

Yardi® Matrix

# Cleveland Delivers Spotty Growth

Multifamily Report Fall 2017

**Completions Top 2016 Level**

**Occupancy Remains High**

**City Core Draws Residents**

## Market Analysis

Fall 2017

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## Downtown Growth Drives Demand

Although underperforming in the current cycle, the Cleveland multifamily market is on sound footing, mainly due to the city's thriving core. Many central areas are also growing, but the suburbs continue to face the effects of the last downturn.

Anchored by The Cleveland Clinic and the Health-Tech Corridor, the metro's economy is slowly but steadily diversifying. Downtown Cleveland's rapid growth remains an economic driver, as young highly skilled workers are drawn by the city's overall affordability, cultural scene and growing number of live-work-play options. The downtown's population has grown by more than 75% since 2000, and nearly half of the core's residents are Millennials. By comparison, the entire Cuyahoga County contracted by more than 140,000 people within the same time span. Downtown is poised for further growth, as several large projects are on the drawing board, including the \$540 million NuCLEus mixed-use development, Playhouse Square Foundation's 34-story residential skyscraper and a \$140 million renovation of the Quicken Loans Arena.

Cleveland had 3,700 units underway as of September and is set to almost match the 2015 cycle high of completions. Although the population is contracting and new units are coming online, the occupancy rate in stabilized properties dropped by only 10 basis points year-over-year, to 95.3%. As job gains are bound to sustain demand, we expect Cleveland rents to appreciate by 1.7% in 2017.

## Recent Cleveland Transactions

Remington



City: Westlake, Ohio  
Buyer: Burton Carol Management  
Purchase Price: \$28 MM  
Price per Unit: \$98,468

Barrington Place



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

Forest Ridge



City: Parma, Ohio  
Buyer: Anthony Kocis  
Purchase Price: \$9 MM  
Price per Unit: \$41,697

Sherwood Village



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

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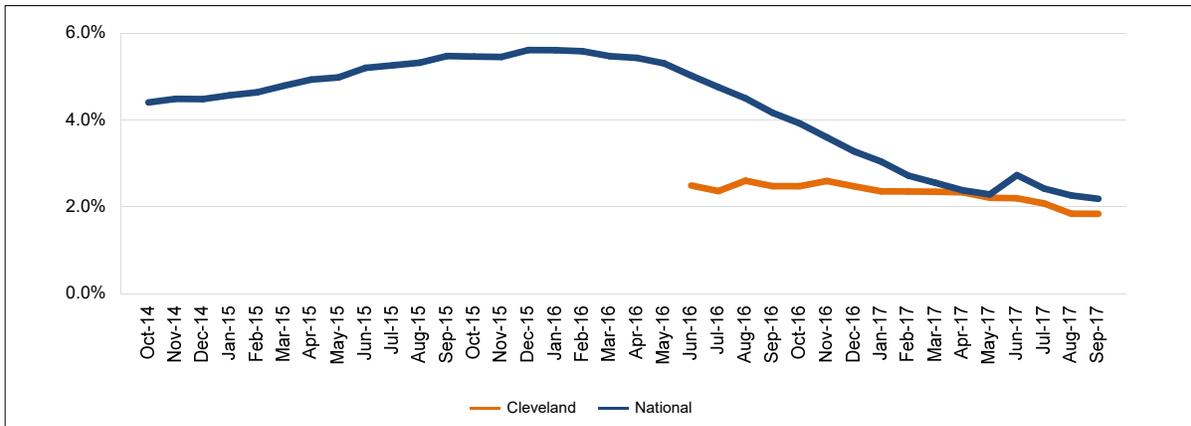
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## Rent Trends

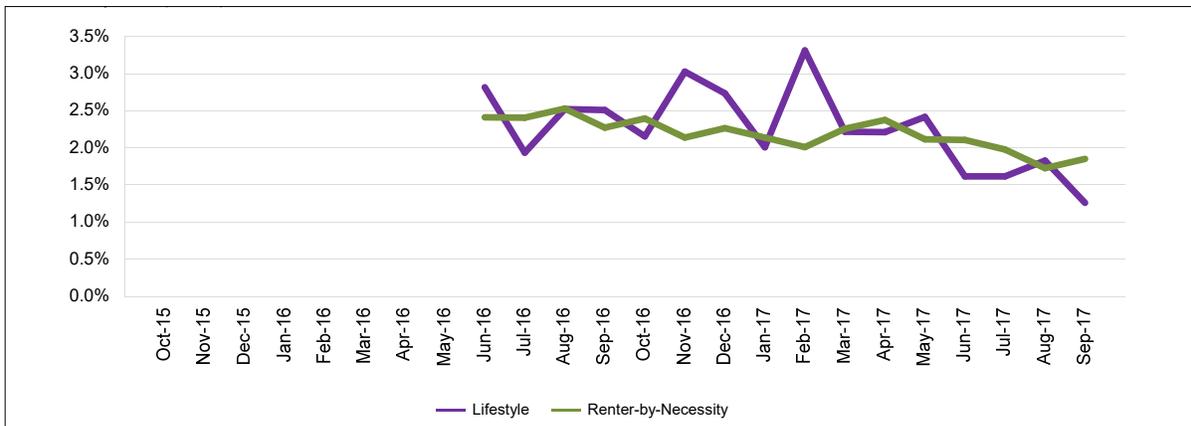
- Rents in Cleveland-Akron rose 1.8% in the year ending in September, lagging the U.S. average by 40 basis points. At \$884, the average rent was more than \$450 below the national figure.
- Rents in the working-class Renter-by-Necessity segment grew by 1.9% year-over-year through September, to \$825. Due to the city's industrial past, more than 75% of the city's multifamily stock is either in working-class or fully affordable units, making the asset class the primary driver of the metro's rental market. During the same time span, the Lifestyle segment rose 1.3%, to \$1,448.
- Growth was uneven across the map, with Lake (13.4%), Fairfax (8.9%), Strongsville (8.4%) and Akron–East (8.4%) recording the strongest rent spikes. At the same time, several submarkets, including North Collinwood (-10.2%) and South Collinwood (-7.9%), recorded significant rent drops. Although rent growth is strong across some suburban areas, submarkets within or close to Cleveland's core continue to sport the largest rents. The list is led by Ohio City (\$1,474), Glenville (\$1,292), Cleveland–Downtown (\$1,351) and Solon (\$1,282).
- Although the metro's population is slowly contracting, the low number of new completions is bound to keep demand healthy. As the city core continues to add both jobs and residents, we expect rents to rise 1.7% in 2017.

### 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)

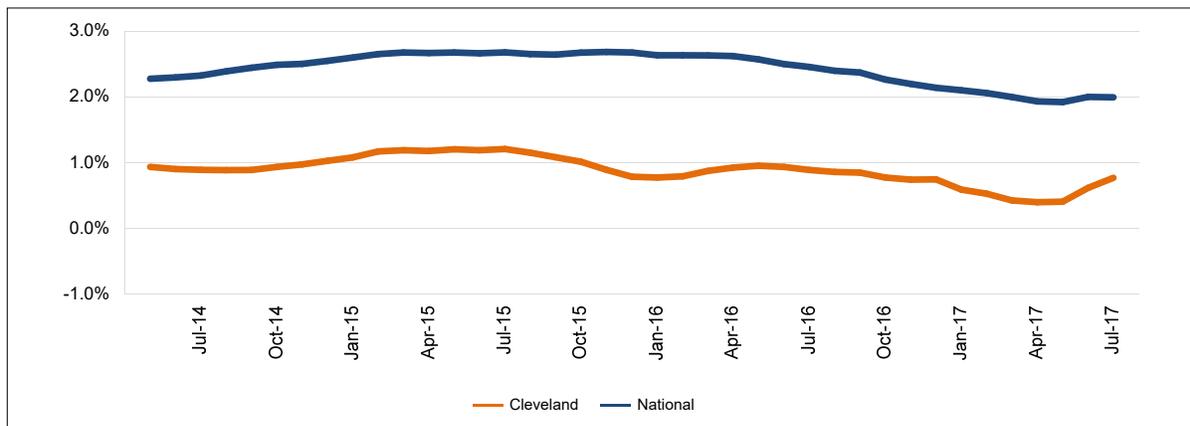


Source: YardiMatrix

## Economic Snapshot

- Cleveland added 13,300 jobs in the year ending in July, marking a 0.8% expansion, well below the 2.0% U.S. average. Slowly transitioning from its industrial profile, the metro is diversifying by adding positions in fields such as life sciences, financial activities and hospitality, while at the same time losing manufacturing jobs.
- Education and health services led growth, generating 7,500 positions. The metro remains a strong health-care hub, with The Cleveland Clinic, the area's main economic anchor, employing some 34,000 people. The clinic opened its \$276 million cancer treatment center earlier this year, adding to the sector's surge.
- Several large long-term projects are aiming to boost downtown's potential, generating jobs along the way. Playhouse Square Foundation and Hines are planning a 34-story apartment high-rise in the theatre district, with delivery scheduled for 2020. Stark Enterprises is moving forward with NuCLEus—a \$540 million, 2 million-square-foot mixed-use project—by seeking a tax increment financing (TIC) deal with the City. At the same time, Quicken Loans Arena is slated for a \$140 million renovation project that could kick off in 2020.
- The addition of high-paying jobs is also helping the slow but steady recovery of Cleveland's office market. According to Newmark Knight Frank, the office vacancy rate dropped to 16.2% at the end of the third quarter, down 200 basis points in 12 months.

### 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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	265	18.7%	7,500	2.9%
15	Mining, Logging and Construction	55	3.9%	3,100	6.0%
55	Financial Activities	83	5.9%	2,200	2.7%
70	Leisure and Hospitality	145	10.3%	1,000	0.7%
90	Government	174	12.3%	500	0.3%
40	Trade, Transportation and Utilities	252	17.8%	400	0.2%
50	Information	19	1.3%	100	0.5%
30	Manufacturing	161	11.4%	-200	-0.1%
80	Other Services	54	3.8%	-500	-0.9%
60	Professional and Business Services	208	14.7%	-800	-0.4%

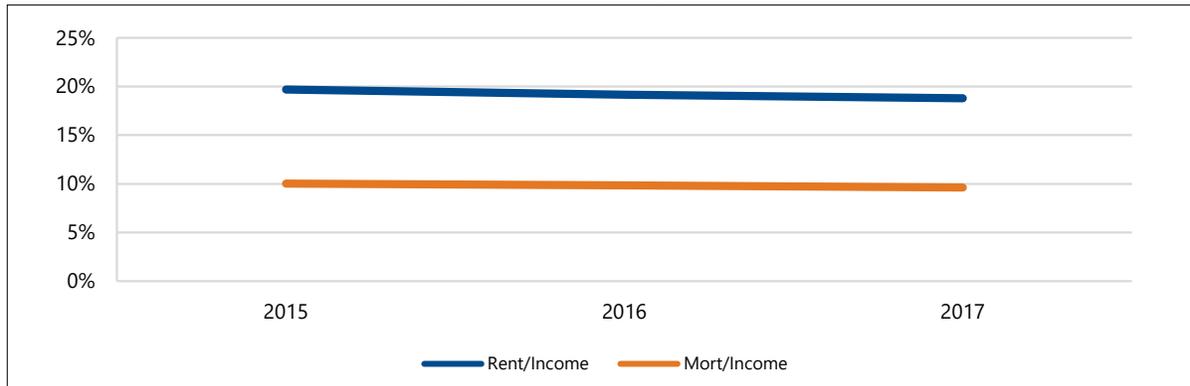
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

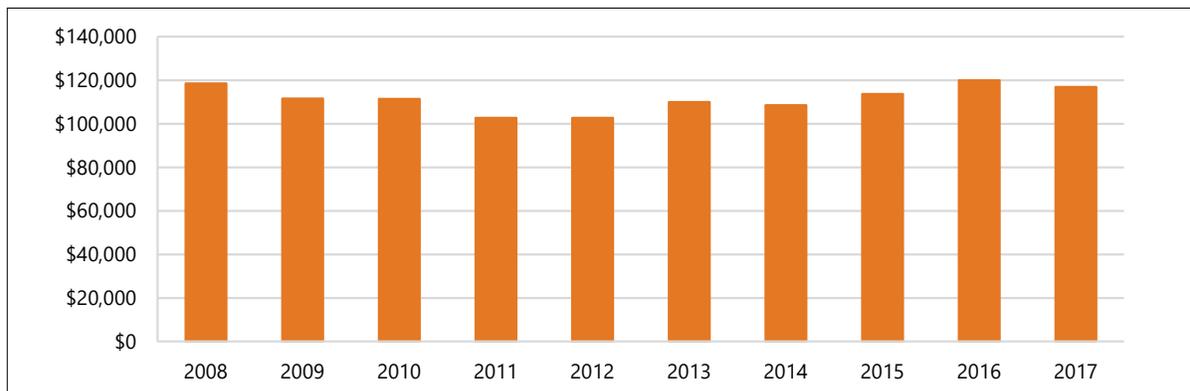
- The Cleveland median home price dropped slightly in the first half of 2017, down 2.5% since last year, to \$116,922. Although up 14% since 2012, when the market bottomed out, home prices in the metro are still just a little over half the U.S. figure. Overall, Cleveland remains a relatively affordable city, in part due to the high percentage of working-class stock, both in single-family and rentals.
- Owning continues to be the more affordable option in Cleveland, as the average mortgage payment accounts for just 10% of the area's median income. At the same time, the metro's average rent of \$884 takes up 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's population dropped by 8,600 residents between 2012 and 2016, a 40 basis point decrease, while the U.S. grew by 0.7%. The metro contracted by 4,300 people in 2016 alone.

### Cleveland vs. National Population

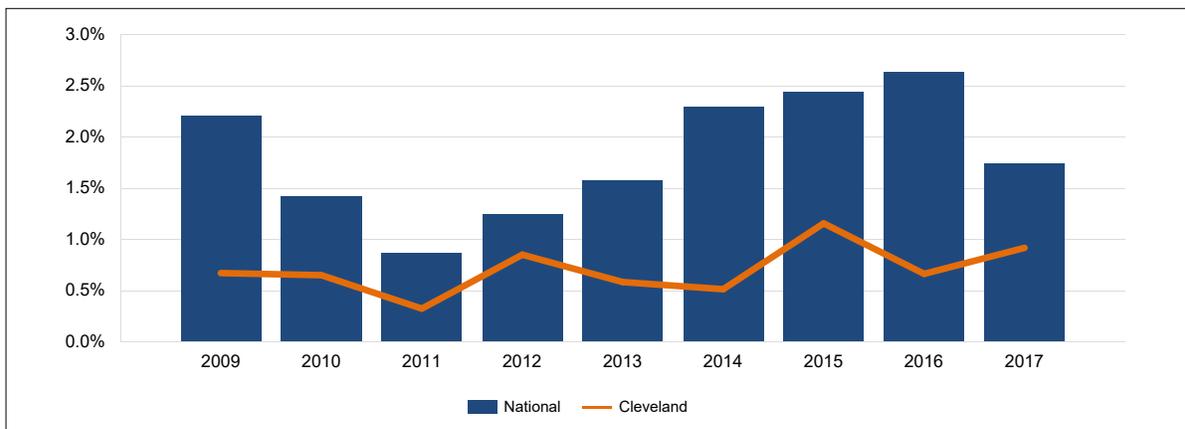
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Cleveland Metro	2,064,240	2,064,501	2,063,862	2,059,929	2,055,612

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

## Supply

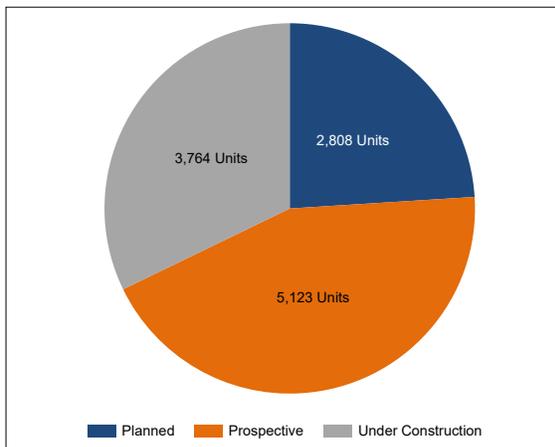
- Some 1,400 units were added in Cleveland in the first three quarters of 2017, already surpassing last year's 1,032 units. As an additional 200 apartments are slated for completion by the end of the year, Cleveland is expected to match the 1,783-unit cycle high of 2015.
- There were more than 3,700 units under construction in the metro as of September, the vast majority of which are slated to come online next year. Cleveland has an additional 8,000 planned and prospective units.
- With 841 units being built as of September, downtown Cleveland continues to drive growth. The list of submarkets with high construction activity also includes Cleveland Heights (652 units), Solon (398), Kent (350) and Ohio City (324). Responding to growing demand within the city core, developers have delivered some 1,600 units within 1.5 miles of downtown Cleveland since the beginning of 2015. This accounts for roughly 40% of the metro's total number of deliveries.
- The two largest properties under construction—First Interstate Properties' One University Circle in Cleveland Heights and Weston's The Standard in downtown—are slated for completion during the first half of 2018. The two communities will add 565 upscale units to the city's core.

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



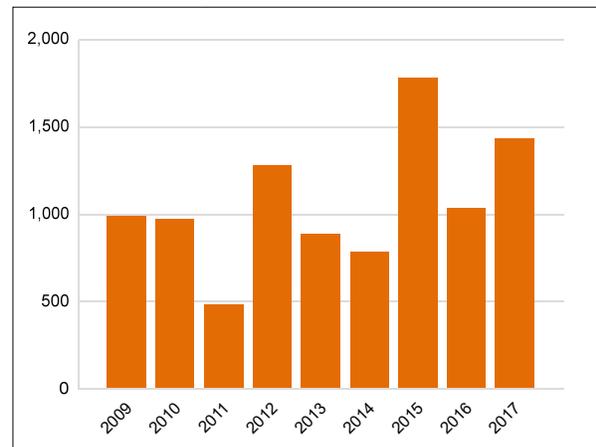
Source: YardiMatrix

### Development Pipeline (as of September 2017)



Source: YardiMatrix

### Cleveland Completions (as of September 2017)

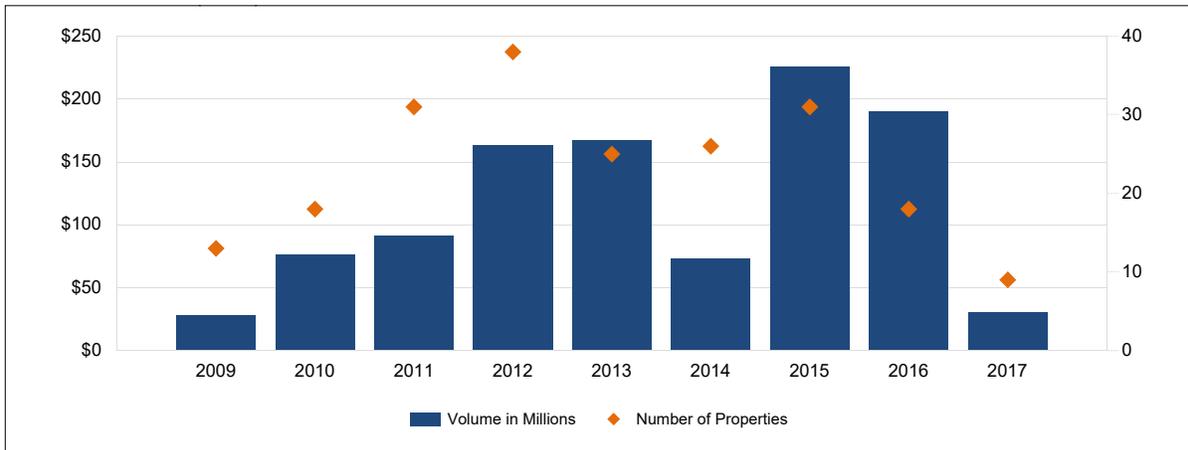


Source: YardiMatrix

## Transactions

- Investment activity remains relatively low in Cleveland as only \$31 million in multifamily assets traded in 2017 through August. This marks a tempering after two years of slightly elevated transaction volumes, with some \$415 million in assets having changed hands during the previous two years.
- Per-unit prices dropped to \$66,176 this year through August, down 30% since last year. However, 2016's cycle high was an exception for the metro due to the sale of the 348-unit Vue at Beachwood, the only Lifestyle property to trade in Cleveland during this cycle. As the city has a large share of working-class stock, nearly all investors are targeting value-add plans, which offer acquisition yields in the 7.0% to 11.0% range.
- Westlake led investor interest in the 12 months ending in August. Two properties totaling 447 units traded in the submarket for almost \$47.5 million, or \$106,273 per unit.

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



Source: YardiMatrix

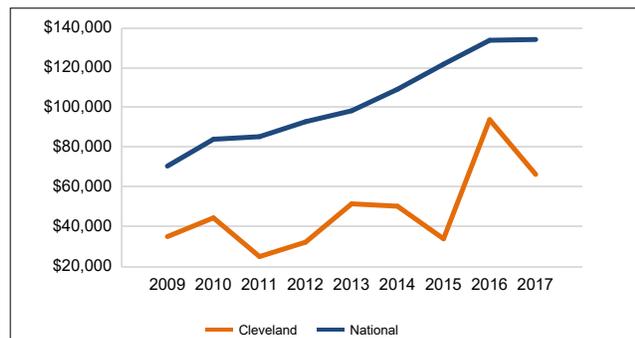
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Westlake	47
Parma	9
Bedford	6
Akron-South	3
Lake	3
Garfield Heights	3
Elyria	2

Source: YardiMatrix

<sup>1</sup> From September 2016 to August 2017

**Cleveland vs. National Sales Price per Unit**



Source: YardiMatrix

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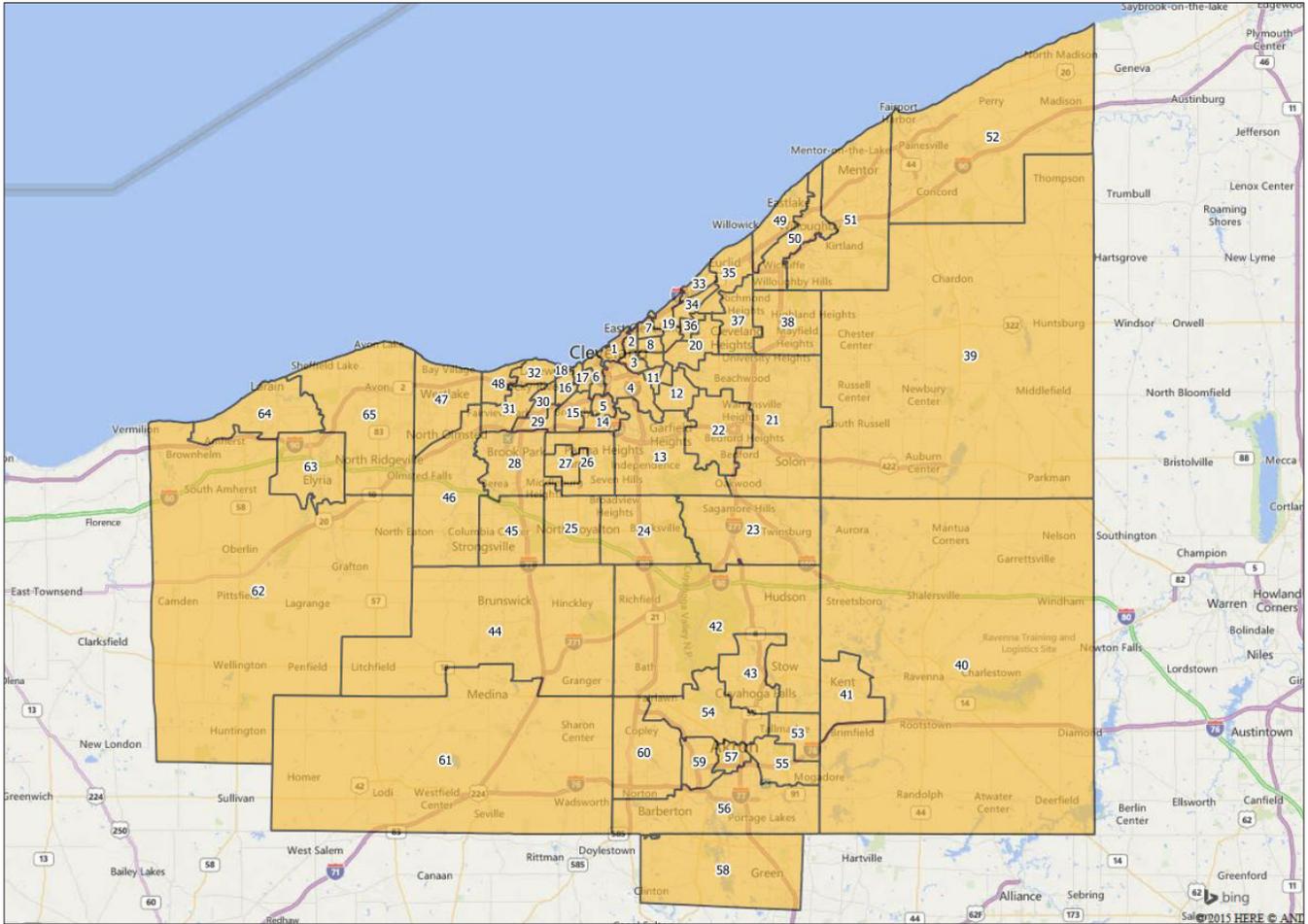


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## Cleveland Submarkets



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

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## 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.

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