Yardi® Matrix

Cleveland's Transition

Multifamily Report Summer 2017

Upgrades Lift Rental Rates

Downtown Demand Fuels New Supply

Transaction Volume Stays Soft

Market Analysis
Summer 2017

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All Eyes on Core

The Cleveland multifamily market is growing slowly, particularly in submarkets outside the urban core that still face difficulties stemming from the last downturn. The city center appeals to investors and residents alike, with signs of emerging opportunities. However, the metro is steadily losing residents, while rent growth—2.0% year-over-year as of June—is underperforming.

Education and health services, a sector that added 6,500 jobs in the 12 months ending in May, is leading economic growth. The Cleveland Clinic's $276 million specialized cancer center opened in March, further fueling this surge. Fields requiring highly skilled workers, such as biotechnology, are rapidly expanding, in stark contrast to leisure and hospitality, transportation and manufacturing, which together contracted by roughly 4,600 positions. Financial activities, construction, and professional and business services also posted consistent job gains, supporting Cleveland's diversifying economy and benefiting the office market.

The growing number of renters looking to live near work, transportation, retail and entertainment options, coupled with limited housing supply, is stimulating rent growth. Cleveland's occupancy rate for stabilized properties was 95.1%, the highest among Ohio metros although 50 basis points below the national average. As construction activity was modest in the first two quarters of 2017—only 146 units came online—we expect rent growth to remain above 2.0% by year-end.

Recent Cleveland Transactions

The Vue at Beachwood

City: Beachwood, Ohio
Buyer: Strategic Properties of N. America
Purchase Price: $90 MM
Price per Unit: $258,406

Remington

City: Westlake, Ohio
Buyer: Burton Carol Management
Purchase Price: $28 MM
Price per Unit: $98,469

Barrington Place

City: Westlake, Ohio
Buyer: APM Management
Purchase Price: $20 MM
Price per Unit: $119,715

Sherwood Village

City: Bedford, Ohio
Buyer: River Street Management
Purchase Price: $6 MM
Price per Unit: $31,888

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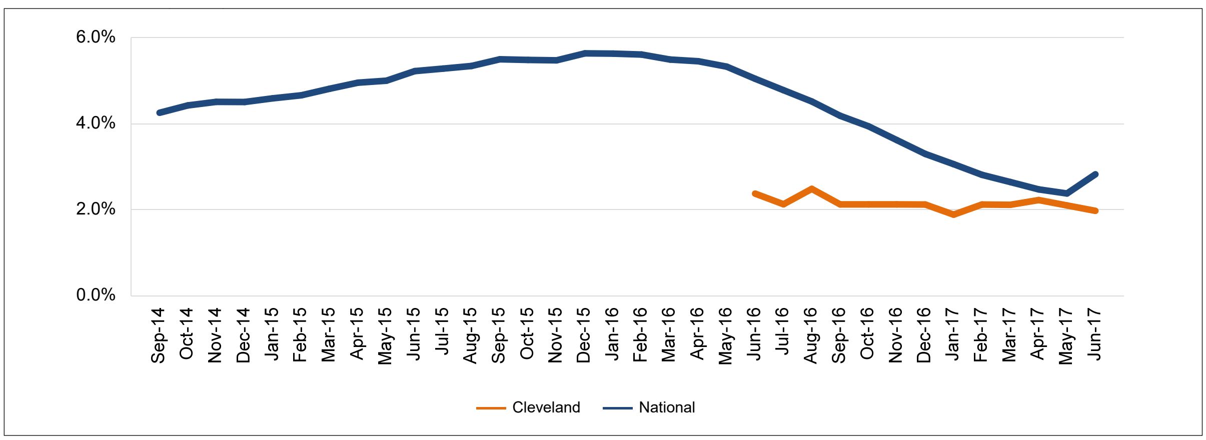
On the cover: Photo by benkrut/iStockphoto.com

Rent Trends

- Cleveland rents rose 2.0% year-over-year through June, lagging the 2.7% national rate. Rent growth has continued its deceleration during the first months of 2017, following nationwide trends. The average Cleveland rent reached $880, remaining well below the $1,349 U.S. average.
- The working-class Renter-by-Necessity segment is leading growth, up 2.4% to $823, while Lifestyle rents increased by 1.5% to $1,442. In addition to new ground-up construction, the conversion of several old office buildings will boost inventory, catering to live-work-play renters and putting a damper on Lifestyle rent growth.
- As the vast majority of Cleveland's housing stock is working-class, due to the city's industrial past, owners are making substantial upgrades at well-located properties, pushing up rates through value-add strategies. This leads to rent surges across several submarkets, including Lake (12.4%) and Fairfax (11.9%). However, as the revitalization of downtown Cleveland is fueling growth, traditionally more expensive submarkets such as Ohio City ($1,477), Glenville ($1,398) and Cleveland–Downtown ($1,374) continue to have the highest average rents.
- A contracting population and a tepid economic growth maintain weak apartment demand. However, with little new stock coming online, we expect rent growth to stay above the 2.0% mark by year-end.

Cleveland vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Cleveland Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

Source: YardiMatrix

Economic Snapshot

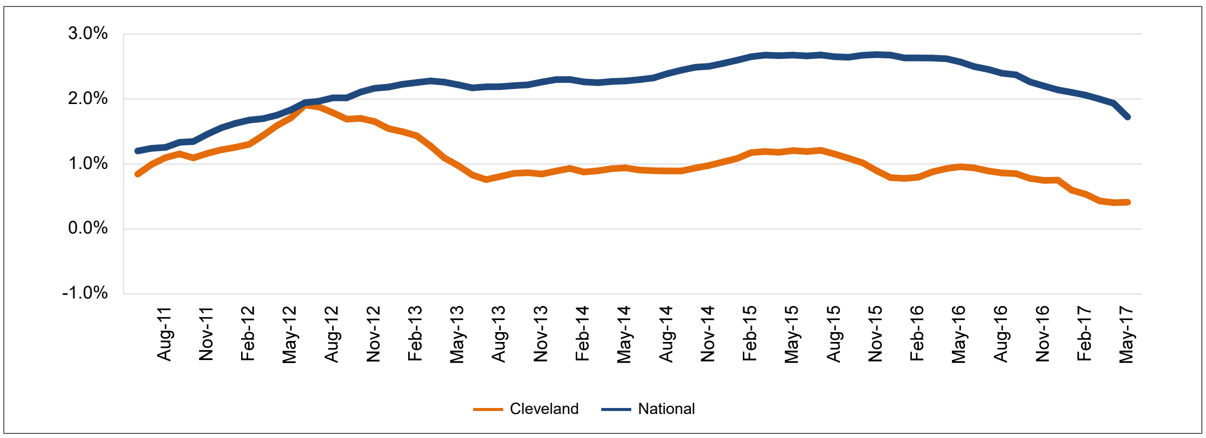
- Cleveland added 8,000 jobs in the 12 months ending in May, up 0.4% and lagging the 1.9% national growth rate. While the temporary economic boost the metro gained from hosting last year's Republican National Convention is dwindling, Cleveland continues its efforts to shift from an economy driven by industrial investments to a more service-based one.

- Education and health services is leading growth, having added 6,500 jobs. With roughly 34,000 employees, The Cleveland Clinic—a key economic driver and a national leader in medical research and treatment—remains the largest employer in the area. The city is attempting to leverage this expertise by creating a health-tech corridor meant to generate more biotech, health-care and technology jobs in an effort to attract highly skilled workers.

- Cleveland's economy is slowly diversifying, and white-collar industries continue to replace jobs in shrinking traditional segments, including trade, transportation and utilities (-2,100 jobs) and manufacturing (-200). With the hotel construction boom of the past few years over, leisure and hospitality (-2,300) is also losing jobs.

- Investors are drawn to the region's relatively low costs, boosting office development and transactions. Shelbourne Global Solutions' $24 million acquisition of the 225,000-square-foot One and Two Chagrin Highlands from Jacobs Real Estate Services ranks among the most notable recent office sales in the city.

Cleveland vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Cleveland Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	266	18.8%	6,500	2.5%
55	Financial Activities	82	5.8%	2,000	2.5%
15	Mining, Logging and Construction	51	3.6%	1,200	2.4%
60	Professional and Business Services	206	14.5%	1,200	0.6%
80	Other Services	55	3.9%	900	1.7%
90	Government	188	13.3%	800	0.4%
50	Information	19	1.3%	0	0.0%
30	Manufacturing	160	11.3%	-200	-0.1%
40	Trade, Transportation and Utilities	251	17.7%	-2,100	-0.8%
70	Leisure and Hospitality	138	9.7%	-2,300	-1.6%

Sources: YardiMatrix, Bureau of Labor Statistics

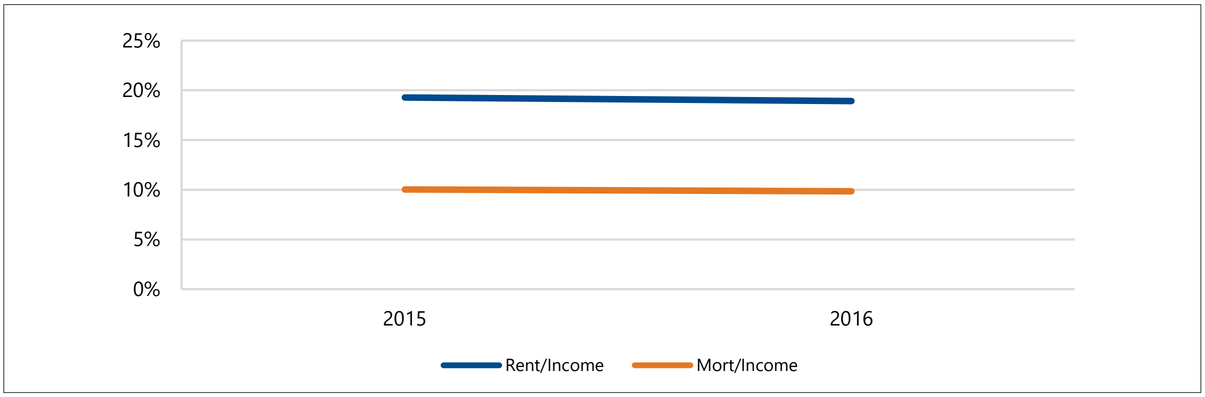
Demographics

Affordability

- The median home price has been rising since 2011, reaching $120,124 last year, a new cycle high. Although values are on an upward trajectory, home prices in Cleveland are substantially lower than in other large U.S. cities. Furthermore, Huntington Bank recently committed $150 million to affordable-housing projects in Ohio, which will also contribute to preserving home affordability for lower-income residents.

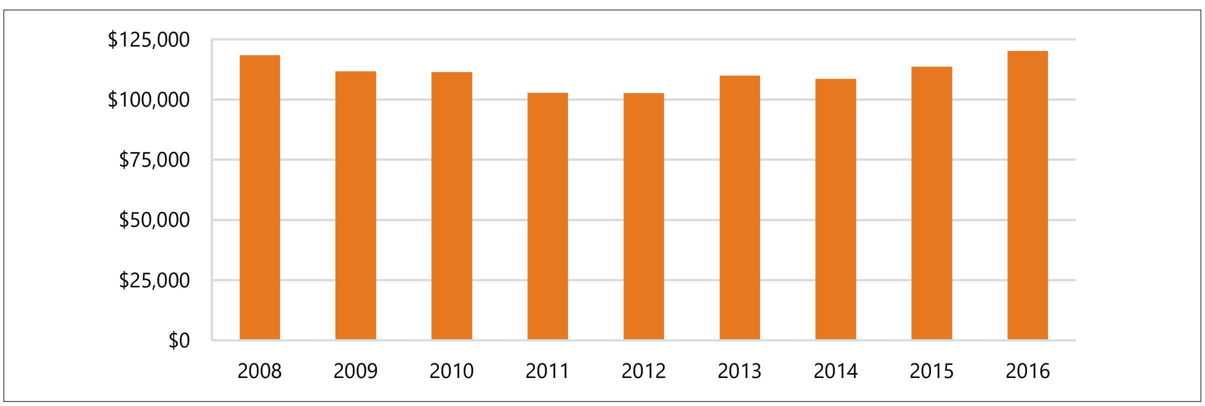
- Owning continues to be significantly more affordable than renting in Cleveland, as the average mortgage payment accounts for only 10% of the area's median income. At the same time, the average rent of $880 comprises as much as 19%.

Cleveland Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Cleveland Median Home Price



Source: Moody's Analytics

Population

- Cleveland lost 4,317 residents last year. This accounts for a 0.2% contraction rate, while the nation grew by 0.7%.

- The metro has contracted by more than 20,000 residents since 2010.

Cleveland vs. National Population

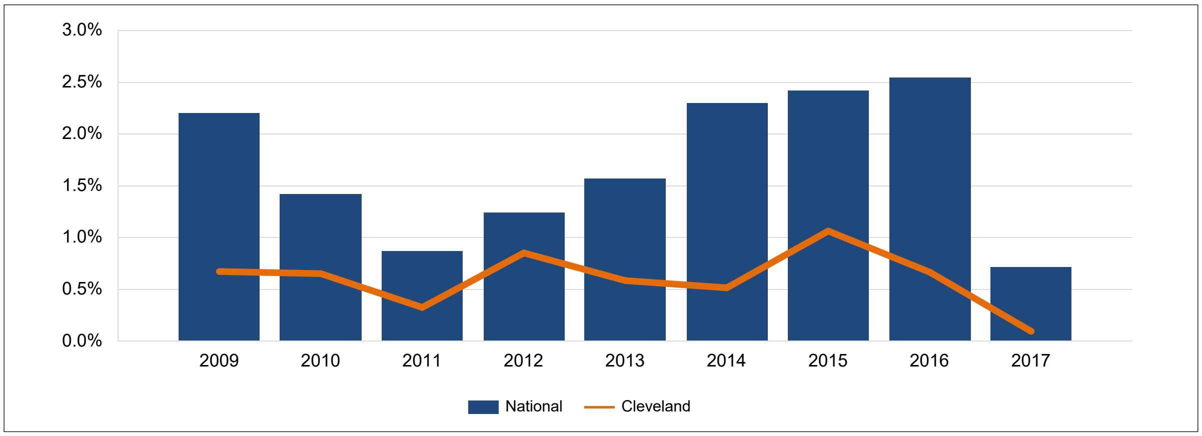
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Cleveland Metro	2,064,240	2,064,501	2,063,862	2,059,929	2,055,612

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

Supply

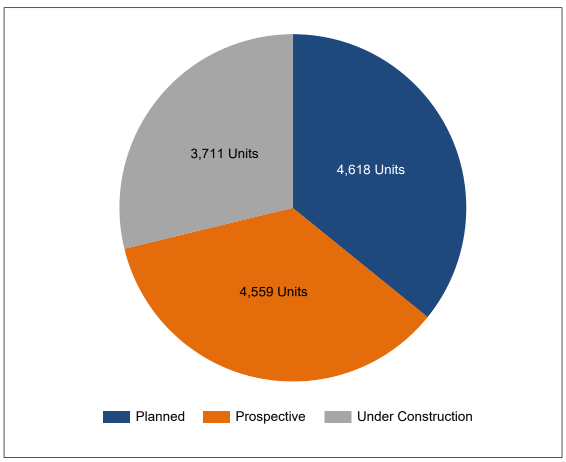
- Although only 146 units came online in the first two quarters, construction is expected to recover slightly in the second half of the year. Roughly 3,700 multifamily units are under construction, and Yardi Matrix forecasts 1,500 units will come online by year-end, a 45% increase over 2016 completions. New stock is less than 1% of total supply, well below the 2.0% national average.
- Downtown Cleveland and some waterfront submarkets continue to feed the pipeline. Developers are focusing on core areas, where 2,341 units are underway, most of them downtown. There is also significant construction in Kent (358 units), Westlake (318 units) and Fairfax (147 units), reflecting a growing need for apartments near transportation, workplaces, shopping and entertainment.
- The largest development underway is Ovation at Crocker Park, a 318-unit high-end community being built by Stark Enterprises in the Westlake submarket. The luxury residences are part of a $480 million project that includes Class A office space, retail and dining options. Ohio City's The Edison at Gordon Square and downtown Cleveland's Standard Building will also add about 600 units to the city's urban core this year.

Cleveland vs. National Completions as a Percentage of Total Stock (as of June 2017)



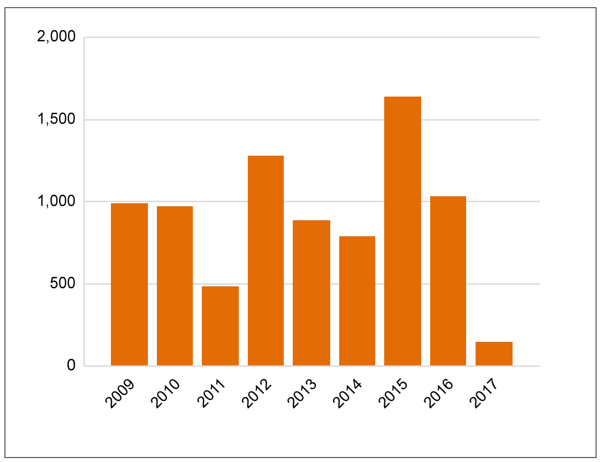
Source: YardiMatrix

Development Pipeline (as of June 2017)



Source: YardiMatrix

Cleveland Completions (as of June 2017)

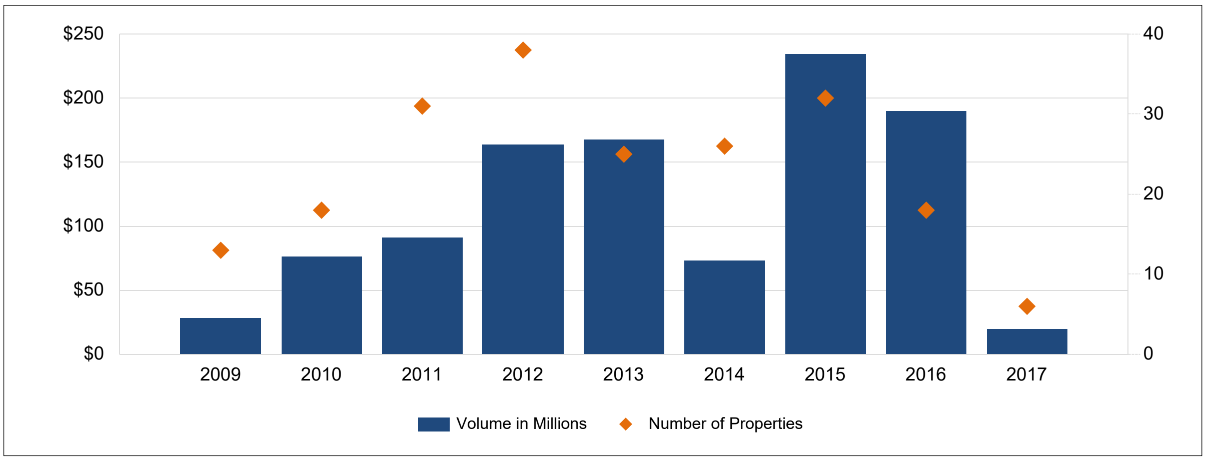


Source: YardiMatrix

Transactions

- Only $163 million in assets traded in the 12 months ending in June, as investors lack confidence in the area's growth potential. Following a trend apparent throughout the cycle, Cleveland's transaction volume remains soft, with only six properties changing hands in the first two quarters of 2017.
- The average price per unit surged to $119,715 in the first half of the year, up 28% from 2016. However, the average per-unit price is still below the $132,549 national average. Acquisition yields for Class A infill stabilized properties ranged between 5.5% and 6.3% in the first half of 2017, according to CBRE.
- The largest property to trade in Cleveland year-over-year through June was The Vue at Beachwood, a 348-unit community in Solon. Strategic Properties of North America acquired the asset from NRP Group for $90 million, or $258,406 per unit. This was the only Lifestyle property to change hands in the metro since 2009.

Cleveland Sales Volume and Number of Properties Sold (as of June 2017)



Source: YardiMatrix

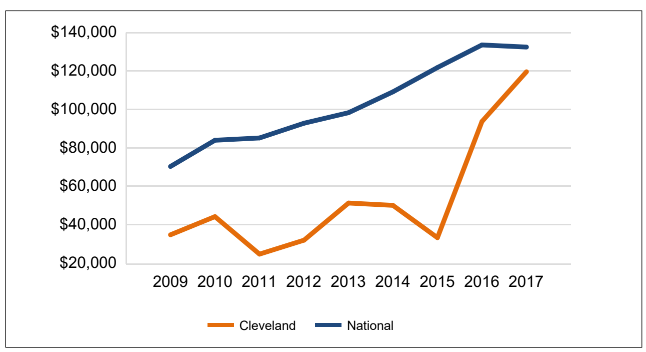
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Solon	90
Westlake	47
Akron - South	7
Bedford	6
Medina	6
Lake	3
Garfield Heights	3

Source: YardiMatrix

[1] From July 2016 to June 2017

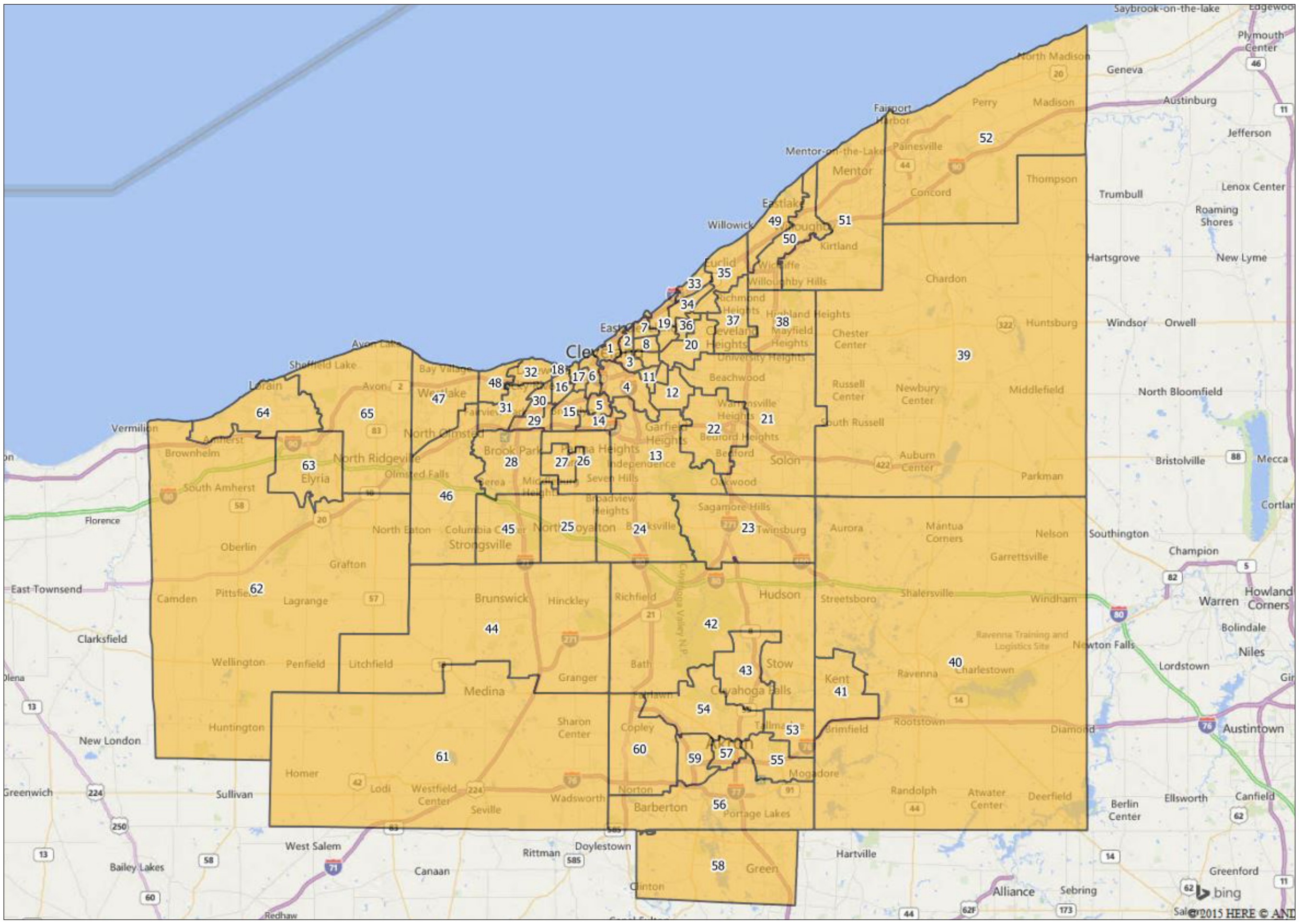
Cleveland vs. National Sales Price per Unit



Source: YardiMatrix

Photo by benkrut/iStockphoto.com

Cleveland Submarkets



Area #	Submarket
1	Cleveland–Downtown
2	Goodrich–Kirtland Park
4	Broadway
5	Brooklyn Centre
6	Ohio City
8	Hough
12	Shaker Heights
13	Garfield Heights
14	Old Brooklyn
15	Brooklyn
16	Cudell
18	Edgewater
19	Glenville
20	Cleveland Heights
21	Solon
22	Bedford
23	Twinsburg
24	Broadview Heights
25	North Royalton
26	Parma

Area #	Submarket
27	Parma Heights
28	Brookpark
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
45	Strongsville
46	Olmsted
47	Westlake

Area #	Submarket
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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.