

Cleveland Shows Resilience

April 2022



Average Rate Surpasses \$1,000 Mark

Development Activity Increases

Job Growth Stays Positive

CLEVELAND MULTIFAMILY



Multifamily Market Positioned for Growth

Cleveland continued to show resilience in the aftermath of the pandemic, with the multifamily market reaching a few milestones in the process. Average rates exceeded the \$1,000 mark for the first time in the metro and were up by 0.4% on a trailing three-month basis as of February, to \$1,068, 20 basis points below the U.S. rate. Cleveland's overall occupancy rate in stabilized assets was up 80 basis points year-over-year, to 96.2% in January.

The metro's economy improved in 2021, with the second half of the year posting positive gains for the first time since the onset of the crisis. Employment growth was at 2.3% as of December, still lagging the national rate of 4.4%. However, state-level efforts are being made to improve overall stability and attract more talent. In January, state officials announced nearly \$2 billion in incentives offered to Intel. The chipmaker will build two new semiconductor plants in New Albany, with an initial investment cost of \$20 billion. Reportedly, the factories would create thousands of new jobs once finished, as well as an estimated 7,000 construction positions. Intel announced that its investment in Ohio could potentially reach \$100 billion as it scales operations.

Cleveland multifamily development regained a healthy pace in 2021. The metro had 4,479 units under construction as of February, with more than half aimed at Lifestyle renters.

Market Analysis | April 2022

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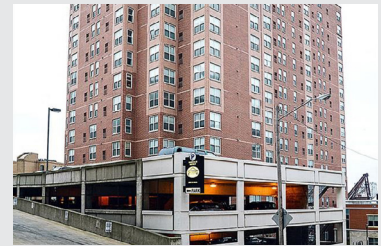
Recent Cleveland Transactions

Parkview Estates



City: Cleveland
Buyer: Brown Gibbons Lang & Co.
Purchase Price: \$23 MM
Price per Unit: \$63,333

Crittenden Court



City: Cleveland
Buyer: Snively Group
Purchase Price: \$20 MM
Price per Unit: \$94,952

Brookside Oval

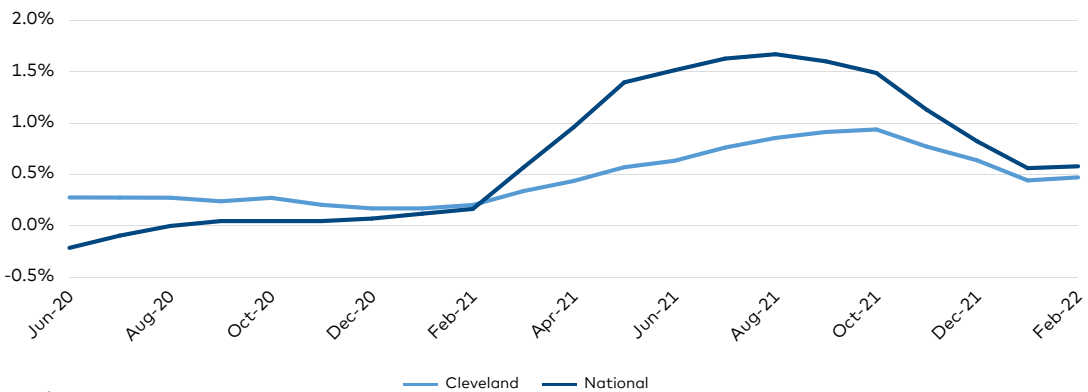


City: Cleveland
Buyer: Freeland Ventures
Purchase Price: \$8 MM
Price per Unit: \$65,231

RENT TRENDS

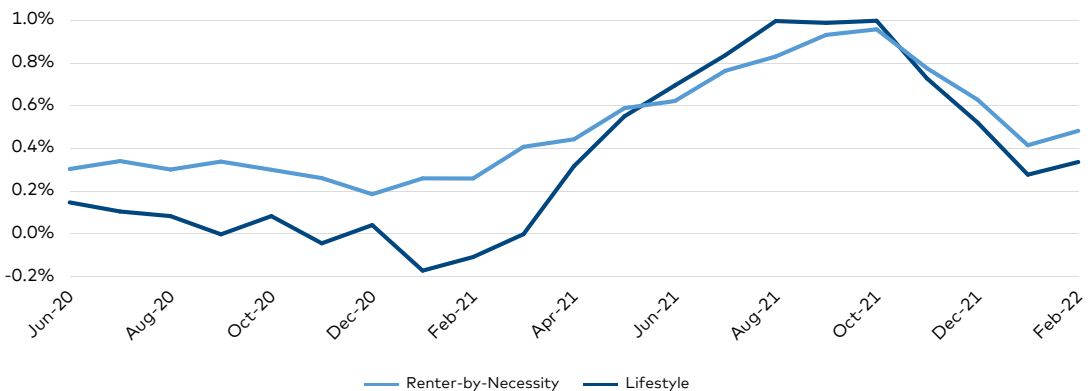
- ▶ Cleveland multifamily rates were up 0.4% on a trailing three-month (T3) basis through February, to \$1,068. Rent development peaked in October last year, with positive momentum continuing through 2022, albeit 20 basis points below the national rate—at 0.6%, to \$1,628. Year-over-year, Cleveland rents were 8.2% higher, exceeding the \$1,000 mark for the first time.
- ▶ Working class Renter-by-Necessity rates were up 0.5% to \$975, on a T3 basis through February, while Lifestyle rents grew 0.3% to \$1,691. Both quality segments recorded strong growth, with rates in Cleveland higher than pre-pandemic levels. Smaller markets became more appealing for tenants and investors alike, and the hybridization of office-using employment has led to increased value-add potential.
- ▶ Demand for Lifestyle properties is increasing at a faster pace than that of RBN assets in Cleveland, with more room for growth identified. Occupancy for stabilized Lifestyle assets was up by 230 basis points year-over-year, to 95.7% as of January. RBN properties on the other hand recorded a slower pace, with occupancy up by 60 basis points, to 96.3%.
- ▶ Ohio received approval from the U.S. Treasury to keep over \$100 million in federal rental assistance that was not used in 2021. The funds will be reallocated across the state, with Cuyahoga County set to receive \$51.2 million, followed by the city of Toledo (\$19.4 million) and Summit County (\$15 million).

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 added 35,000 jobs in 2021, with employment growth clocking in at 2.3% as of December—210 basis points behind the national rate. After half a year of net losses, the metro's job market started to recover in June, recording positive movement for the first time since the onset of the pandemic. The third quarter posted the strongest growth, with the employment rate at 4.4% back in September.
- Cleveland ended the year on a better note, as the unemployment rate was 4.6% in December—the lowest figure recorded since 2019—according to the Bureau of Labor Statistics. However, according to the latest preliminary data, the rate had climbed to 6.0% as of January.
- Net job gains were led by the metro's largest sector—trade, transportation and utilities added 11,000 positions in 2021, a 4.4% increase. Meanwhile, the leisure and hospitality sector, notably impacted by the pandemic, grew 5.9% year-over-year (6,600 jobs). The construction sector saw the largest rate of job growth—the sector grew by 8.0%, having added 4,100 positions.
- Economic recovery programs are still being rolled out: Ohio allocated \$350 million for environmental assessment and remediation, as part of its Brownfield Redevelopment Program. Applicants can receive up to \$10 million, and non-governmental entities must enter a partnership agreement with local government to be eligible.

Cleveland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
40	Trade, Transportation and Utilities	263	19.3%
60	Professional and Business Services	206	15.1%
70	Leisure and Hospitality	119	8.7%
90	Government	177	13.0%
15	Mining, Logging and Construction	55	4.0%
65	Education and Health Services	250	18.3%
50	Information	18	1.3%
55	Financial Activities	82	6.0%
80	Other Services	46	3.4%
30	Manufacturing	148	10.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Cleveland's population shrank by 0.2% in 2020, with Cuyahoga County on a downward trend for the past two decades—partly due to migration to southern parts of Ohio.
- In contrast, the U.S. overall population increased by 0.4% in 2020.

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

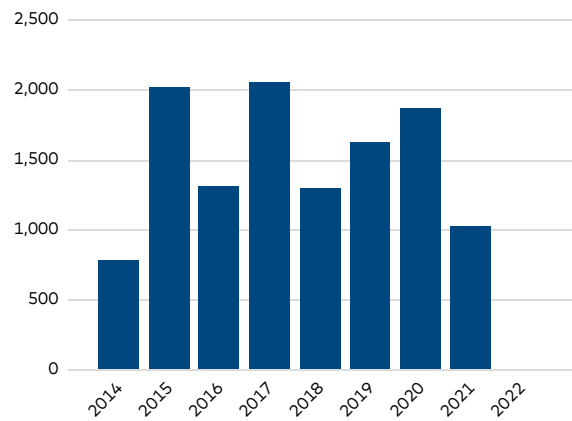
SUPPLY

- ▶ Cleveland had 4,479 units under construction as of February, with 62.7% aimed at Lifestyle renters, while properties developed as fully affordable comprised just 10.1% of the pipeline.
- ▶ Some 20,400 units were in the planning and permitting stages, with the city bound to significantly grow its stock. Should market conditions hold, over 2,800 units could be added to the market this year.
- ▶ Multifamily construction activity increased last year in the metro, but deliveries still lagged national rates. No properties of 50 units or more came online during the first two months of the year. Last year represented a slowdown as well, with 1,029 units delivered, 0.6% of total stock—200 basis points below the national rate of construction. Completions were also below the average number of units added to the market annually since 2014 (1,501), but there are signs of improvement. Notably, construction starts last year amounted to 2,960 units.
- ▶ Development continued to be concentrated in the urban core. Cleveland-Downtown had 994 units underway, followed by Ohio City (828), Broadway (471) and Glenville (298). A significant number of new units are

situated in large redevelopment projects, with revitalization efforts boosted by incentives and public-private partnerships.

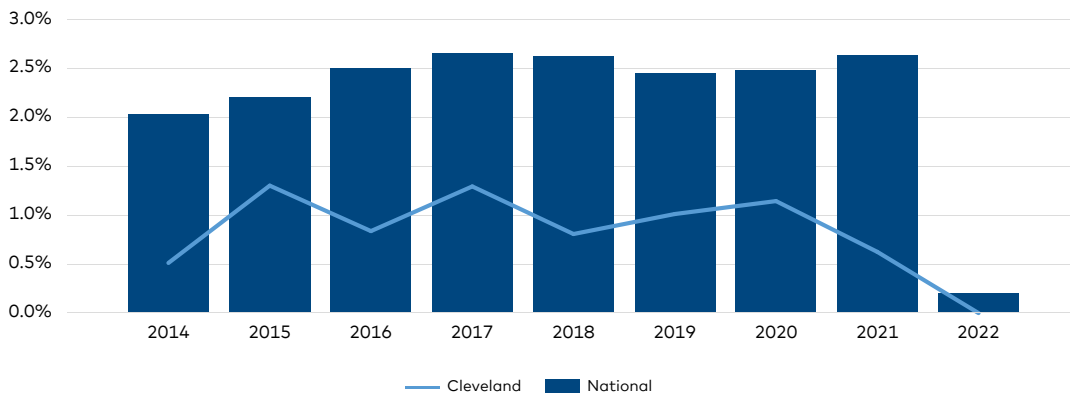
- ▶ Downtown, Geis Development Co. is constructing the 436-unit The Rockefeller. The 116-year-old building is being redeveloped as a mixed-use property, planned to include office and retail space in addition to the multifamily component.

Cleveland Completions (as of February 2022)



Source: Yardi Matrix

Cleveland vs. National Completions as a Percentage of Total Stock (as of February 2022)

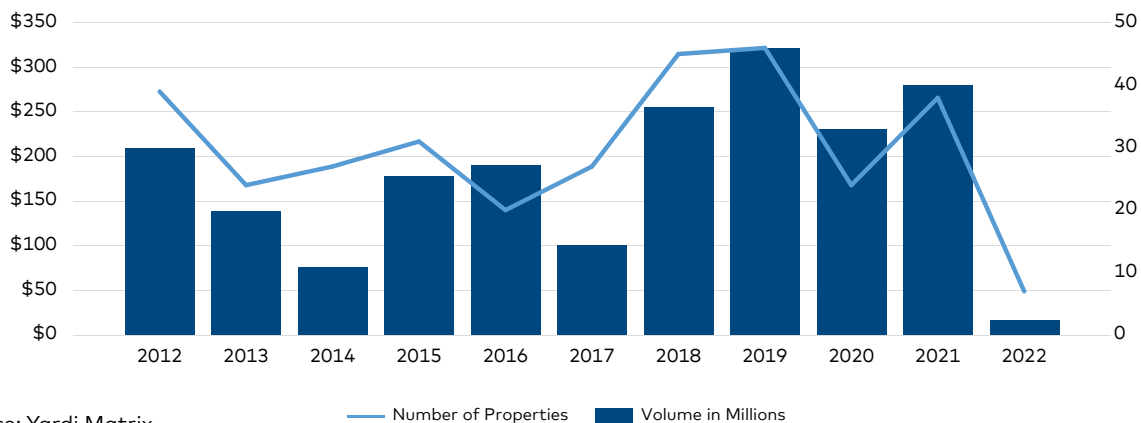


Source: Yardi Matrix

TRANSACTIONS

- ▶ Investment activity had a slow start this year, but overall interest in Cleveland remains on an upward trajectory. Transaction volume totaled \$16 million for the first two months of 2022, 68.5% less than the amount recorded over the same period in 2021.
- ▶ Cleveland investment activity has been solid, however, with \$281 million in rental asset sales recorded in 2021, a decade-high for the Ohio market.
- ▶ The overall price per unit was down 39.6% year-over-year, to \$62,722 in 2021. It continued to drop through February—to \$55,263—a far cry from the national average of \$221,270. Due to disproportionate demand between quality segments, prices have fluctuated significantly over the past two years.
- ▶ As of December, the price of RBN assets was down 47.2% year-over-year, to \$55,174. Lifestyle prices were up 78.2%, to \$179,299 per unit.

Cleveland Sales Volume and Number of Properties Sold (as of February 2022)



Source: Yardi Matrix

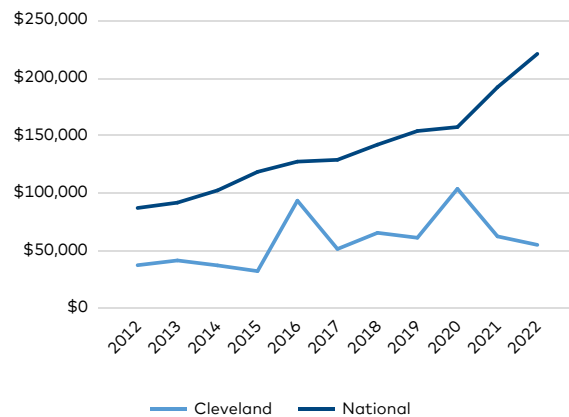
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Uniontown	41
Brooklyn	37
Cleveland–Downtown	28
Brookpark	26
Olmsted	17
Garfield Heights	16
Akron–South	11

Source: Yardi Matrix

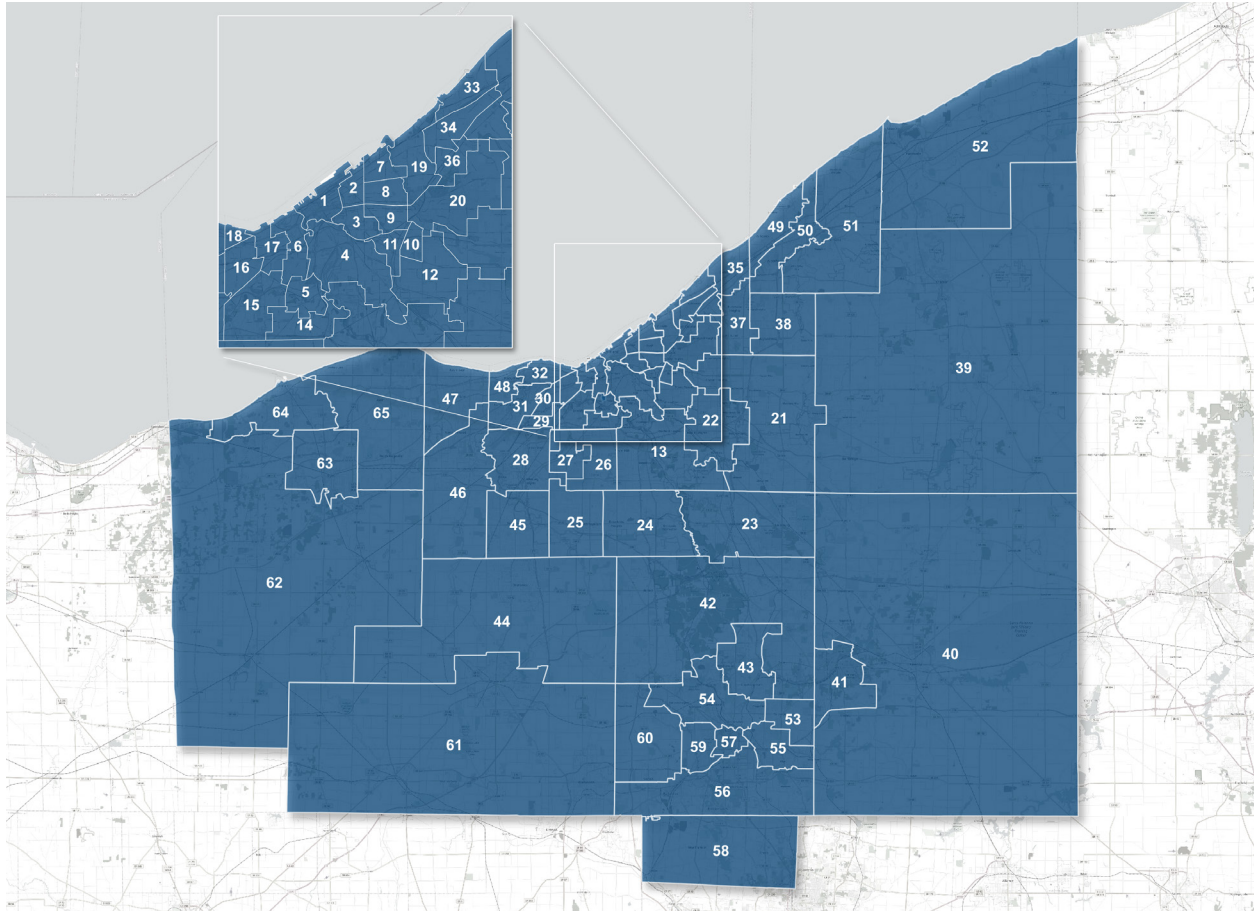
¹ From March 2021 to February 2022

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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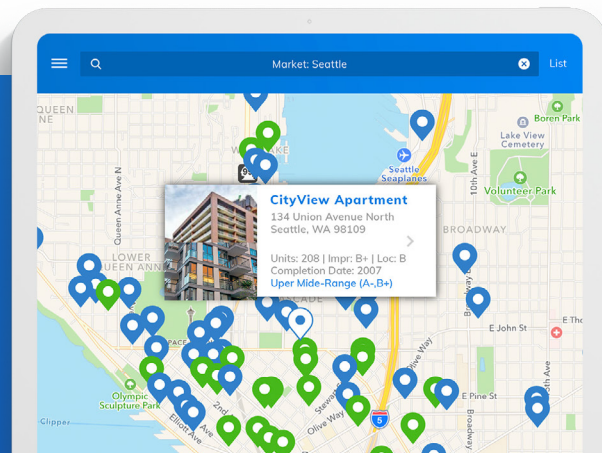
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- Gain complete new supply pipeline information from concept to completion
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- Access aggregated and anonymized residential revenue and expense comps



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