Yardi Matrix

MULTIFAMILY REPORT

Cleveland's Bright Spots

October 2022

Investment Activity Amps Up

Rent Growth Above US Average

Construction Pipeline Favors Lifestyle Assets

CLEVELAND MULTIFAMILY

Jobs Slowly Recovering, Investment Activity Up

Cleveland's multifamily market has experienced mixed results in 2022. Rents were up by 0.9% on a trailing three-month (T3) basis through August—to $1,131, lagging the U.S. average of $1,718. Rate development slowed nationwide, but Cleveland maintained 30 basis points above the national T3 figure. Year-over-year, however, the metro's rents increased by 9.5%, below the national 10.9% rate.

Unemployment clocked in at 4.7% as of August, down 130 basis points from January, according to preliminary data from the Bureau of Labor Statistics. Over the 12 months ending in June, Cleveland added 35,200 jobs—a 2.4% expansion—behind the U.S. rate by 230 basis points. Gains were led by leisure and hospitality (up 17,300 jobs, or 14.0%), followed by other services (up 4,900 jobs, or 9.9%) and manufacturing (3,600 jobs, or 2.4%). Cleveland's mayor announced new economic initiatives that will rely on the city's remaining $310 million in ARPA funding. The first batch of spending will use 33% of these funds across 15 key proposals, of which $50 million will be used for housing initiatives.

Cleveland had 3,898 units under construction as of August. Deliveries totaled 856 units, representing 0.5% of total stock and 80 basis points below the national average. Multifamily investment amped up, with transaction volume through August at $369 million, just shy of 2021's total investment volume.

Market Analysis | October 2022

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On the cover: Photo by Charles Murray/iStockphoto.com

Recent Cleveland Transactions

The Heritage at White Pond

City: Akron, Ohio
Buyer: Brown Gibbons Lang & Co.
Purchase Price: $52 MM
Price per Unit: $234,328

Pebblebrook

City: Kent, Ohio
Buyer: The Solomon Organization
Purchase Price: $31 MM
Price per Unit: $106,018

The Depot

City: Akron, Ohio
Buyer: Monarch Investment & Management Group
Purchase Price: $28 MM
Price per Unit: $144,567

Linden Lane

City: Cuyahoga Falls, Ohio
Buyer: The Solomon Organization
Purchase Price: $19 MM
Price per Unit: $131,296

RENT TRENDS

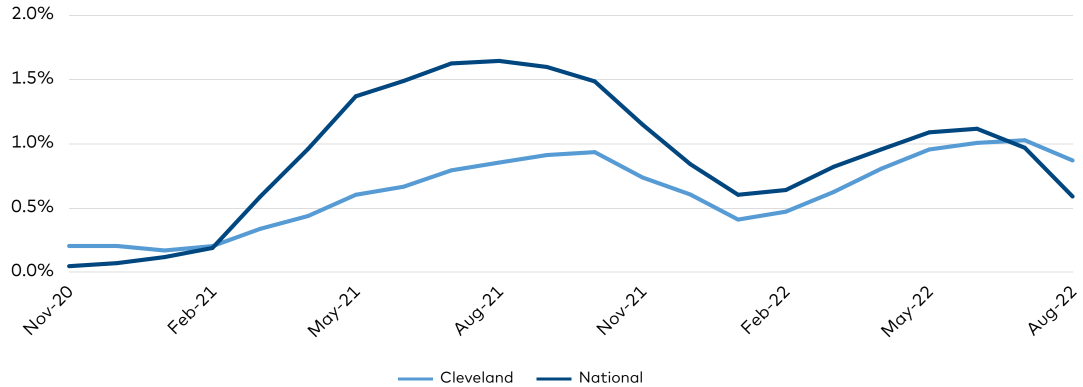
- Cleveland rents were up 0.9% on a trailing three-month (T3) basis through August, 30 basis points above the national average. Rate growth on a T3 basis in the metro matched or trailed the national average for most of the year and peaked in July, at 1.0%. On a year-over-year basis, rents in Cleveland were up 9.5%.

- Average rates in the metro reached $1,131 as of August, well below the $1,718 national figure. Rent growth for Lifestyle properties trailed the Renter-by-Necessity segment during the first two quarters but has since surpassed it. On a T3 basis through August, Lifestyle rates were up 1.4%, to $1,815. RBN figures were up 0.9%, to $1,028, on a slight downward trend after July's 1.0% rate.

- Demand in the metro maintained a steady course, as the overall occupancy rate in stabilized assets did not change year-over-year, remaining at 96.2% as of July—20 basis points above the national average. Lifestyle properties were more in demand, with occupancy rates for the segment increasing 30 basis points year-over-year, to 95.4%. Meanwhile, occupancy for RBN assets dropped 10 basis points, to 96.3%.

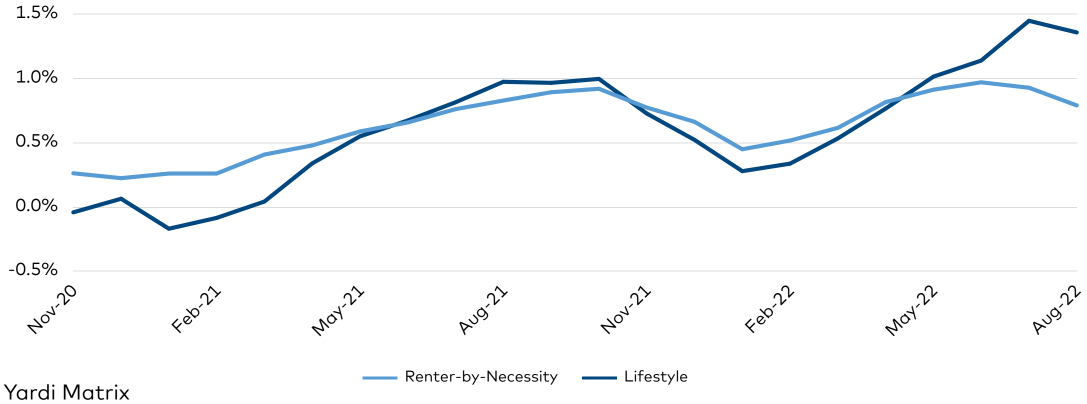
- Most Cleveland submarkets recorded strong gains over the past 12 months—22 submarkets recorded increases ranging between 10% and 20.9%. Rent growth was led by Copley (up 20.9% year-over-year, to $1,323), Summit (up 16.8%, to $1,349), Lake (up 16.3%, to $1,291), North Royalton (16.2%, to $1,201), Mayfield (up 16.1%, to $1,198) and Cuyahoga Falls (up 14.1%, to $1,152).

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 job market started to improve this year—after ending 2021 on an upward trend, the unemployment rate dropped to 4.7% as of August, according to preliminary data from the Bureau of Labor Statistics. Although much improved, the metro's unemployment rate trailed the U.S. figure by 100 basis points.

- Over the 12 months ending in June, Cleveland added 35,200 jobs, a 2.4% expansion—230 basis points behind the U.S. average. Employment growth has slowly improved since the start of this year—the expansion rate went down after the 5.6% peak in October 2021, then picked up again in February this year.

- The leisure and hospitality sector regained 17,300 jobs—a 14.0% expansion—followed by other services (4,900 jobs, up 9.9%), manufacturing (3,600 jobs, up 2.4%) and construction (3,400, up 6.3%). Financial activities lost 2,300 jobs (down 2.8%), while education and health services contracted by 0.8% or 2,100 jobs.

- In August, the Mayor's office announced the first set of economic initiatives as part of the city's Rescue & Transformation Plan. The first batch of spending will account for $102.5 million, or 33% of the city's remaining $310 million ARPA funds, of which $50 million will be used for housing initiatives, ranging from building new affordable units to repairing existing stock.

Cleveland Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	141	10.1%
60	Professional and Business Services	212	15.3%
80	Other Services	54	3.9%
30	Manufacturing	156	11.2%
15	Mining, Logging and Construction	58	4.2%
50	Information	19	1.4%
40	Trade, Transportation and Utilities	253	18.2%
90	Government	170	12.2%
65	Education and Health Services	246	17.7%
55	Financial Activities	81	5.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Cleveland's population continued to shrink in 2021, with slow job growth contributing to migration. The city lost 9,695 residents since 2020, a 0.5% contraction. Meanwhile, the U.S. population increased by 0.1% over the same period.

Cleveland vs. National Population

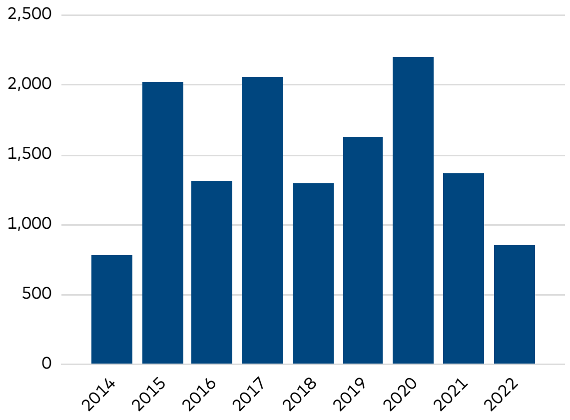
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Cleveland	2,053,841	2,049,028	2,085,357	2,075,662

Source: U.S. Census

SUPPLY

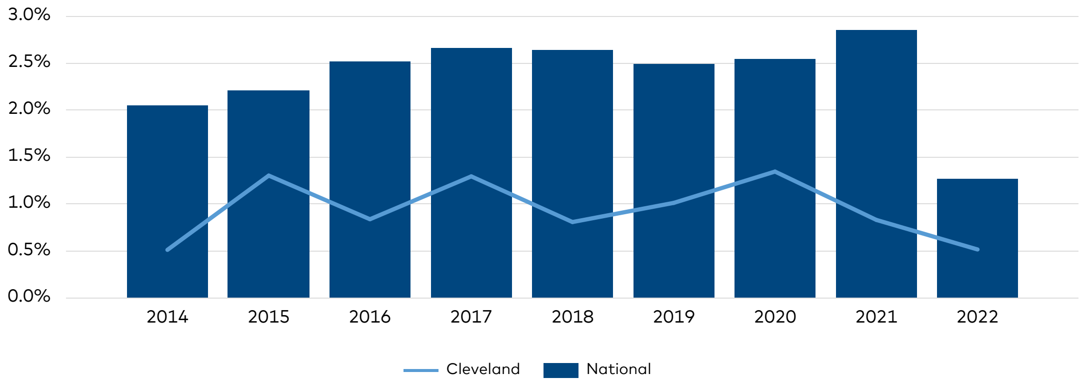
- As of August, Cleveland had 3,898 units under construction across 28 properties. The pipeline remained heavily tilted toward upscale assets, with 67.7% of units falling in the lifestyle segment, while only 13.1% were in fully affordable projects. The metro had an additional 21,000 units in the planning and permitting stages.
- During the first eight months of 2022, Cleveland developers completed 856 units, 16.5% more than the number recorded over the same period last year. Completions represented 0.5% of total stock, 80 basis points below the national average. After a peak in 2020—when 2,204 units were brought online—the rate of completions slowly declined, with 1,373 units coming online in 2021. Over the past five years, Cleveland added an annual average of 1,712 units.
- Construction starts slowed in the metro, as demand seems to be cooling off. Year-to-date through August, 964 units broke ground, 43.0% less than the total during the same period last year.
- Construction activity remained highest in core, urban submarkets, such as Ohio City (512 units underway), Glenville (350 units), Broadway (341 units) and downtown Akron (286 units), along with some suburban markets as well—including Cleveland Heights (341 units) and Broadview Heights (200 units).
- The largest property completed this year in Cleveland was the 297-unit INTRO—in the Ohio City submarket. The mass timber, mixed-use project was developed by Harbor Bay Real Estate Advisors. It features an additional 35,900 square feet of retail.

Cleveland Completions (as of August 2022)



Source: Yardi Matrix

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

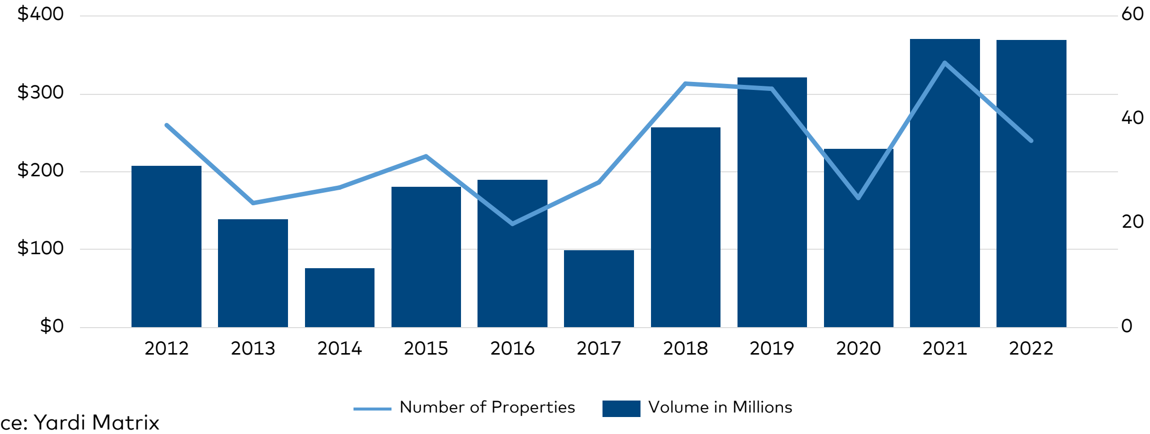


Source: Yardi Matrix

TRANSACTIONS

- Cleveland's multifamily transaction volume during the first eight months of the year reached $369 million, almost topping the volume recorded in 2021—$370 million. Investment has steadily increased in the metro; sales have been setting new records, starting in 2021, when total sales topped 2019's $322 million.
- A total of 36 properties traded year-to-date through August, nine of which were in the Lifestyle segment—generating $198 million—and 27 in the Renter-by-Necessity segment—amounting to $171 million.
- The average price per unit in Cleveland increased by 29.6% since last year, to $88,680 as of August—still well below the U.S. average of $217,196. Although on an upward trend compared to last year, the metro's average is lower than the 2020 peak of $107,732. Prices for Lifestyle assets have inched up by 0.7% since 2021—to $196,066—while the RBN per-unit average grew 22.4%, to $71,382.

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



Source: Yardi Matrix

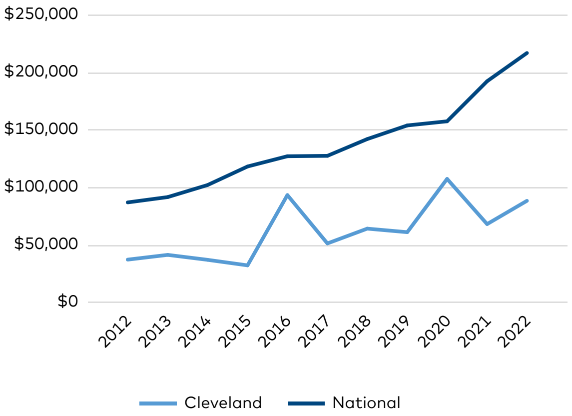
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Cleveland-Downtown	$84
Kent	$65
Akron-North	$52
Akron-Downtown	$48
Brooklyn	$37
Portage	$33
Avon	$22

Source: Yardi Matrix

[1] From September 2021 to August 2022

Cleveland vs. National Sales Price per Unit



Source: Yardi Matrix

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MHN MULTI-HOUSING **NEWS**

The Midwest Is Attracting Record-High Capital. Here's Why

By Beata Lorincz

The U.S. multifamily market has seen record rent growth so far this year, backed by correspondingly high demand. The currently volatile state of the economy will most likely start to take its toll on the sector's high-paced expansion soon. But the Midwest poses some distinct advantages compared to other U.S. regions. Jeff Lamott, managing director at Northmarq, explains what is fueling the Midwest multifamily market's performance.

How did the Midwest multifamily market fare in the first half of 2022?

New deliveries got off to a slow start in the first half of the year in the Midwest, due to prolonged challenges in supply chains and shortage of skilled trades to complete projects. Year-over-year, rent growth reached about 12 percent in the Midwest, with an average of 2.5 percent growth in the first quarter.

Sale prices on a per-unit basis hit all-time highs with the continued low interest rates, fueled by record-high capital competing for Midwest multifamily investments. Strong competition from private equity and national syndicators looking to deploy capital in the Midwest was white hot due to getting priced out of the coastal and gateway markets.

How has the Midwest performed in terms of multifamily investment?

Multifamily investment activity has been mixed across the Midwest region to this point in 2022. Several markets posted declines from near-peak levels reached at the end of last year. Still, transaction activity at the beginning of 2022 is ahead of the pace recorded in each of the past several years across the region. Most Midwest markets recorded significant per-unit pricing increases in 2021, averaging $139,000.

Is now the right time for investors to buy into the region?

With the Federal Reserve signaling the continued increase in rates, it is still an excellent time to secure long-term financing at a favorable Midwest basis. While we might not see the continued record-high year-over-year accelerated appreciation driven by unsustainable double-digit rent growth, Midwest markets offer investors consistent appreciation, a favorable cost of living for renters and steady job growth.

Where do cap rates stand in the Midwest?

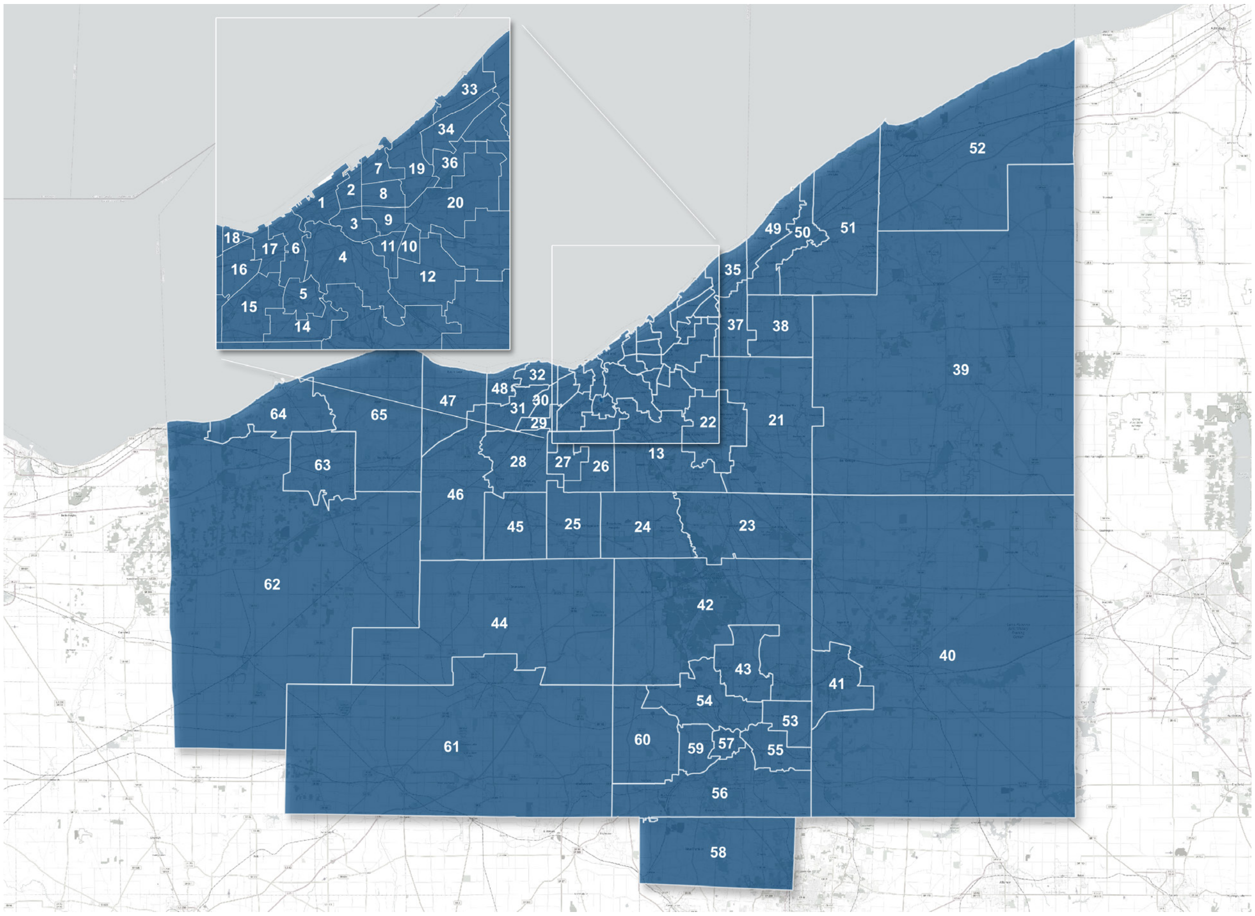
Cap rates have compressed across the region in early 2022, with nearly every major Midwest market posting averages near 4.5 percent. As recently as a few years ago, cap rates in these markets would have been closer to 5 percent and 6 percent.

What are your expectations for renter demand in the Midwest?

Renter demand for apartment properties is expected to remain healthy throughout the remainder of the year, but will most likely lag 2021 levels.

(Read the complete interview on 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
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
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 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 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, 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.

Yardi Matrix

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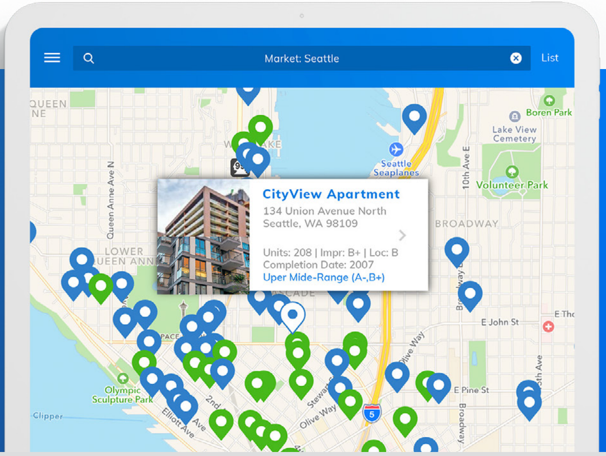
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Market: Seattle

CityView Apartment
134 Union Avenue North
Seattle, WA 98109

Units: 208 | Impr: B+ | Loc: B
Completion Date: 2007
Uper Mide-Range (A-,B+)

Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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