



MULTIFAMILY REPORT

# Cleveland Stands the Test

Spring 2021

**Transaction Activity Endures**

**Rent Movement Stays Positive**

**Underway Supply Targets Lifestyle Segment**

# CLEVELAND MULTIFAMILY



## Northeast Ohio Prepares for Recovery

Cleveland's multifamily market has been resilient in the face of adversity. Although the metro's overall population has been declining over the past decade, urban areas of the city are still experiencing gains. Millennials are increasingly choosing this Midwest metro because of its affordability, which has mainly been supporting rent growth since the onset of the pandemic. On a trailing three-month basis through February, rents rose 0.2% to \$980, while the national figure inched up 0.1% to \$1,399.

As of January, Cleveland had the highest unemployment rate among major Ohio markets—7.3%. The rate in Columbus and Cincinnati was 200 basis points lower. With 115,900 jobs lost in 2020 across the metro, several philanthropic, corporate and civic organizations launched a rapid response fund to support those dealing with the ongoing effects of the health crisis in Cuyahoga, Lake and Geauga counties. Some \$1.3 million in grants was given to 88 downtown businesses to help them stay afloat and retain employees as foot traffic decreased significantly in the urban core.

Bucking national trends, transaction activity endured throughout 2020 and the beginning of this year, with \$50 million in multifamily assets changing hands in January and February combined. The affordability of Cleveland's housing market prompted Forbes to include the metro on its Top Housing Markets to Watch in 2021 list.

## Market Analysis | Spring 2021

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### Recent Cleveland Transactions

#### The Vista



City: Euclid, Ohio  
Buyer: AMG Realty Group  
Purchase Price: \$30 MM  
Price per Unit: \$31,618

#### Whitehall Terrace



City: Kent, Ohio  
Buyer: Alpha Capital Partners  
Purchase Price: \$12 MM  
Price per Unit: \$63,830

#### Mariner's Watch



City: Cleveland  
Buyer: My Place Group  
Purchase Price: \$8 MM  
Price per Unit: \$130,813

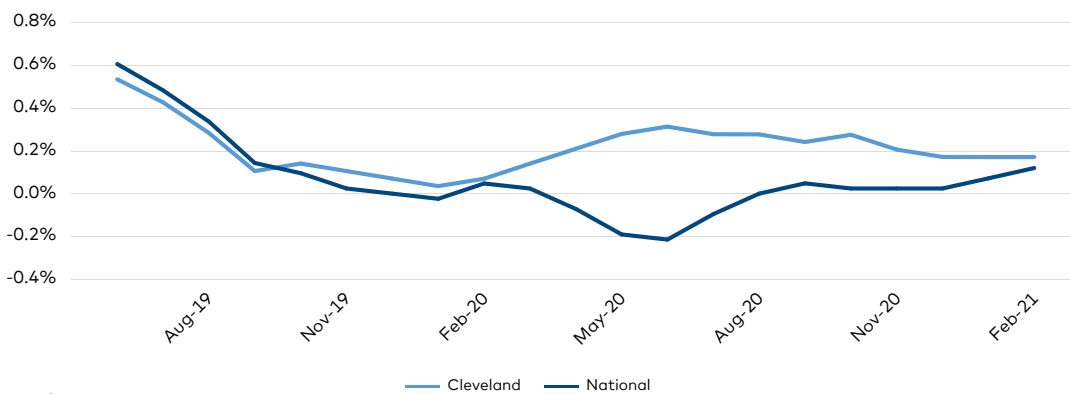
## RENT TRENDS

- ▶ Cleveland rents rose 0.2% to \$980 on a trailing three-month basis through February. The national average inched up 0.1% to \$1,399. In the past 12 months, lower-cost markets have been outperforming, while expensive gateway markets—which were most affected by the health crisis—continued to struggle. This trend has been keeping rent expansion in northeast Ohio in positive territory since the onset of the pandemic.
- ▶ Working-class Renter-by-Necessity assets led rent expansion, with the average rate rising 0.2% to \$900, while prices in the much smaller Lifestyle segment slid 0.1% to \$1,552.
- ▶ Year-over-year through February, rents in one of the most expensive submarkets—Cleveland-

Downtown—contracted most: 3.2% to an average of \$1,411. Rates in southwest markets such as Brunswick (up 8.9% to \$1,025) and Medina (up 7.2% to \$1,043) held up best.

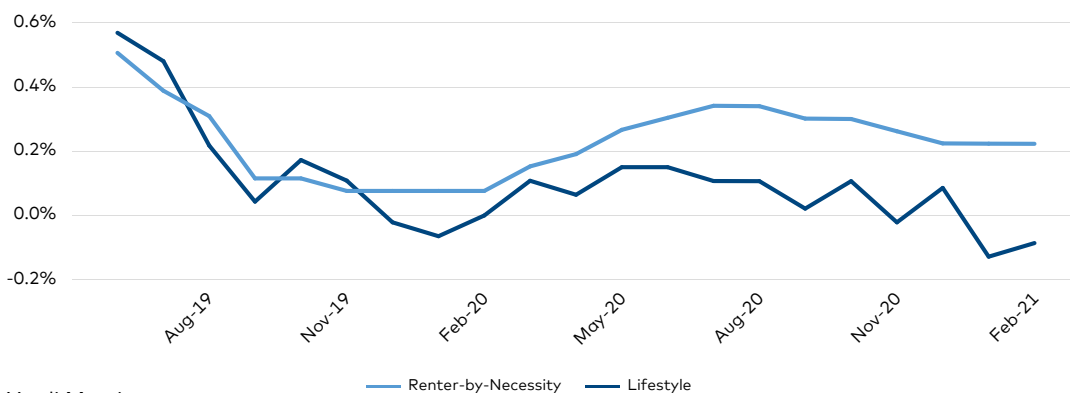
- ▶ Research institute Policy Matters Ohio found that 586,000 Ohioans were behind on rent or in danger of losing their home back in January. Later, the Cuyahoga County Council approved an additional \$10 million in rental assistance for households in the suburbs that are experiencing difficulties. The funds come from the \$25.5 million in federal aid provided to the county by the U.S. Treasury in December. Summit County also received \$16.1 million through the Emergency Rental Assistance Program that helps residents pay their rents and utility bills.

### 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

- ▶ As of January, unemployment stood at 5.3% in Ohio and 7.3% in metro Cleveland, according to preliminary Bureau of Labor Statistics data. The jobless rate in Cleveland peaked at 21.8% in April 2020, but the figure has been on a downward trajectory ever since.
- ▶ Metro Cleveland lost 115,900 jobs in 2020, marking a 9.3% dip, 250 basis points below the national rate. Mining, logging and construction was the only sector that posted gains (1,300 positions). At the 53-acre MetroHealth campus, 500 workers are on-site daily, with the clinic topping off its 11-story new hospital in the fall. The project is part of a \$1 billion modernization plan.
- ▶ In order to encourage companies to create new jobs and make investments in the city's urban core, the city of Cleveland offers several advantages. For example, Cuyahoga County grants financial incentives to businesses that relocate to the county and create new employment opportunities. The downtown area appealed to Sherwin-Williams, which announced plans to build a new 1 million-square-foot headquarters just west of Public Square, along with a half-million-square-foot R&D center in Brecksville. Initial plans call for the manufacturer to invest \$600 million in the project.

### Cleveland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	54	4.1%
50	Information	17	1.3%
55	Financial Activities	80	6.1%
80	Other Services	50	3.8%
30	Manufacturing	157	12.0%
40	Trade, Transportation and Utilities	247	18.9%
90	Government	168	12.9%
60	Professional and Business Services	189	14.5%
65	Education and Health Services	242	18.5%
70	Leisure and Hospitality	101	7.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Over the past decade, Cleveland's population has been on a downward trajectory.
- ▶ According to the International Downtown Association, steady development in Cleveland's urban core grew its population by 102% between 2000 and 2017.

### 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

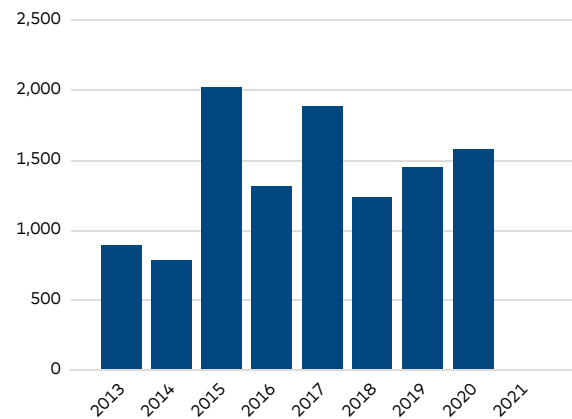
Sources: U.S. Census, Moody's Analytics

## SUPPLY

- ▶ Cleveland had 2,876 units under construction as of February, with the bulk of them geared to the Lifestyle segment. Additionally, more than 16,000 units were in the planning and permitting stages.
- ▶ In the first two months of the year, no multifamily assets were delivered. Over the same period last year, one 163-unit project came online. However, deliveries sped up in the following months—with Ohio officials deeming construction an essential service during the COVID-19-mandated lockdown—and reached 1,575 units by the end of 2020. Eventually, completions were in line with the 5-year average between 2015 and 2019.
- ▶ Development continues in the central business district this year, as almost half of Cleveland's apartment pipeline was grouped in two core submarkets: Ohio City (709 units under construction) and Cleveland-Downtown (653 units). Demand for multifamily product is solid along the Shoreway.
- ▶ The largest project under construction is INTRO, a 298-unit community in Ohio City, developed by Harbor Bay Real Estate Advisors. The nine-

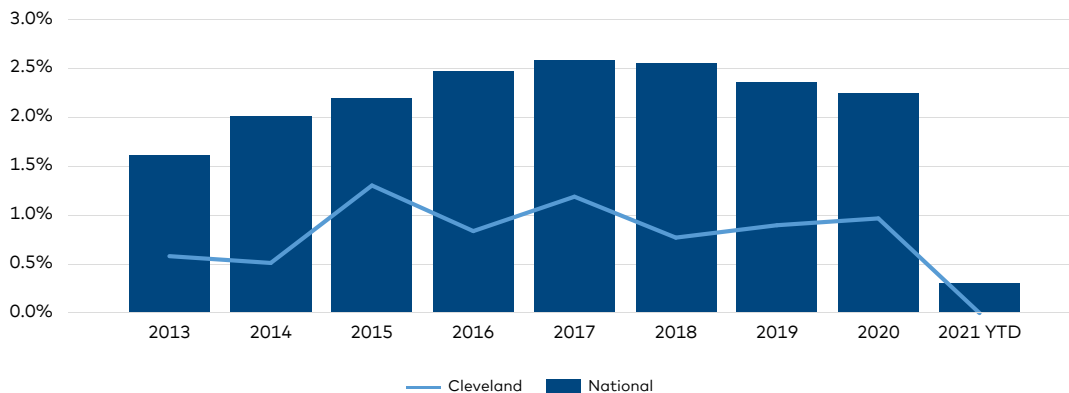
story project on the popular West 25th Street will reportedly be the tallest all-wood building in the country. The developer took out a \$96 million construction loan from First National Bank of Omaha to fund the project, which is expected to be completed in the fall of 2022.

**Cleveland Completions** (as of February 2021)



Source: Yardi Matrix

**Cleveland vs. National Completions as a Percentage of Total Stock** (as of February 2021)

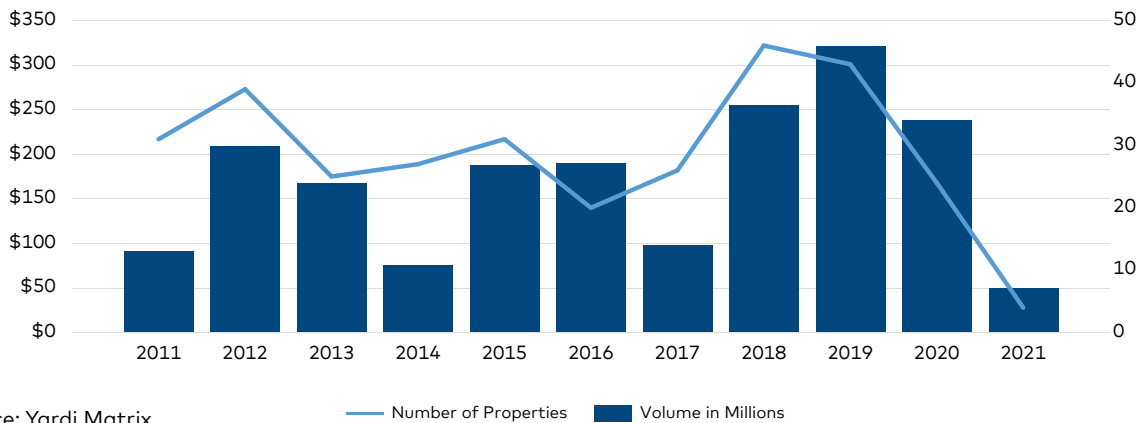


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Transaction volume reached \$50 million for the first two months of 2021, up from the \$8.3 million recorded last year through the same interval. However, with all properties trading this year catering to the Renter-by-Necessity segment, the average price per unit fell to \$41,113, well below the \$180,519 national average.
- ▶ Despite pandemic-induced headwinds, investment sales have held up. Following the cycle high of 2019—when deal volume peaked at \$322 million—last year’s \$238 million total was still well above the decade’s low point of \$76 million recorded in 2014.
- ▶ Ranking the top metro markets for rental property investors in 2021, Cleveland came in fourth on The Motley Fool’s list. Residents living in expensive markets have been searching for higher standards of living and more affordable rental options across smaller secondary markets, with investors closely taking note of this trend.

### Cleveland Sales Volume and Number of Properties Sold (as of February 2021)



Source: Yardi Matrix

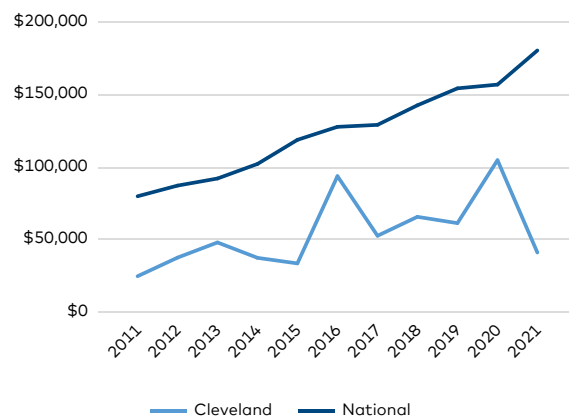
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Copley	56
Twinsburg	39
Euclid	36
Akron-Downtown	30
Ohio City	22
Westlake	20
Broadway	19

Source: Yardi Matrix

<sup>1</sup> From March 2020 to February 2021

### Cleveland vs. National Sales Price per Unit



Source: Yardi Matrix



## Which Midwest Markets Are Investors Turning To?

By Laura Calugar

With few exceptions, Midwest markets have navigated pandemic-induced difficulties better than initially expected. Cushman & Wakefield Vice Chairs Hannah Ott and George Tikijian are confident about the multifamily industry's strengths in the region. The two experts shed light on buyer demand and opportunity across the nation's heartland, revealing the region's strong suits and vulnerable spots.

*How do you see the Midwest multifamily market now, more than a year into the pandemic?*

Ott: With the exception of Chicago, Midwest multifamily markets have held up remarkably well. Chicago's issues stem from the property-tax situation there and a host of other issues—it's not just the pandemic.

*How have multifamily investors across the Midwest reacted to the health crisis?*

Tikijian: There's tremendous buyer demand and opportunity. Investors who previously focused on coastal markets, especially New York and New Jersey, shifted focus to more stable locales, and that's benefited markets such as Indianapolis; Cincinnati; Louisville, Ky.; Kansas City, Mo.; Columbus, Ohio, and Nashville, Tenn.

As interest rates declined, the superior yields that properties in these cities provide further propelled Midwest multifamily. Cap rates declined in 2020 and they'll continue to go down slightly in



Hannah Ott (left) and George Tikijian (right)

2021. As investors grow uncomfortable with the prices in major gateway markets, the Midwest will be viewed as an attractive alternative.

*Which Ohio markets do you consider to be most competitive and why?*

Tikijian: Columbus and Cincinnati continue to be the two most attractive Ohio markets. Cincinnati offers a steady economy and job growth, driven by the eight Fortune 500 companies based in the city. What's more, cap rates are approximately 100 basis points higher than peer cities, which attracts out-of-town buyers. Un-

fortunately for those potential buyers, Cincinnati is a low-volume transaction market, which makes it difficult for investors to find deals. Columbus is an increasingly desirable market for both private and institutional buyers.

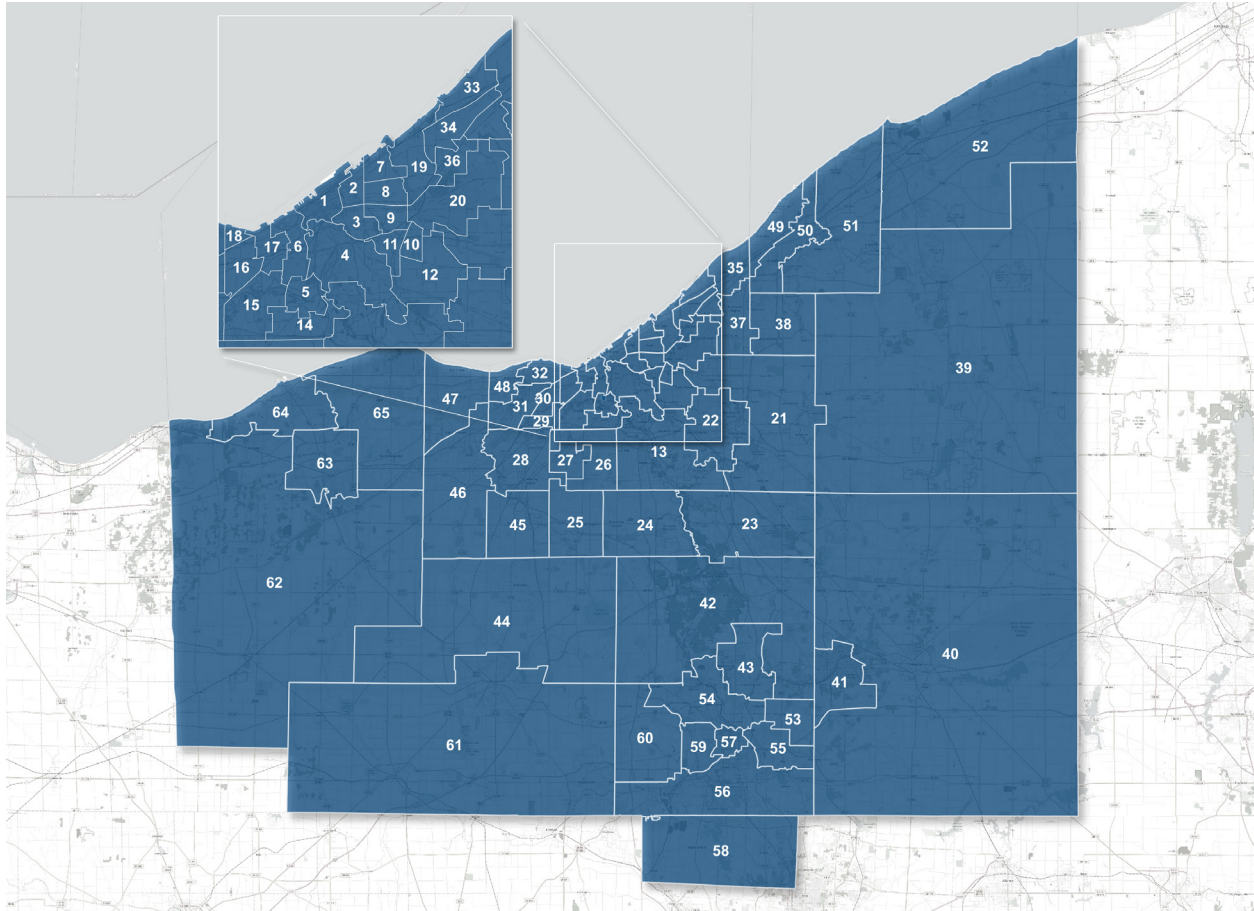
*How do you expect the region's multifamily market to perform going forward?*

Ott: Most buyers and participants expect another year of strong performance, though many buyers are underwriting with expectations of slower rent growth. A number of potential transactions were sidelined in 2020, especially in the second quarter. That's one reason we expect more transactions in 2021, even though 2020 had considerable volume.

Tikijian: Rising interest rates are a possible speed bump, but they could just as well make certain sellers more anxious to get deals done.

*(Read the complete interview on [multihousingnews.com](http://multihousingnews.com).)*

## 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 December 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 December 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, December 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.

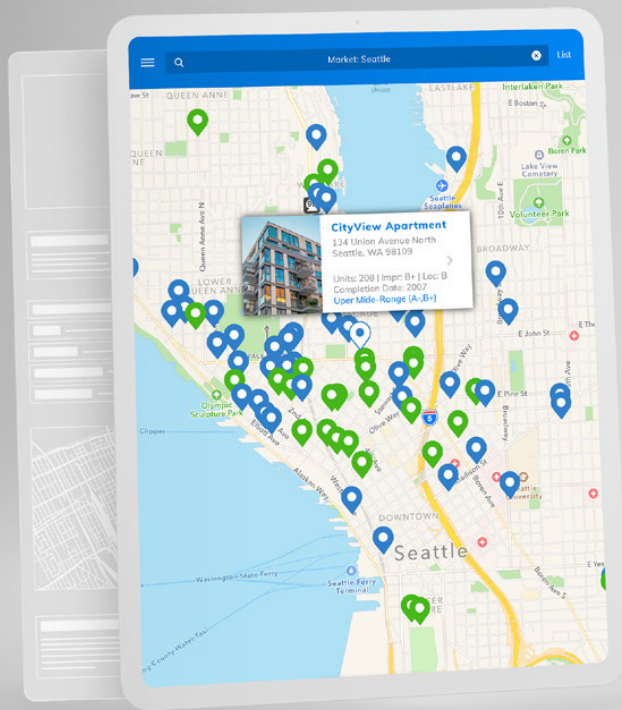
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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