

Transaction Activity Grinds Close to a Halt

Deliveries Continue to Trail U.S. Average

CLEVELAND MULTIFAMILY



COVID-19 Hits Job Market Hard

The Cleveland multifamily market has remained relatively stable since the dawn of the COVID-19 pandemic. Due to steady demand amid tempering completions in the past few years, rents have stayed positive. On a trailing three-month basis through May, the average rent in Cleveland rose 0.4% to \$955, while the national growth rate contracted by 0.2%.

The coronavirus-mandated lockdown has exacerbated the metro's already decelerating employment growth. In the 12 months ending in March, the professional and business services, leisure and hospitality, and government sectors lost 13,600 jobs. The metro's unemployment rate hit 23.1% in April. Meanwhile, the region's industrial backbone might play a key role in its rebound from the crisis. Akron-based GOJO Industries, which manufactures hygiene products, purchased a 325,000-square-foot facility in Maple Heights. The company has also hired additional workers for its other Ohio plants to meet the increased demand for hand sanitizers.

After peaking at \$314 million last year, transaction volume in Cleveland slowed down significantly. In the first five months of 2020, multifamily deals totaled only \$14 million. Deliveries have also been decelerating during the past few years, which is partly why rent growth has endured. Yardi Matrix expects rents to increase moderately by year-end.

Market Analysis | Summer 2020

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Recent Cleveland Transactions

Solon Club



City: Oakwood Village, Ohio
Buyer: Morgan Properties
Purchase Price: \$13 MM
Price per Unit: \$66,598

Van Aken Crossing



City: Cleveland
Buyer: KPL Group
Purchase Price: \$6 MM
Price per Unit: \$50,901

Pleasant Valley



City: Parma, Ohio
Buyer: Brown Gibbons Lang & Co.
Purchase Price: \$5 MM
Price per Unit: \$23,141

Garfield Gardens

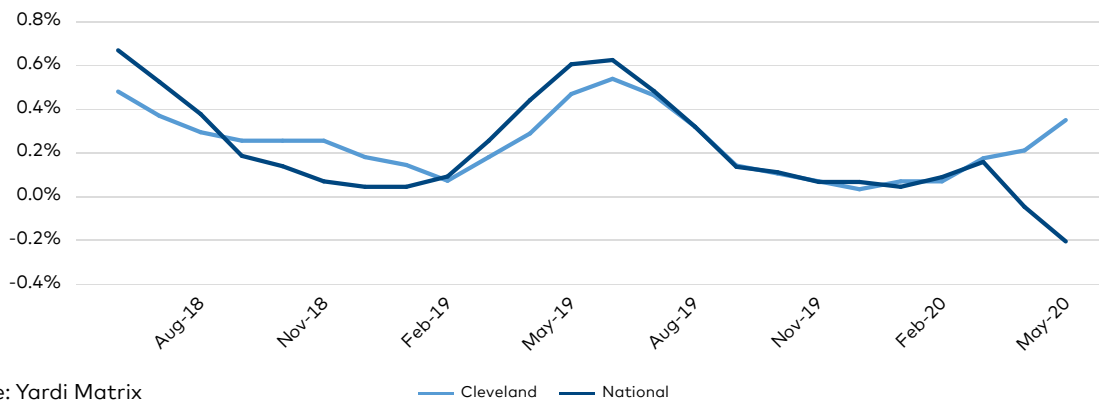


City: Garfield Heights, Ohio
Buyer: Smartland Turnkey
Investments
Purchase Price: \$3 MM
Price per Unit: \$24,132

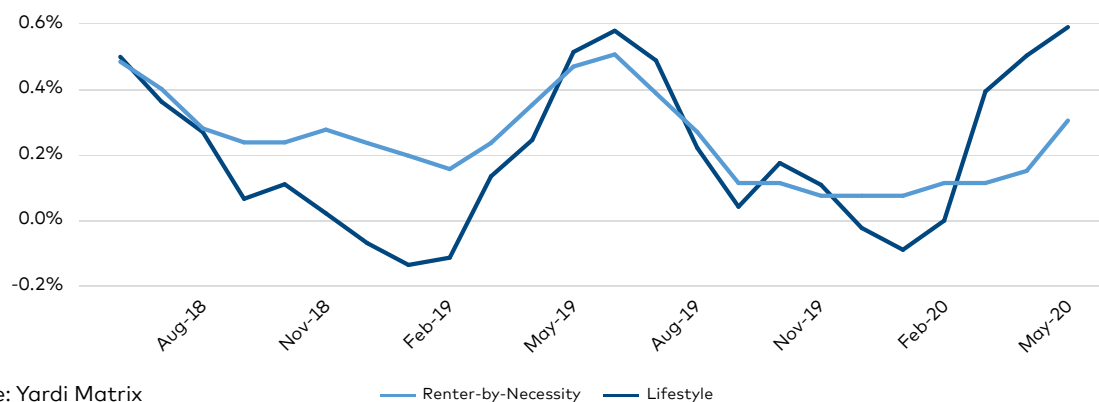
RENT TRENDS

- ▶ Cleveland rents were up 0.4% on a trailing three-month basis as of May, while the U.S. figure contracted by 0.2%. Deliveries across the metro during the past five years have slowed down, but with demand—for everything from luxury to workforce housing—remaining constant, the average rent climbed to \$955.
- ▶ Although Lifestyle rents bore the brunt of the hardship through April and May across the country, this was not the case in Cleveland. Rents in the Lifestyle segment rose 0.6% on a T3 basis through May to \$1,545, while rates in the working-class Renter-by-Necessity segment improved by 0.3%. However, with unemployment across the state near historic highs and federal stimulus funding running out, rent growth is likely to moderate going forward.
- ▶ Cuyahoga County and the City of Cleveland intend to pay roughly \$18 million in eviction relief to tenants who haven't been able to pay their rent during the pandemic.
- ▶ Waterfront submarkets with heavy Renter-by-Necessity supply led rent growth in the 12 months ending in May—Cleveland Heights (12.3%) and Lake (6.7%). Meanwhile, urban core areas remained the most expensive, with Ohio City (\$1,687) leading the way, followed by Downtown (\$1,483).

Cleveland vs. National Rent Growth (Trailing 3 Months)



Cleveland Rent Growth by Asset Class (Trailing 3 Months)



ECONOMIC SNAPSHOT

- ▶ Following the national pattern, Cleveland's employment growth has been gradually decelerating since the second quarter of last year, dropping to negative figures a month before the pandemic hit the U.S. economy. In the 12 months ending in March, employment in the metro had contracted by 0.4%, while the national rate stood at 1.4%.
- ▶ Two of the sectors that account for the largest shares of the workforce—education and health services and professional and business services—lost a combined 8,400 jobs. Layoffs and furloughs also occurred in leisure and hospitality, with casino operator Jack Entertainment announcing the largest mass layoff in Northeast Ohio (1,500 employees). The health crisis propelled the metro's unemployment rate from 7.1% in March to 23.1% in April, according to preliminary data from the Bureau of Labor Statistics.
- ▶ In the 12 weeks ending June 6, roughly 1.3 million Ohioans had filed unemployment claims, more than in the past three years combined, according to the Ohio Department of Job and Family Services. To support the reopening of parts of the local economy, Summit County provided \$6.5 million in grants of up to \$5,000 to more than 1,500 for-profit businesses that took a financial hit during the lockdown.

Cleveland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	54	3.9%
40	Trade, Transportation and Utilities	248	17.9%
80	Other Services	53	3.8%
50	Information	18	1.3%
55	Financial Activities	81	5.8%
65	Education and Health Services	260	18.7%
30	Manufacturing	161	11.6%
90	Government	182	13.1%
70	Leisure and Hospitality	131	9.4%
60	Professional and Business Services	199	14.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Cleveland lost 8,560 residents in 2019—a 0.4% drop—while the U.S. population expanded by 0.3%.
- ▶ During the past decade, the metro has lost more than 27,000 residents, down 1.3%. The contraction was mostly fueled by a declining birth-rate and domestic migration.

Cleveland vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Cleveland Metro	2,061,527	2,058,549	2,057,009	2,048,449

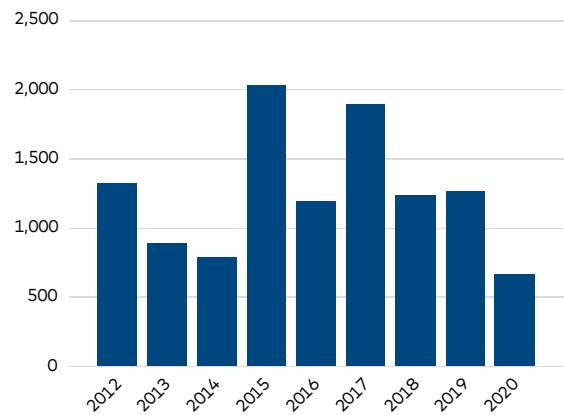
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Cleveland had 2,663 units under construction as of May, half of which were geared toward the Lifestyle segment. Almost all of the projects underway were initially slated to come online this year, but social distancing guidelines and supply chain disruptions have caused many developers to fall behind schedule.
- ▶ After peaking in 2015 at 2,026 units, deliveries in the metro moderated substantially. Only 659 units came online this year through May—0.4% of total stock and 20 basis points below the U.S. figure—with the rate of deliveries consistently falling short of the national average in the past decade. Moderate deliveries, coupled with steady demand, has kept rent growth stable even as the coronavirus tightened its grip on the country's economy.
- ▶ Ohio officials deemed construction an essential service during the COVID-19-mandated lockdown. However, some developers had a difficult time keeping workers on-site. As of June 5, Cleveland had more confirmed cases than 83 of Ohio's counties, with 20% of those infected requiring hospitalization, according to the Cleveland Department of Public Health.

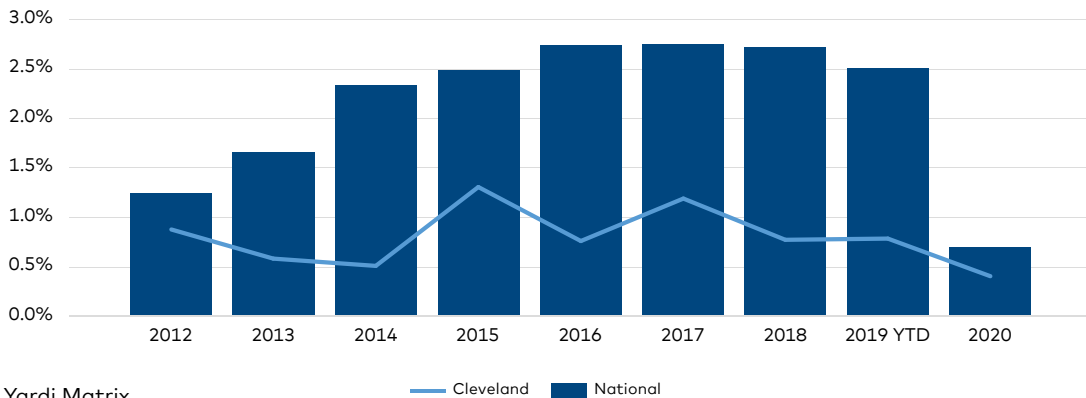
- ▶ As of May, more than a third of the construction pipeline was in the downtown area—a large employment hub. Since 2010, the urban core has had over \$7.3 billion in development, including infrastructure improvements and the repurposing of historic buildings, according to the Downtown Cleveland Alliance.

Cleveland Completions (as of May 2020)



Source: Yardi Matrix

Cleveland vs. National Completions as a Percentage of Total Stock (as of May 2020)

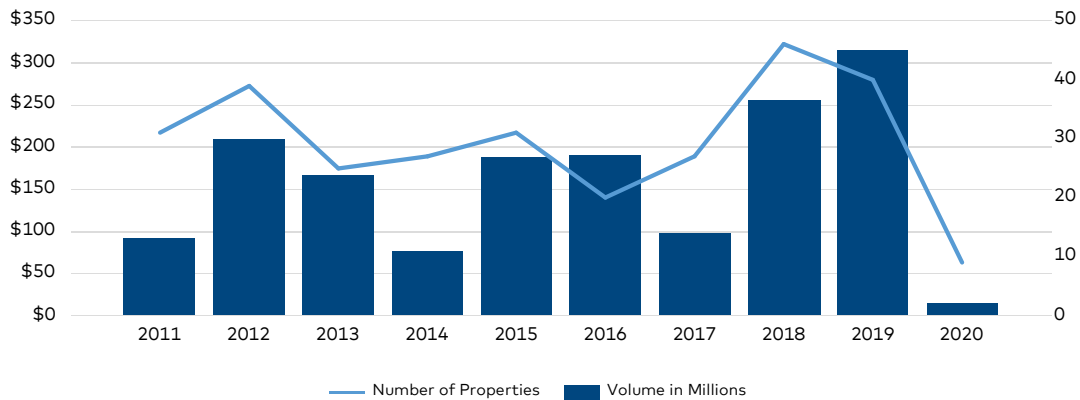


Source: Yardi Matrix

TRANSACTIONS

- ▶ After last year's \$314 million cycle peak, the first five months of 2020 totaled only \$14 million in multifamily deals across metro Cleveland. With two-thirds of the assets that changed hands catering to the RBN segment, the average per-unit price dropped to \$30,258, significantly below the \$164,893 national figure.
- ▶ As in most of the country, the COVID-19 outbreak began to influence transaction activity across Northeast Ohio by mid-March. Deals were delayed or canceled due to quarantine measures, travel restrictions and the general uncertainty that penetrated the economy.
- ▶ With a total investment volume of \$38 million, Mayfield was the most sought-after submarket in the 12 months ending in May. The area also accounted for the largest transaction in the metro—AJH Management purchased the 986-unit The Drake for \$36 million, using a \$48.8 million acquisition and development loan.

Cleveland Sales Volume and Number of Properties Sold (as of May 2020)



Source: Yardi Matrix

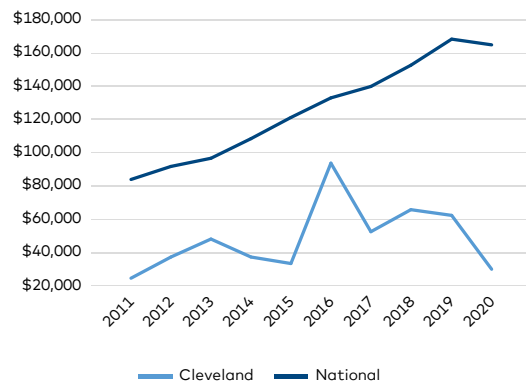
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Mayfield	36
Summit	35
Cleveland-Downtown	25
Euclid	15
Solon	13
Willoughby	11
Akron-South	9

Source: Yardi Matrix

¹ From June 2019 to May 2020

Cleveland vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 MARKETS FOR MULTIFAMILY DEVELOPMENT IN OHIO



data by



By Adina Marcut

Projects have started to get back on track as states gradually reopen following coronavirus shutdowns. Despite certain safety regulations construction workers must comply with, some developers are optimistic about meeting delivery deadlines. Once the outbreak prompted nationwide shelter-in-place orders, construction in Ohio was classified as an essential activity. Here's a breakdown of Ohio's top metros for development activity, based on Yardi Matrix data. Youngstown came in sixth, with 60 units under construction.

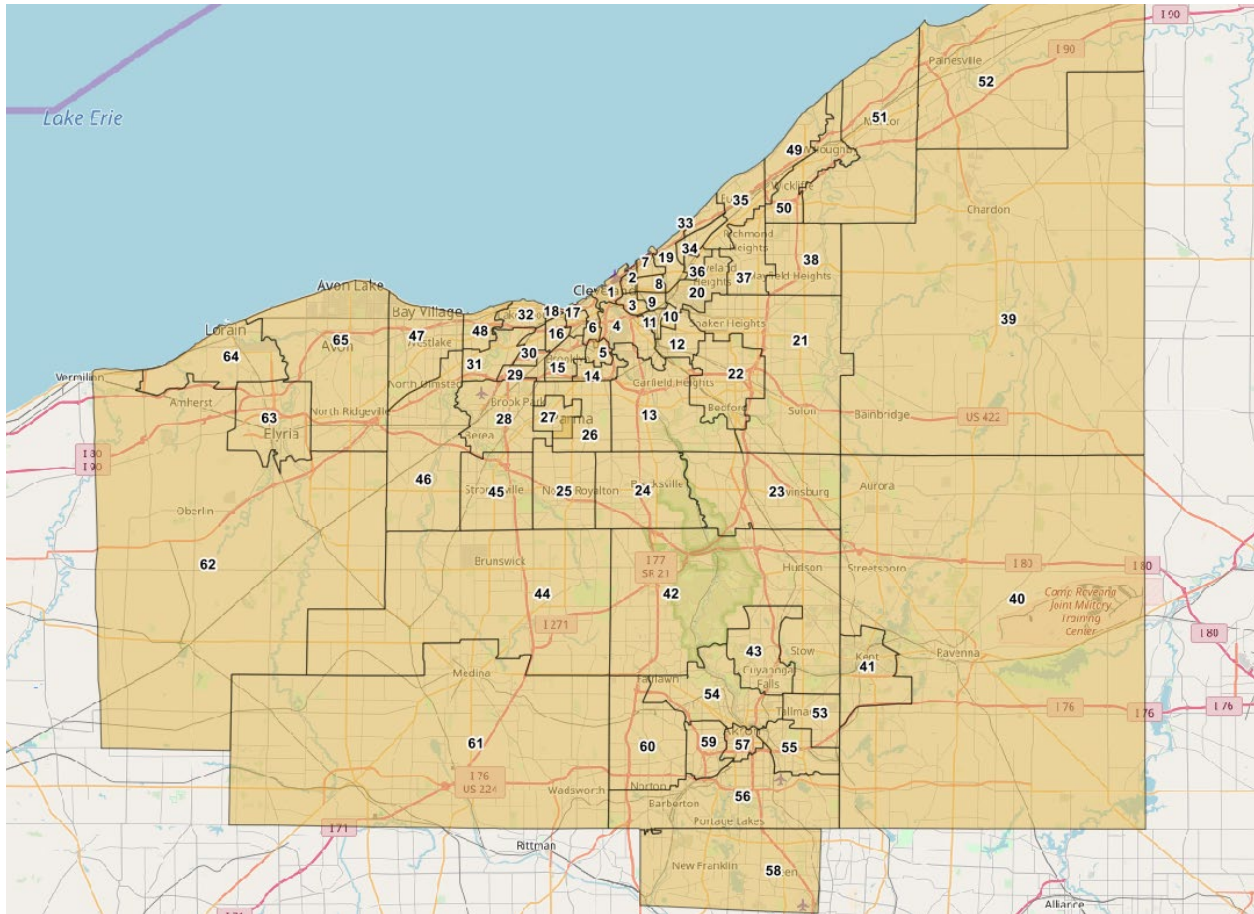
Rank	Market	Units Under Construction	Projects Underway	Percentage of Stock
1	Columbus	7,195	47	4.1%
2	Cincinnati	4,586	33	4.1%
3	Dayton	2,682	17	5.6%
4	Cleveland-Akron	2,557	22	1.6%
5	Toledo	900	6	2.4%
6	Youngstown	60	1	0.3%

Cleveland-Akron

With a total of 2,557 units under construction, accounting for 1.6 percent of total stock, the majority of the supply is geared toward high-income renters. Developers were mostly active in downtown Cleveland, which had 924 units underway. Playhouse Real Estate Services has expanded its portfolio with the market's largest project underway—The Lumen, a \$135 million project in downtown Cleveland. The 34-story tower will consist of 318 units with a mix of penthouses and one- and two-bedroom units ranging from 571 to nearly 2,000 square feet. Additionally, 550 parking spaces and 22,000 square feet will be available on-site.



CLEVELAND SUBMARKETS



Area No.	Submarket
1	Cleveland—Downtown
2	Goodrich—Kirtland Park
3	Central
4	Broadway
5	Brooklyn Centre
6	Ohio City
7	St. Claire—Superior
8	Hough
9	Fairfax
10	Woodland Hills
11	Kinsman
12	Shaker Heights
13	Garfield Heights
14	Old Brooklyn
15	Brooklyn
16	Cudell
17	Shoreway
18	Edgewater
19	Glenville
20	Cleveland Heights
21	Solon
22	Bedford

Area No.	Submarket
23	Twinsburg
24	Broadview Heights
25	North Royalton
26	Parma
27	Parma Heights
28	Brookpark
29	Puritas
30	Jefferson
31	Fairview Park
32	Lakewood
33	North Collinwood
34	South Collinwood
35	Euclid
36	Cleveland—East
37	Richmond Heights
38	Mayfield
39	Geauga
40	Portage
41	Kent
42	Summit
43	Cuyahoga Falls
44	Brunswick

Area No.	Submarket
45	Strongsville
46	Olmsted
47	Westlake
48	Rocky River
49	Eastlake
50	Willoughby
51	Mentor
52	Lake
53	Tallmadge
54	Akron—North
55	Akron—East
56	Akron—South
57	Akron—Downtown
58	Uniontown
59	Akron—West
60	Copley
61	Medina
62	Lorain
63	Elyria
64	Lorain—Downtown
65	Avon

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- ▶ *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- ▶ *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- ▶ *Lower-middle-income ("gray-collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- ▶ *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- ▶ *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- ▶ *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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