



MULTIFAMILY REPORT

Cleveland Makes Strides

Fall 2021

Rent Growth Steadily Improving

Construction Activity Picks Up

Occupancy at Decade High

CLEVELAND MULTIFAMILY



Limited Inventory Boosts Rents, Occupancy

Cleveland's performance during the health crisis did not stand out in one direction or the other. Amid pandemic-induced hardships, the metro proved its resilience and continued attracting residents. Despite its population continuing a downward trend, the metro lost fewer residents than it did before the pandemic. This kept the multifamily market on track, with rents up 0.7% on a trailing three-month basis through August, to \$1,016. Meanwhile, occupancy increased to 95.9%, Cleveland's highest level during the past decade.

The unemployment rate improved to 5.9% in July, not far behind the 5.4% national rate. Yet, employment still contracted by 0.4% in the 12 months ending in June, while nationally, the rate expanded by 0.3%. Cleveland added 37,900 jobs across sectors over 12 months, with just one sector losing jobs—manufacturing, down by 0.5%, or 800 jobs. Leisure and hospitality recovered 17,600 jobs, but could see a slowdown as the summer travel season closes. Similarly, the trade, transportation and utilities sector—up 1,700 jobs—could see a pause in its recovery as the number of flights at Cleveland Hopkins International Airport starts declining.

Development activity was high as of August, with 3,884 units underway. However, deliveries softened, with just 315 units added to stock in the first eight months of 2021. Meanwhile, investors traded working-class assets for a total of \$118 million.

Market Analysis | Fall 2021

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Recent Cleveland Transactions

Hillwood II



City: Akron, Ohio
Buyer: Redwood Housing Partners
Purchase Price: \$11 MM
Price per Unit: \$44,792

Clifton Lake

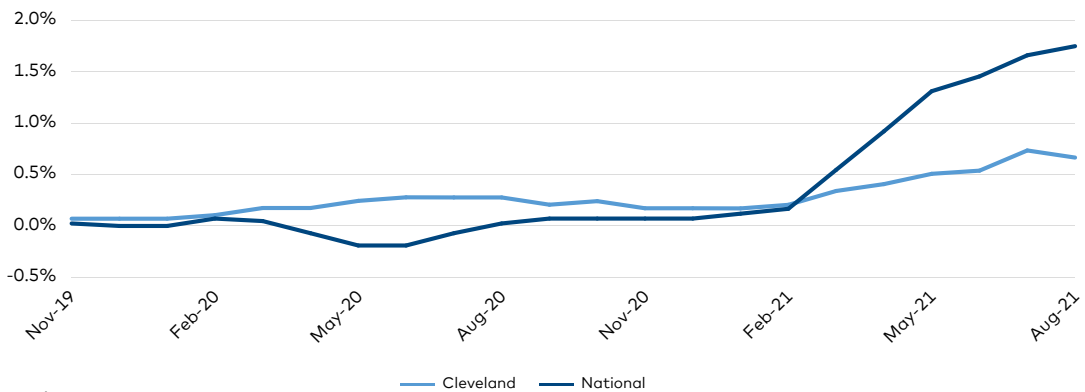


City: Cleveland
Buyer: Freeland Ventures
Purchase Price: \$3 MM
Price per Unit: \$52,000

RENT TRENDS

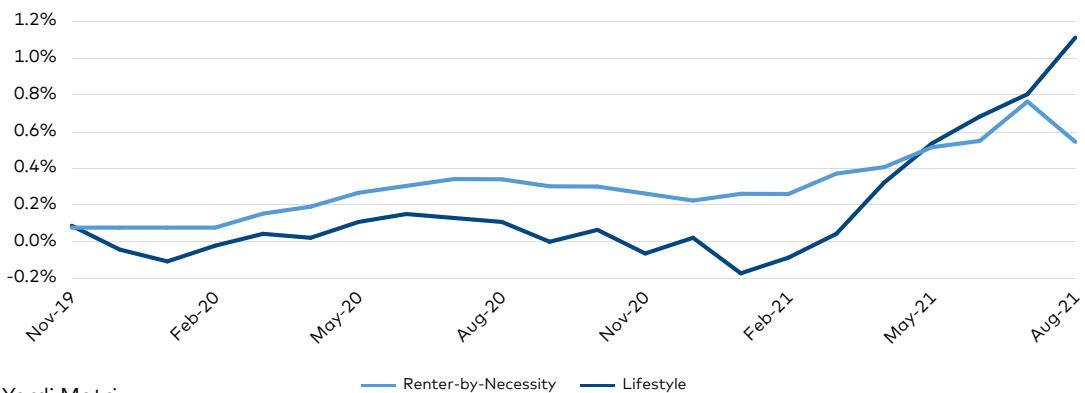
- ▶ Cleveland rents rose 0.7% on a trailing three-month (T3) basis through August, to \$1,016. Though growth is behind the national average (up 1.7% to \$1,539 during the period), it has been on a steadily rising trend since the start of the year and surpassed pre-pandemic levels.
- ▶ Mirroring the national trend, rent growth was led by Lifestyle apartments, up 1.1% on a T3 basis through August to \$1,624. Working-class Renter-by-Necessity rents rose 0.5% to \$930 during the period. Yet, on the occupancy side, the average rate for stabilized RBN properties increased by 80 basis points to 96.1% in the 12 months ending in July, while for Lifestyle units it inched up just 20 basis points to 93.8%. Overall, the occupancy rate in the metro stood at 95.9% in July.
- ▶ Of the 61 submarkets tracked by Yardi Matrix, 25 had an average rent above the \$1,000 mark, five more than in August 2020. Still, rent growth was uneven across the map—in four submarkets the average rent declined, while in several others it posted double-digit increases.
- ▶ The best rent performance was recorded in Cleveland Heights (up 21.6%, to \$1,293) and Summit (11.9%, to \$1,159), while rates declined in Cleveland–Downtown (-3.5%, to \$1,395). So-lon remains one of the most sought-after areas, with rents rising 6.3%, to \$1,462.
- ▶ Following the most recent federal eviction moratorium, some Cleveland cities have enacted ordinances that allow a Pay-to-Stay model.

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

- ▶ Cleveland's unemployment rate improved to 5.9% in July, trailing the U.S. average by 50 basis points, according to preliminary data from the Bureau of Labor Statistics. The jobless rate had an uneven trajectory in 2021 and the spike in the Delta variant will likely contribute to a similar performance in the upcoming months.
- ▶ Employment posted a 0.4% contraction in the 12 months ending in June, trailing the U.S. rate, which stepped into positive territory for the first time since the onset of the pandemic, rising by 0.3%. All sectors added jobs—a combined 37,900—except for manufacturing. Leisure and hospitality recovered 17,600 jobs (16.5%), but the industry is expected to see a slowdown with the close of the summer travel season. Trade, transportation and utilities—the metro's second-largest sector—added 1,700 jobs, but its recovery might be hindered by the declining number of flights at the Cleveland Hopkins International Airport.
- ▶ The construction sector recorded one of the best performances, sustained by several projects, including the MetroHealth campus—where a new 11-story hospital is slated for completion in 2022—and University Circle, a plan that consists of 800 housing units, 160 hotel rooms, a new library and a street-level shopping space.

Cleveland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	124	9.3%
60	Professional and Business Services	203	15.2%
55	Financial Activities	84	6.3%
15	Mining, Logging and Construction	56	4.2%
40	Trade, Transportation and Utilities	244	18.2%
90	Government	168	12.6%
50	Information	17	1.3%
80	Other Services	46	3.4%
65	Education and Health Services	246	18.4%
30	Manufacturing	149	11.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Cleveland's population remained on a downward trend in 2020, losing 4,642 residents, or 0.2% of the total population. Still, the metro lost fewer people during the pandemic than the year before.
- ▶ Meanwhile, the U.S. population posted a 0.4% increase.

Cleveland vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Cleveland Metro	2,058,549	2,057,009	2,048,449	2,043,807

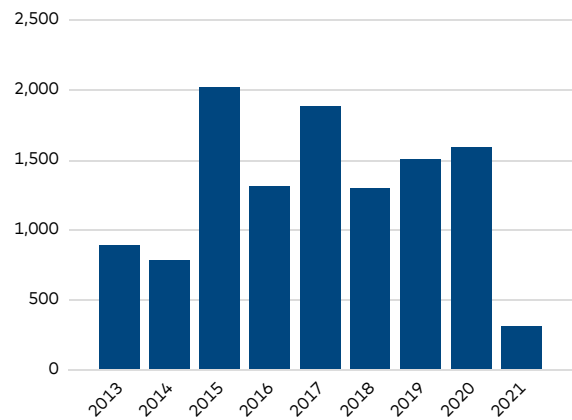
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ While the pipeline grew to 3,884 units underway and 17,500 apartments in the planning and permitting stages, deliveries lagged this year in Cleveland. Developers delivered just 315 units in two Lifestyle properties through August, representing a mere 0.2% of total stock, well behind the 1.3% national rate. Since 2013, Cleveland's multifamily inventory has expanded by 11,600 units, for a yearly average of 1,290 units.
- ▶ The construction pipeline is heavily tilted toward upscale renters, with nearly all units underway being in high-end projects. The Renter-by-Necessity segment had only 301 units under construction across four fully affordable communities and one market-rate project. For the whole of 2021, Yardi Matrix expects 1,122 units, or 0.7% of total stock, to come online across metro Cleveland.
- ▶ Nearly half of the units underway were clustered in just two submarkets as of August: Ohio City (1,076 units) and Cleveland-Downtown (729 units). The largest project delivered in 2021 through August was Center North, a 200-unit upscale project in Lakewood, built by Kowit & Co. with aid from a \$26.5 million construction loan.

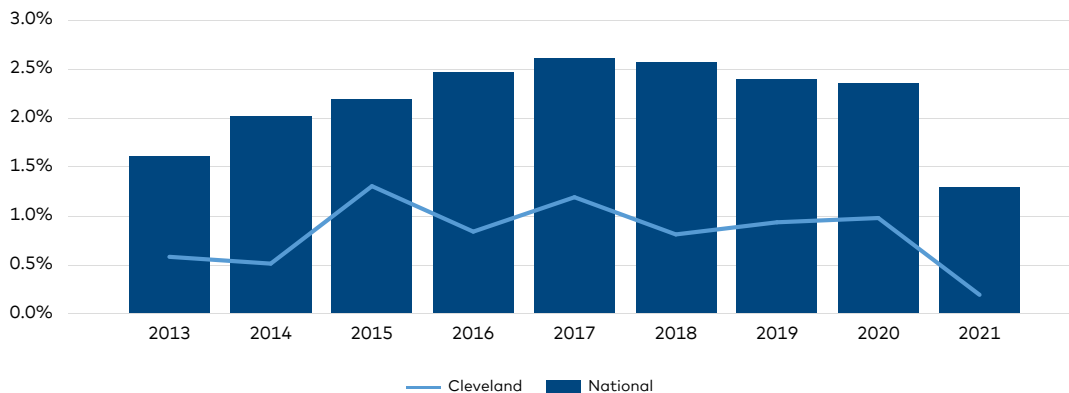
- ▶ The largest project under construction in August was Fairmount Properties' Flats at East Bank Phase II, a 325-unit upscale project in an Opportunity Zone in the downtown area. The development includes 22,000 square feet of retail space and is slated for completion in 2022.

Cleveland Completions (as of August 2021)



Source: Yardi Matrix

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

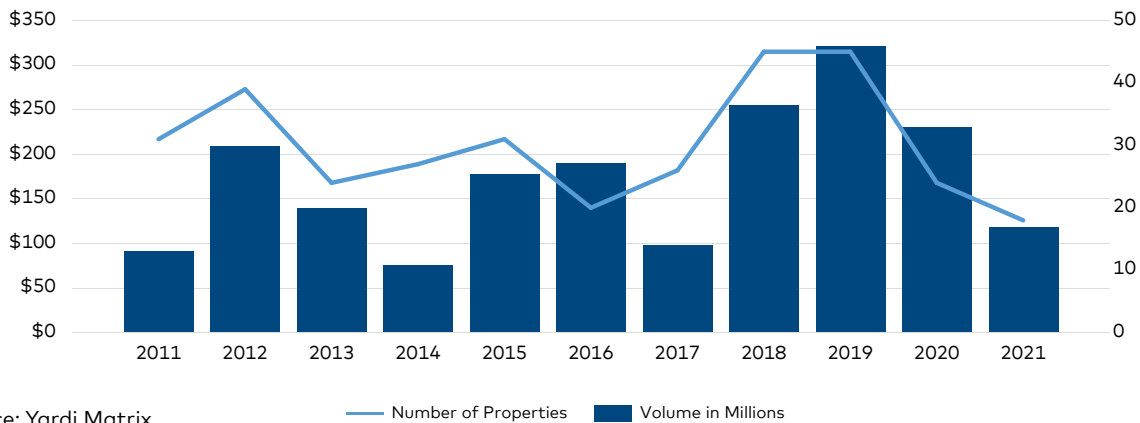


Source: Yardi Matrix

TRANSACTIONS

- ▶ In 2021 through August, \$118 million in multifamily assets traded in Cleveland, below the \$162 million volume recorded last year during the same period and half the \$230 million 2020 total. While transaction activity held up well during the first half of the year, it virtually came to a halt during the first part of the third quarter.
- ▶ Already one of the more affordable U.S. metros, Cleveland's per-unit price halved to just \$48,203, with all assets that traded in 2021 through August in the RBN segment. Meanwhile, the U.S. price per unit reached \$176,903.
- ▶ Even though Copley recorded the largest transaction volume in the 12 months ending in August, it originated from the sale of just one asset—the 308-unit Fairway Park, acquired by a private investor from Fairfield Cos. last December for \$56 million, or \$182,813 per unit, Akron–North had the highest number of deals, with four properties trading during the period.

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



Source: Yardi Matrix

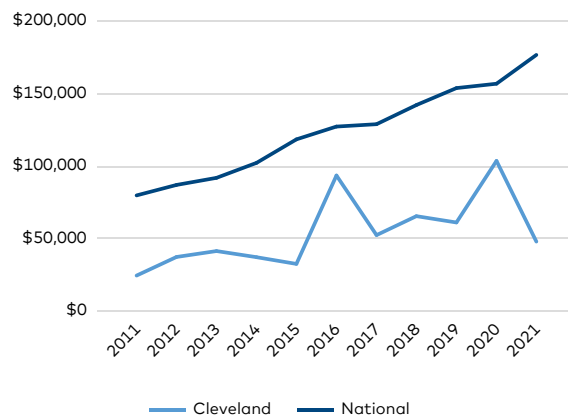
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Copley	56
Euclid	33
Olmsted	17
Garfield Heights	16
Kent	12
Akron–South	11
Ohio City	8

Source: Yardi Matrix

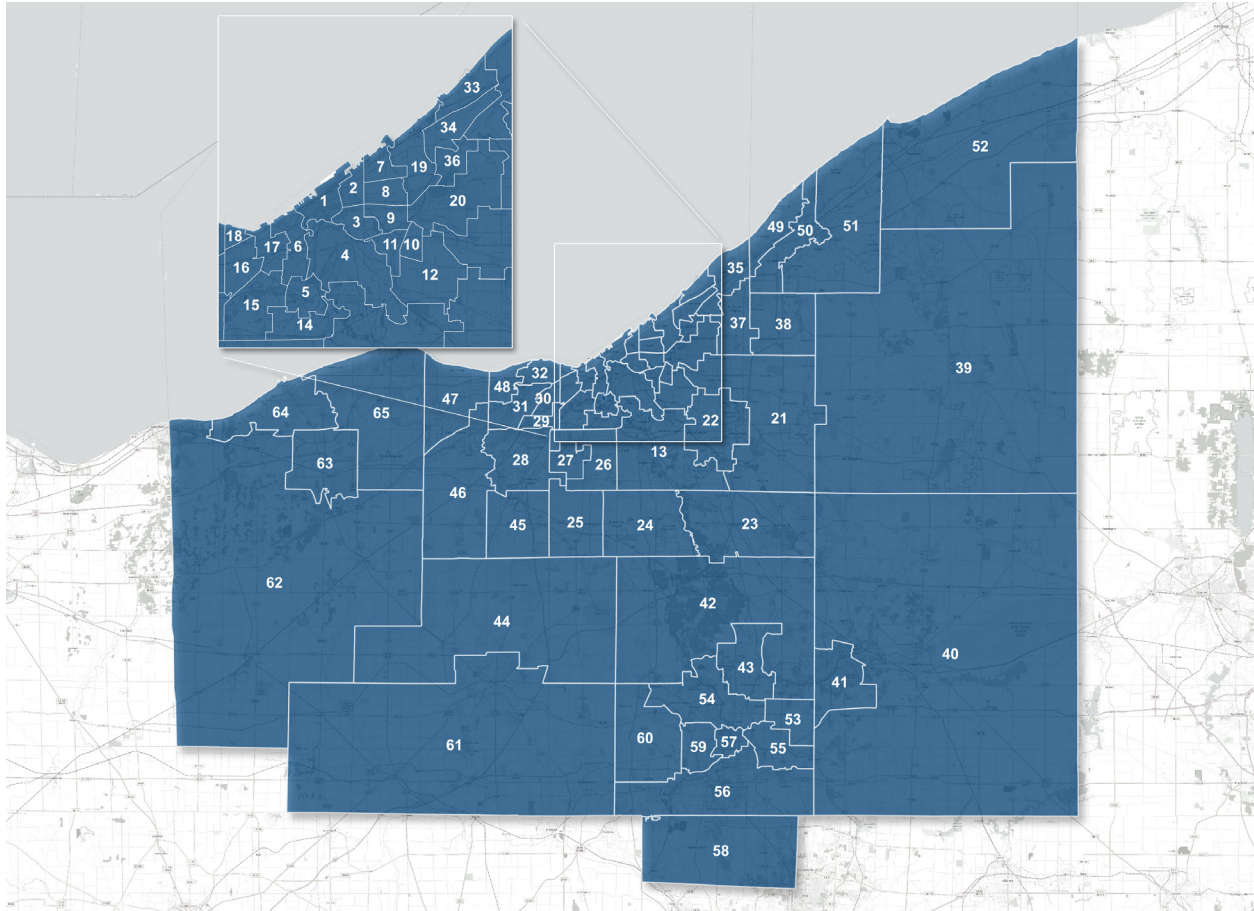
¹ From September 2020 to August 2021

Cleveland vs. National Sales Price per Unit



Source: Yardi Matrix

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.

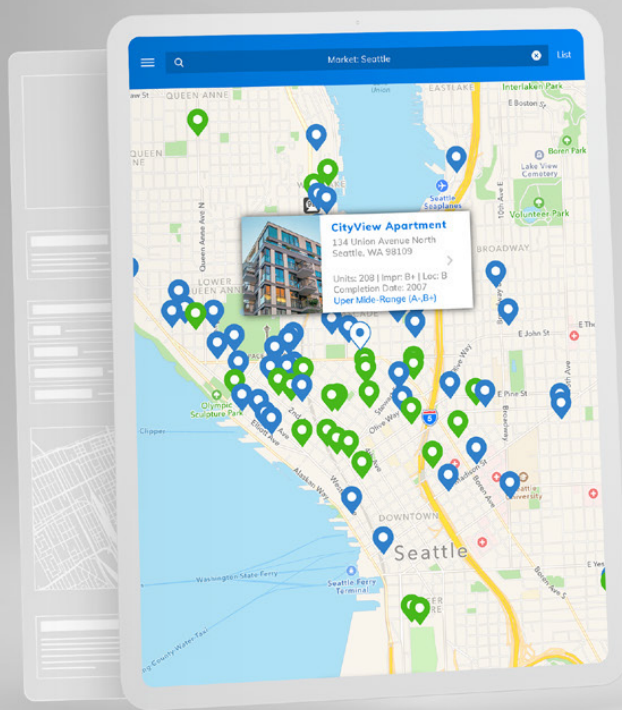
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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