



MULTIFAMILY REPORT

Volatile Cleveland

Fall 2020

Unemployment Tops Ohio Markets

Urban Core Feels Supply Pressure

Transaction Activity Drops Sharply

CLEVELAND MULTIFAMILY



Steady Demand Keeps Rent Growth Afloat

The Cleveland multifamily market remained fairly stable going into the fourth quarter, taking into account the magnitude of job losses and the contraction in economic activity. On a trailing three-month basis, the average rent was up 0.3% to \$971 through October, while the national average stayed flat at \$1,464.

Employment gains started to decelerate last year, with the rate turning negative in February 2020. By September, economic volatility had cost the metro 129,600 jobs, accounting for a 12.6% year-over-year contraction. However, Cleveland's favorable cost of living and diversifying economy has helped it rebound and avoid more acute effects. As in most parts of the country, industrial and data centers were less impacted. General Motors continued work on its \$2.3 billion battery cell plant in Lordstown. Additionally, large projects in the health-care sector have also advanced. In September, MetroHealth topped off its 11-story new hospital, which is part of a \$1 billion campus transformation.

As of October, 2,899 units were under construction across the metro and developers had added more than 1,200 units to inventory year-to-date. Some \$116 million in multifamily properties changed hands in the first 10 months of the year, marking a 56% decline compared to the same interval in 2019.

Market Analysis | Fall 2020

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Recent Cleveland Transactions

Edge32



City: Cleveland
Buyer: Realife-Group
Purchase Price: \$14 MM
Price per Unit: \$226,667

22 Exchange



City: Akron, Ohio
Buyer: Capstone Cos.
Purchase Price: \$12 MM
Price per Unit: \$83,042

Hilltop Estates



City: Cleveland
Buyer: Brightstone Real Estate Partners
Purchase Price: \$5 MM
Price per Unit: \$33,750

Garfield Gardens

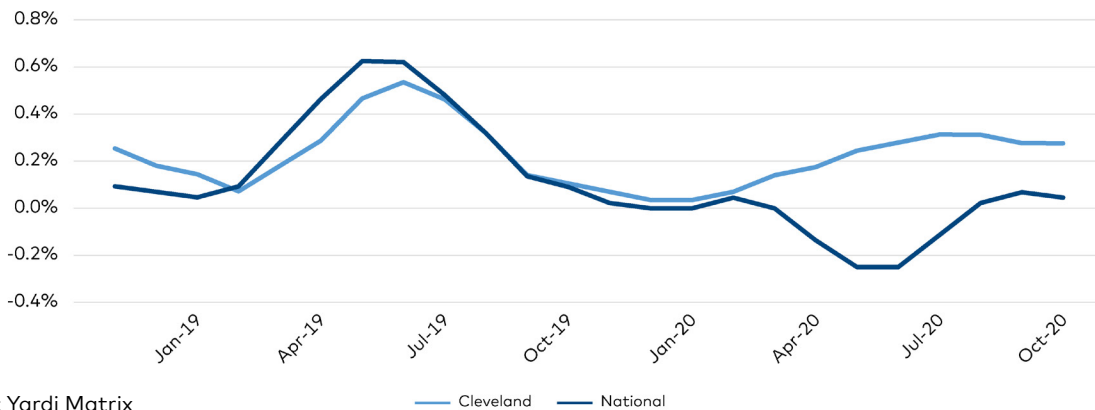


City: Garfield Heights, Ohio
Buyer: Smartland Turnkey Investments
Purchase Price: \$3 MM
Price per Unit: \$24,132

RENT TRENDS

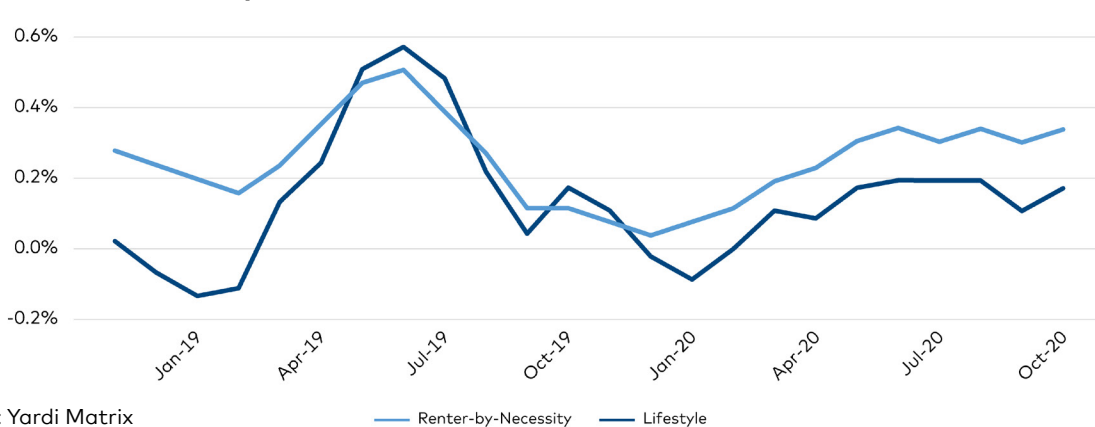
- ▶ Bucking the national trend, rent growth stayed positive throughout the health crisis in Northeast Ohio. While the U.S. average remained flat, rents in Cleveland grew by 0.3% on a trailing three-month basis through October, to \$971.
- ▶ The metro's affordability continued to boost demand across the quality spectrum. Working-class Renter-by-Necessity assets led rent expansion, with the average rate rising 0.3% to \$892 on a T3 basis through October. Meanwhile, rates in the much smaller Lifestyle sector were up 0.2% to \$1,558.
- ▶ Overall, rents have stayed firm so far, but multiple apartment owners in the urban core have started ramping up concessions. With developers mostly targeting this area in the past few years and the health crisis pushing some renters to lower-density areas, demand in the upscale urban core took a hit. Rents in Cleveland-Downtown dipped 2.8 percent year-over-year through October, to \$1,426, while rates in suburban areas such as Cleveland Heights and Brunswick were up 8.8% and 8.5%, respectively.
- ▶ As of November, Ohio residents and businesses affected by the pandemic were able to apply for three new state relief programs, all funded through the coronavirus aid bill. The Ohio Development Services Agency allocated \$50 million to 47 local administrations to provide assistance for paying rent, mortgages or utility bills to avoid foreclosure or eviction.

Cleveland vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Cleveland Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- After peaking at 22.4% in April, unemployment improved to 9.9% at the end of the third quarter, but remained the highest among all Ohio markets. During the 12 months ending in September, Cleveland lost 129,600 jobs for a 12.6% year-over-year contraction. While the two largest employment sectors in the metro—education and health services, and trade, transportation and utilities—lost a total of 36,000 jobs, leisure and hospitality was hit the hardest, with this sector alone shedding 40,700 positions.
- Economic volatility prompted some developers to reassess their investments. The Millennia Cos. scrapped off its plans to transform a former

massive bank building in the metro's core into high-end units, hotel and office space. Instead, the company decided to shift to an 870-unit workforce housing project to meet growing demand for more affordable housing options. Demand is also on the rise in industrial and logistics, with Amazon signing two new leases totaling 600,000 square feet in the second quarter alone.

- To help small businesses continue to cope with the economic fallout, local administrations have put up additional relief programs. In Lakewood, South Euclid and Cleveland Heights, struggling businesses can receive between \$2,500 and \$10,000 to cover expenses.

Cleveland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
50	Information	17	1.3%
15	Mining, Logging and Construction	56	4.3%
80	Other Services	51	3.9%
55	Financial Activities	79	6.1%
30	Manufacturing	156	12.1%
40	Trade, Transportation and Utilities	237	18.3%
90	Government	167	12.9%
65	Education and Health Services	240	18.6%
60	Professional and Business Services	189	14.6%
70	Leisure and Hospitality	100	7.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro lost 8,560 residents in 2019, contracting by 0.4%, while the U.S. population grew by 0.3%.
- Following a negligible 0.02% uptick in 2014, Cleveland's population has been steadily decelerating. Meanwhile, Columbus remained the fastest-growing Ohio metro.

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

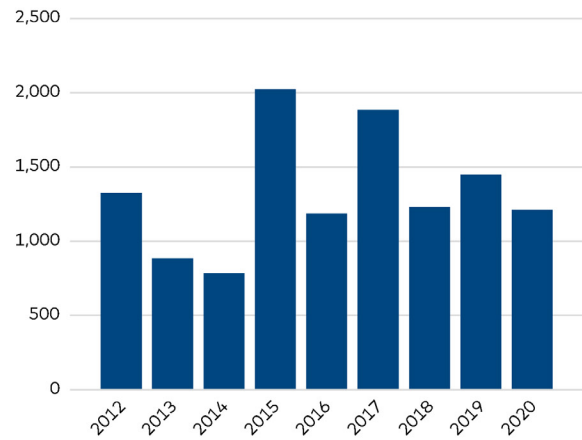
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Cleveland had 2,899 units under construction as of October, with the majority geared toward high-income renters. More than half of these apartments were initially scheduled for delivery this year, however, considering disruptions brought by the health crisis and the new economic context, delays are highly likely.
- ▶ Developers added 1,211 units to the metro's inventory year-to-date through October. Only one of the seven properties completed in the first 10 months of the year is in the Renter-by-Necessity segment. Since 2016, developers have added a yearly average of 1,438 units to Cleveland's stock.
- ▶ As of October, a quarter of the construction pipeline was concentrated in Cleveland-Downtown, with 654 units underway. Of these, 307 were part of Bedrock Real Estate Services' The May, an adaptive-reuse project of the historic May Co. department store built in 1912. The Cleveland-Downtown submarket also accounted for the largest delivery this year: The Lumen, a 34-story, 318-unit development by Playhouse Real Estate Services.

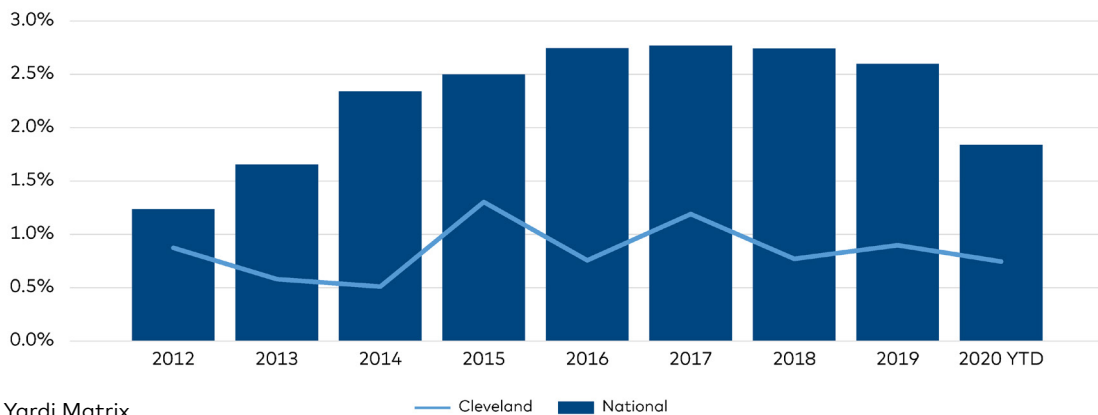
- ▶ While the health crisis hasn't affected Cleveland's multifamily market as hard as badly as larger, coastal metros, certain submarkets were more affected than others. With downtown serving as a development hub in the past few years, the area is facing an oversupply during the current downturn. Additionally, renters leaving for the suburbs in search of less density and more affordable rents will most likely impact the urban core in the near-to medium-term.

Cleveland Completions (as of October 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

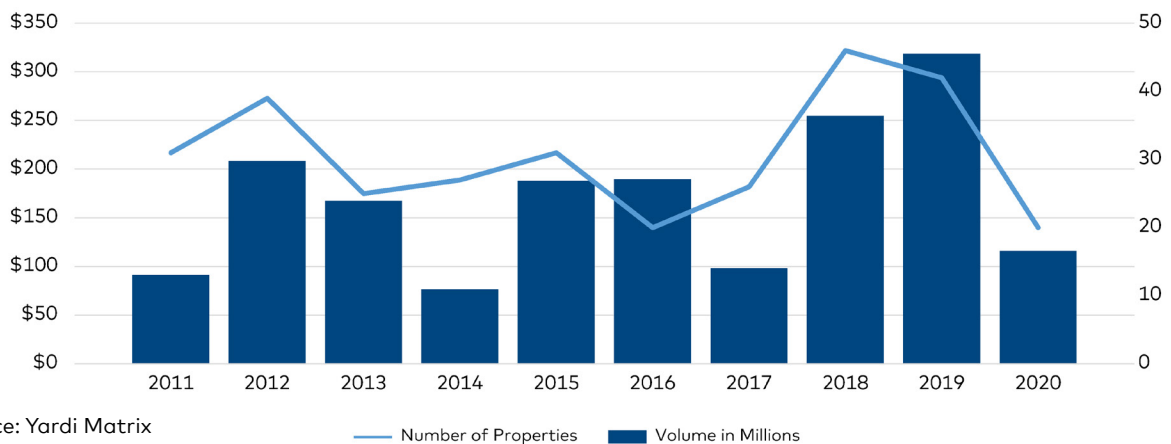
TRANSACTIONS

- ▶ Transaction volume totaled only \$116 million for the first 10 months of 2020, down from the \$268 million recorded last year through October. This mirrored nationwide trends, with the health crisis-induced economic volatility slowing down activity across most U.S. metros.
- ▶ The average Cleveland price per unit for the first 10 months of 2020 was \$79,834. Although well below the \$164,863 national rate, the 2020 average—so far—marks the second-

highest figure of the last 10 years. Among large Ohio markets, only Cincinnati posted a higher average (\$85,104), with Columbus (\$67,037) rounding out the Top 3.

- ▶ Submarkets far from core Cleveland—such as Akron-Downtown, Euclid and Westlake—attracted the most capital in the 12 months ending in October. With surging demand for more space and more affordability, investors are paying increasing attention to the suburbs and smaller cities.

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



Source: Yardi Matrix

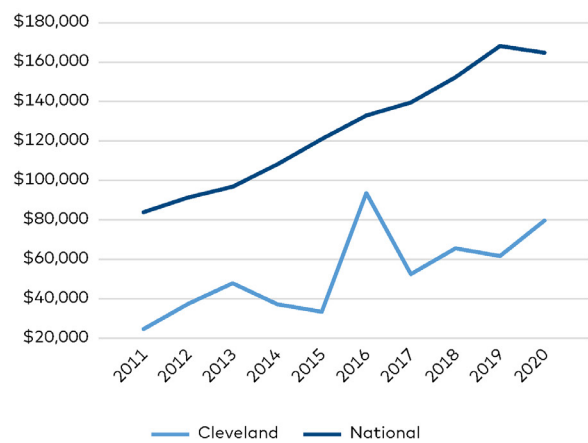
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Akron-Downtown	30
Euclid	21
Westlake	20
Broadway	19
Ohio City	14
Solon	13
Summit	10

Source: Yardi Matrix

¹ From November 2019 to October 2020

Cleveland vs. National Sales Price per Unit



Source: Yardi Matrix

Top 10 Multifamily Projects Under Construction in Ohio

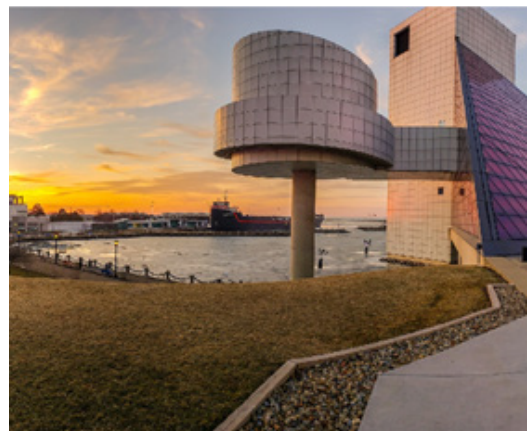
By Adina Marcut

Yardi Matrix data shows that some 16,282 units, across 105 properties, were underway in Ohio as of September. Half of the total properties underway are in Dayton. Development activity decreased compared to data from May which recorded nearly 18,000 underway units across six metros: Columbus, Cincinnati, Dayton, Cleveland-Akron, Toledo and Youngstown. This may be because some properties were completed in the meantime, while new starts may have lagged due to ongoing economic uncertainty.

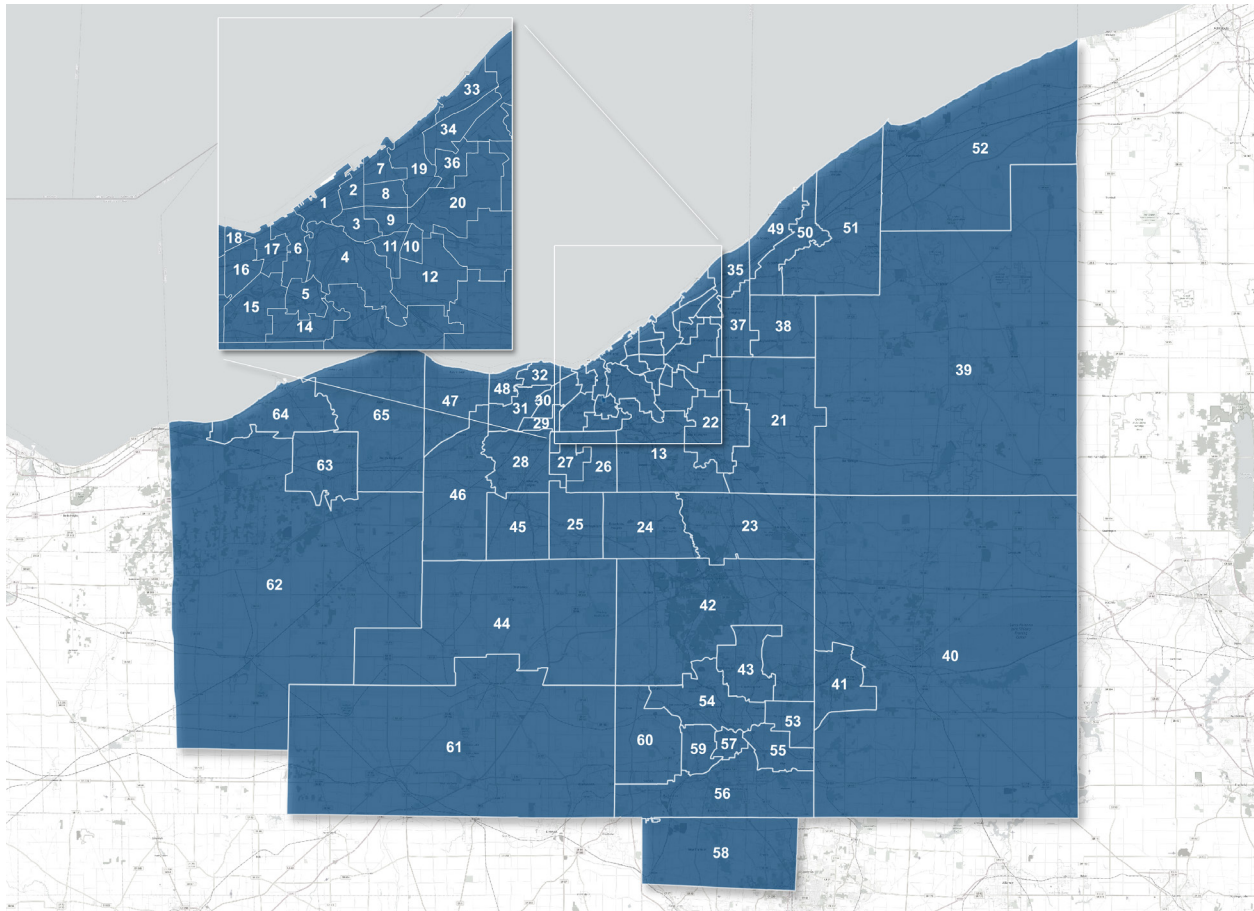
Rank	Property Name	Market	Owner	Units
1	Beulah Place	Columbus	Kelley Cos.	384
2	Gateway Lofts	Dayton	Hallmark Campus Communities	360
3	Lofts at Norton Crossing	Columbus	Continental Real Estate Cos.	360
4	Artistry Cincy	Cincinnati	Milhaus Development	344
5	Founders Park	Columbus	Thrive Cos.	342
6	The Lumen	Cleveland-Akron	Playhouse Real Estate Services	318
7	Bridges of Pine Creek	Dayton	Direct Source Wealth	315
8	Allure	Dayton	Hills Properties	312
9	Westbrooke Village Redevelopment	Dayton	Penn, Daniel J.	312
10	Parkview	Dayton	Metropolitan Holdings	310

THE LUMEN

Playhouse Real Estate Services has expanded its portfolio with the Cleveland-Akron area's largest project underway—The Lumen, a \$135 million project in downtown Cleveland in an Opportunity Zone. Located at 1600 Euclid Ave., on a 1-acre site at the corner of Euclid Avenue and East 17th Street, the project will replace the parking lot across from the Connor Palace. The 34-story tower will offer 318 units consisting of a mix of penthouses, one- and two-bedrooms ranging from 571 to 2,000 square feet, as well as 550 parking spaces and 22,000 square feet of amenities.



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 October 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 October 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, October 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.

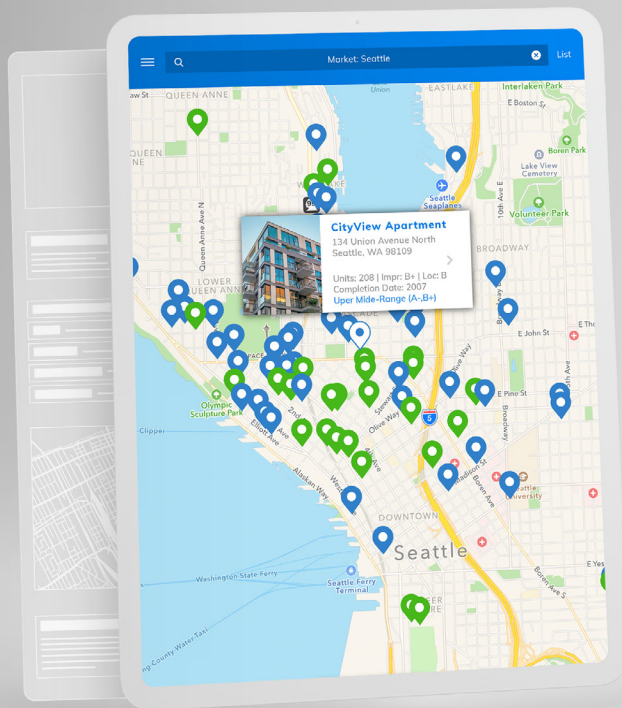
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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