

An aerial photograph of Cleveland, Ohio, showing a mix of urban architecture. In the foreground, a large, multi-story brick building with many windows is visible. The roof of this building has several HVAC units and a green structure. In the background, a tall, modern skyscraper stands out against a blue sky with light clouds. Other buildings of various heights and styles are scattered throughout the cityscape.

Yardi® Matrix

Slow and Steady Cleveland

Multifamily Report Winter 2018

Rent Growth
Remains Tepid

Deliveries Soften
Upscale Demand

Development Faces
Cycle High This Year

Market Analysis

Winter 2018

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Demand Dampens Amid Building Surge

Although underperforming against the U.S. average, Cleveland-Akron's multifamily market remains stable, fueled by the revitalization of the city's core. Year-over-year rent growth started 2018 at 1.0%, heavily trailing the 2.8% national rate, as the metro's population continues to dwindle, despite downtown's continued growth.

Even though consistent gains in education and health services (6,300 jobs), manufacturing (2,000) and construction (1,800) have made up for losses in professional and business services (-4,600), leisure and hospitality (-2,300) and government (-1,800), Cleveland's economy is tough to pin down. Cleveland Clinic, which employs roughly 50,000 people and once again expanded last year, remains Northeast Ohio's main anchor. The metro has notable projects underway, including two Amazon facilities and the renovation of Quicken Loans Arena. At the same time, Cleveland has other large developments in the planning and permitting phases, such as Playhouse Square Foundation's 34-story high-rise and Stark Enterprises' \$540 million mixed-use project.

Some 1,700 units came online in the metro last year and about 2,000 are scheduled for delivery in 2018, which would mark a new cycle high. The construction surge of the last three years has tempered demand, especially at the higher end of the quality spectrum. However, we expect demand to remain steady, pushing rents up 2.0% in 2018.

Recent Cleveland Transactions

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

Lexington Village



City: Cleveland
Buyer: Millennia Housing Cos.
Purchase Price: \$6 MM
Price per Unit: \$21,524

Firelands Retirement Center

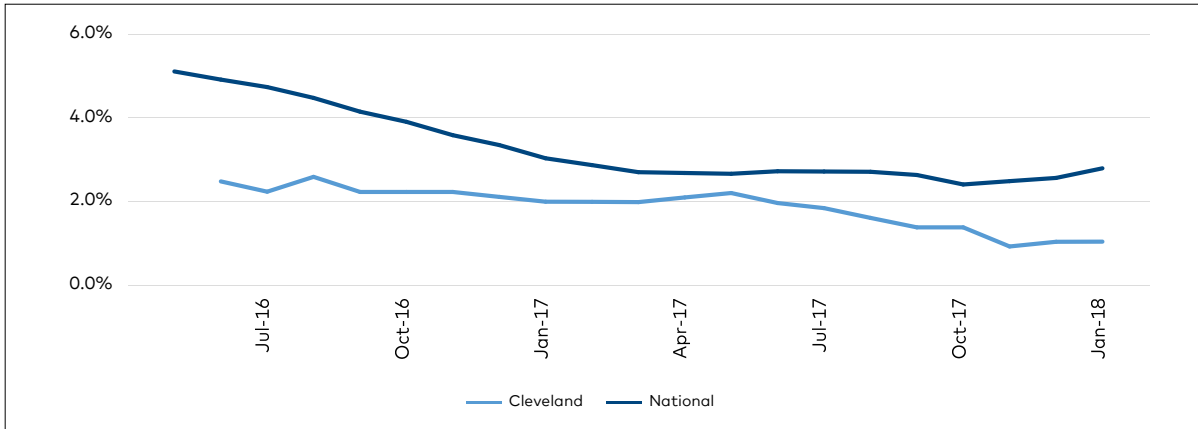


City: Lorain, Ohio
Buyer: Gibraltar Management
Purchase Price: \$2 MM
Price per Unit: \$26,429

Rent Trends

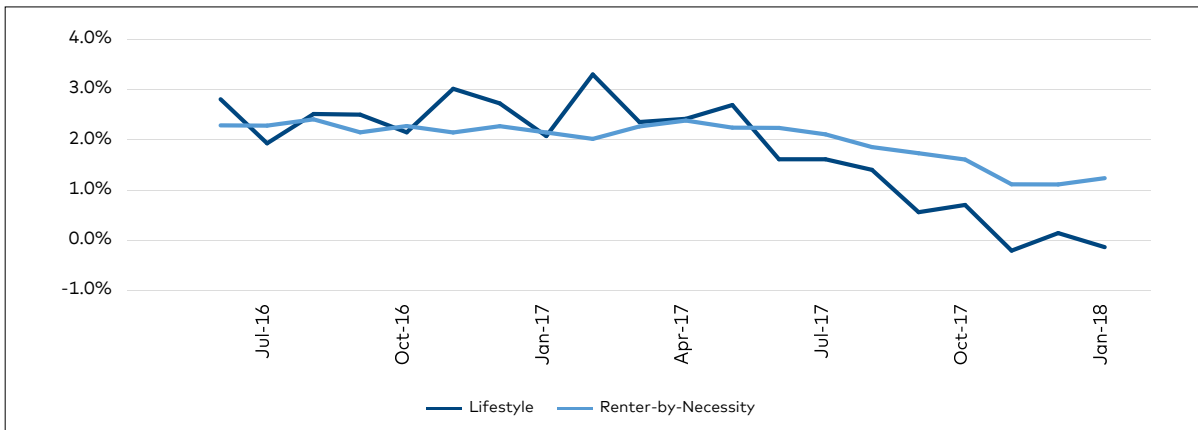
- Rents in the metro were up 1.0% year-over-year as of January, continuing to lag behind the 2.8% U.S. growth rate. After hitting a peak of 2.6% in mid-2016, Cleveland rent growth steadily decelerated, following the nationwide trend. The average rent reached \$880, almost \$500 below the U.S. rate.
- The working-class Renter-by-Necessity segment led growth, up 1.2% year-over-year, to \$820. Meanwhile, rents in the much smaller Lifestyle segment remained relatively flat, down 10 basis points to \$1,427. Upscale properties are underperforming, as the spate of downtown deliveries continues. At the same time, the metro lost a significant number of office-using jobs last year, especially in professional and business services, and that is visibly softening demand for Class A apartments.
- Rent growth is spotty across the map, with Akron-West (6.0%), Broadview Heights (5.8%), Brooklyn (5.0%) and Richmond Heights (5.0%) leading the list. At the same time, rents dropped or remained flat across more than 10 submarkets, including slightly more expensive central areas such as Solon (-4.4%), Hough (-3.8%) and Cleveland-Downtown (0.1%).
- The metro's population is slowly shrinking, but the city continues to add jobs. And as downtown Cleveland's rebirth is still fueling housing demand, we expect rents to grow by 2.0% in 2018.

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)

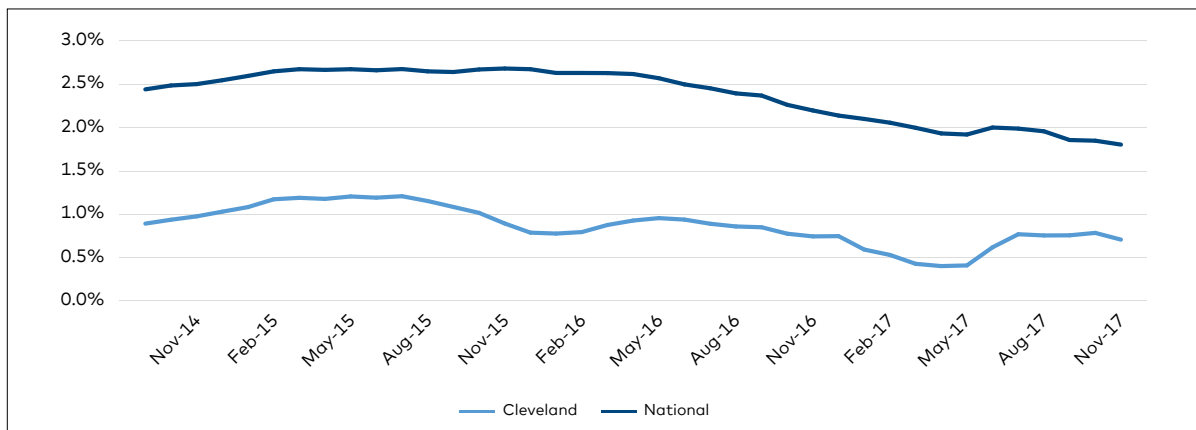


Source: YardiMatrix

Economic Snapshot

- Cleveland-Akron gained 1,500 jobs in the 12 months ending in November 2017. This marks a 0.7% appreciation, way behind the 1.8% national average. The metro heavily lagged behind the U.S. rate for the entirety of this cycle and growth continues to be spotty, as established sectors offset consistent losses in professional and business services (-4,600 jobs) and leisure and hospitality (-2,300 jobs).
- Education and health services led growth by adding 6,300 jobs, more than all other expanding sectors combined. Employing roughly 50,000 people, Cleveland Clinic remains the area's main economic engine, adding to the sector's surge with the opening of a new \$276 million facility last year.
- Most high-paying sectors contracted, but the city's office market remains sound. According to Cushman & Wakefield, the metro's office vacancy dropped below the 10% mark last year and Greater Cleveland had 1.6 million square feet of office space underway as of the fourth quarter of 2017.
- Developers continue to bet on downtown's growth and several large-scale projects are either under way or in the planning stages. Amazon is building two facilities adding up to more than 1.5 million square feet; Quicken Loans Arena is undergoing renovations set for completion in 2019; Stark Enterprises is still pursuing its \$540 million, 2 million-square-foot NuCLEus mixed-use project.

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 | 271 | 19.2% | 6,300 | 2.4% |
| 30 | Manufacturing | 161 | 11.4% | 2,000 | 1.3% |
| 15 | Mining, Logging and Construction | 53 | 3.8% | 1,800 | 3.5% |
| 55 | Financial Activities | 82 | 5.8% | 1,400 | 1.7% |
| 80 | Other Services | 54 | 3.8% | - | 0.0% |
| 50 | Information | 18 | 1.3% | -500 | -2.7% |
| 40 | Trade, Transportation and Utilities | 254 | 18.0% | -800 | -0.3% |
| 90 | Government | 184 | 13.1% | -1,800 | -1.0% |
| 70 | Leisure and Hospitality | 130 | 9.2% | -2,300 | -1.7% |
| 60 | Professional and Business Services | 202 | 14.3% | -4,600 | -2.2% |

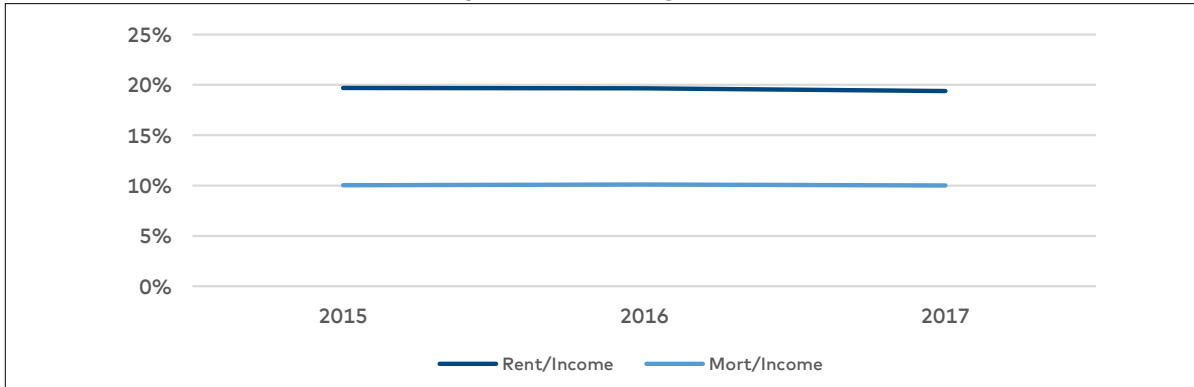
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

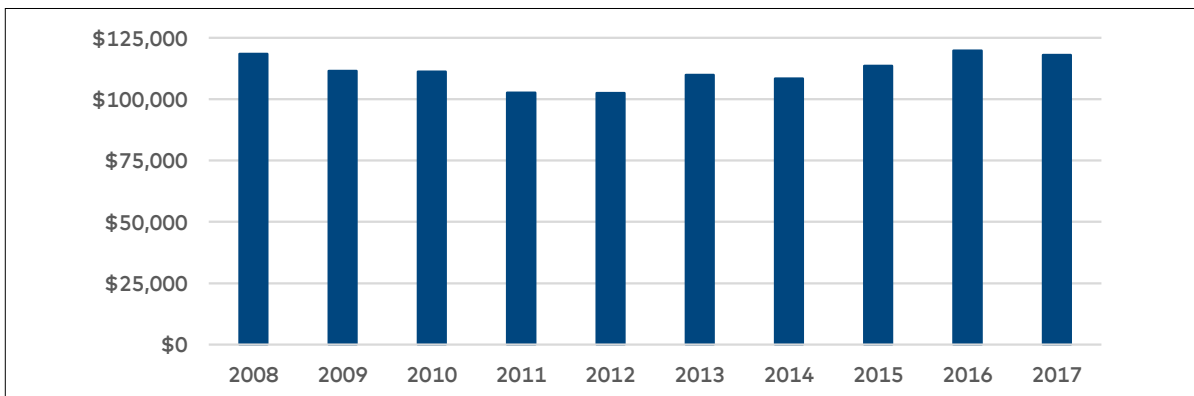
- The median home price in Cleveland remained virtually flat last year, down just 150 basis points since 2016, to roughly \$118,000. Although up 15% since 2012, home prices in the metro remain well below the U.S. average, maintaining affordability at manageable levels.
- Due to its industrial past and Rust Belt history, the metro benefits from large stocks of affordable housing. Owning remains way more affordable than renting, with the average mortgage payment accounting for 10% of the area's median income. Meanwhile, the average rent of \$880 equated to 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

- Core Cleveland's population is surging, but the metro contracted by 15,000 people between 2010 and 2016.
- Cleveland contracted by roughly 9,000 people in 2016 alone, a 0.4% slide.

Cleveland vs. National Population

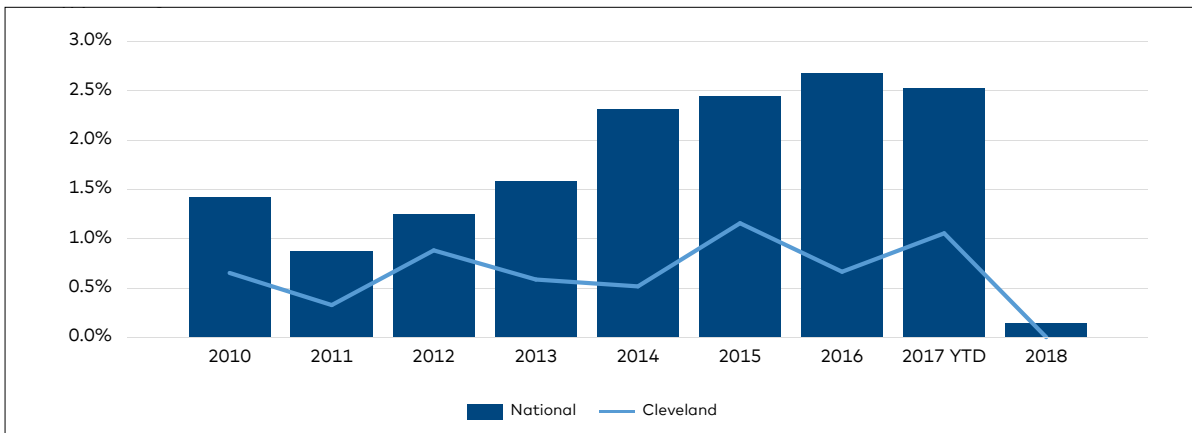
| | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------|-------------|-------------|-------------|-------------|-------------|
| National | 313,998,379 | 316,204,908 | 318,563,456 | 320,896,618 | 323,127,513 |
| Cleveland Metro | 2,064,240 | 2,064,501 | 2,063,862 | 2,059,929 | 2,055,612 |

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

Supply

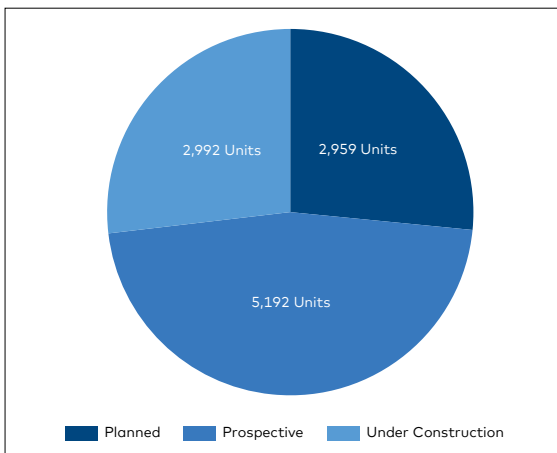
- Roughly 1,700 units came online in Cleveland last year, 1.1% of total stock. Fueled by the rebirth of its core, the metro added almost 4,500 rentals since the beginning of 2015, more than half of which are located within three miles of downtown. Yardi Matrix forecasts that roughly 2,000 units will be completed in Cleveland this year.
- Of the units delivered during the past three years, more than 80% were in Class A and B+ communities. Almost 3,000 units were under construction as of January, the majority of which are expected to come online in 2018. Factoring in planned and prospective assets, the metro's pipeline reached 11,000 units.
- With a total of 1,285 units under construction, Cleveland Heights and Cleveland–Downtown are spearheading development. The two submarkets accounted for more than 40% of all units under way, followed by Solon (395 units), Ohio City (194), Uniontown (192), Lakewood (182) and Kent (168).
- The largest multifamily project underway was The Standard, Weston's 281-unit redevelopment of a historic downtown office tower. The trend is evident—according to JLL—as more than 3.6 million square feet of Cleveland office space has been converted to apartments over the last decade.

Cleveland vs. National Completions as a Percentage of Total Stock (as of January 2018)



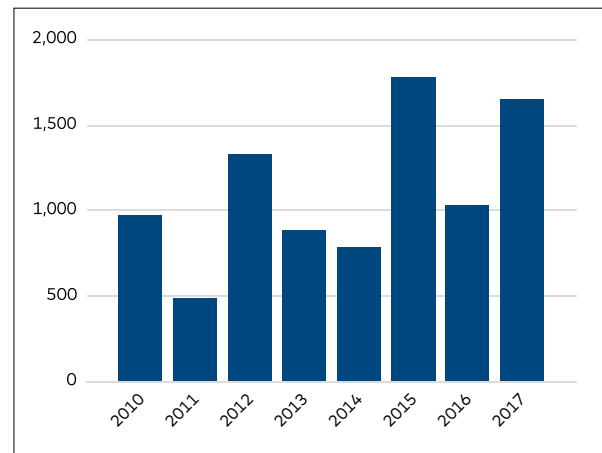
Source: YardiMatrix

Development Pipeline (as of January 2018)



Source: YardiMatrix

Cleveland Completions (as of January 2018)

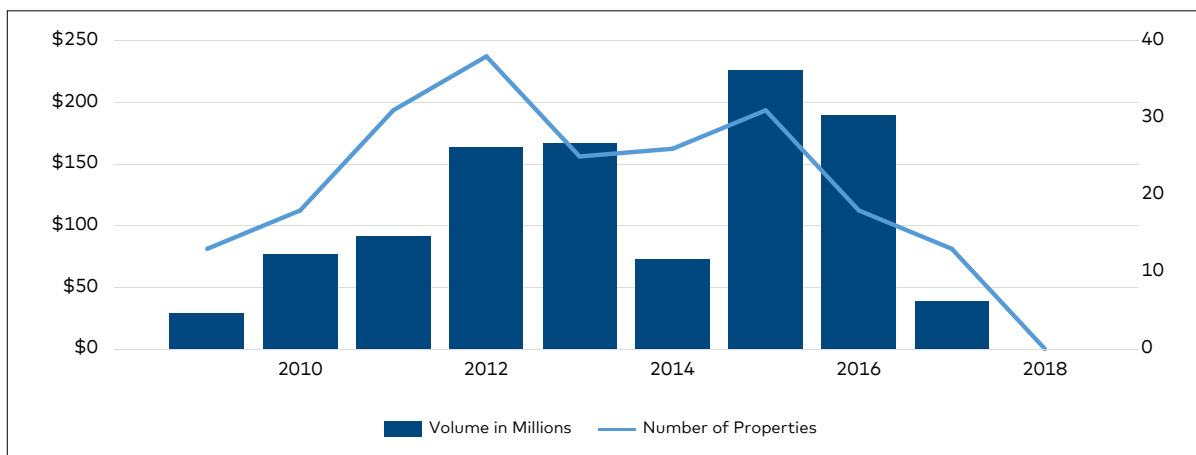


Source: YardiMatrix

Transactions

- Only \$38 million in assets traded in Cleveland in 2017, marking a steep drop after two years of heightened activity. Some \$415 million in multifamily properties changed hands in 2015 and 2016.
- Per-unit prices fell to \$47,291 last year, almost three times less than the \$138,166 U.S. average. Investors are almost exclusively focusing on value-add plans, taking advantage of the city's high percentage of workforce stock. Out of the 48 communities changing hands since the beginning of 2015, more than 80% were Class B/C assets.
- Millennia Housing Cos., the metro's third-largest private multifamily owner by number of properties, further expanded its 23-strong Cleveland-area portfolio with the acquisition of Lexington Village in the Hough submarket. The company paid almost \$6 million, or \$21,524 per unit, for the 1980s community previously owned by McCormack Baron Salazar.

Cleveland Sales Volume and Number of Properties Sold (as of January 2018)



Source: YardiMatrix

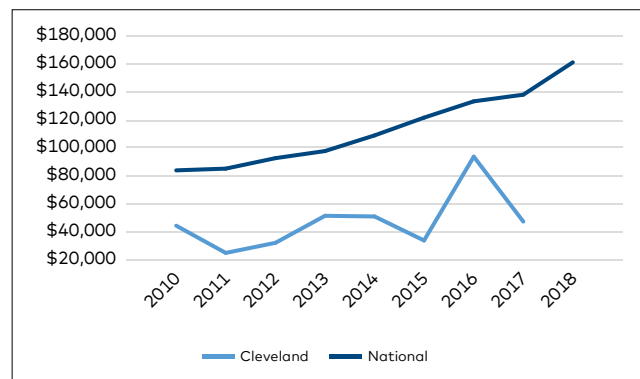
Top Submarkets for Transaction Volume¹

| Submarket | Volume (\$MM) |
|-----------------|---------------|
| Westlake | 20 |
| Parma | 9 |
| Hough | 6 |
| Lorain-Downtown | 2 |
| Elyria | 2 |

Source: YardiMatrix

¹ From January 2017 to December 2017

Cleveland vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Bellwether Arranges \$57M Refi
For Cleveland Office Tower



Iconic Cleveland Building
Changes Hands for \$40M



Mohr Capital Acquires 460 KSF
Cleveland Office Center

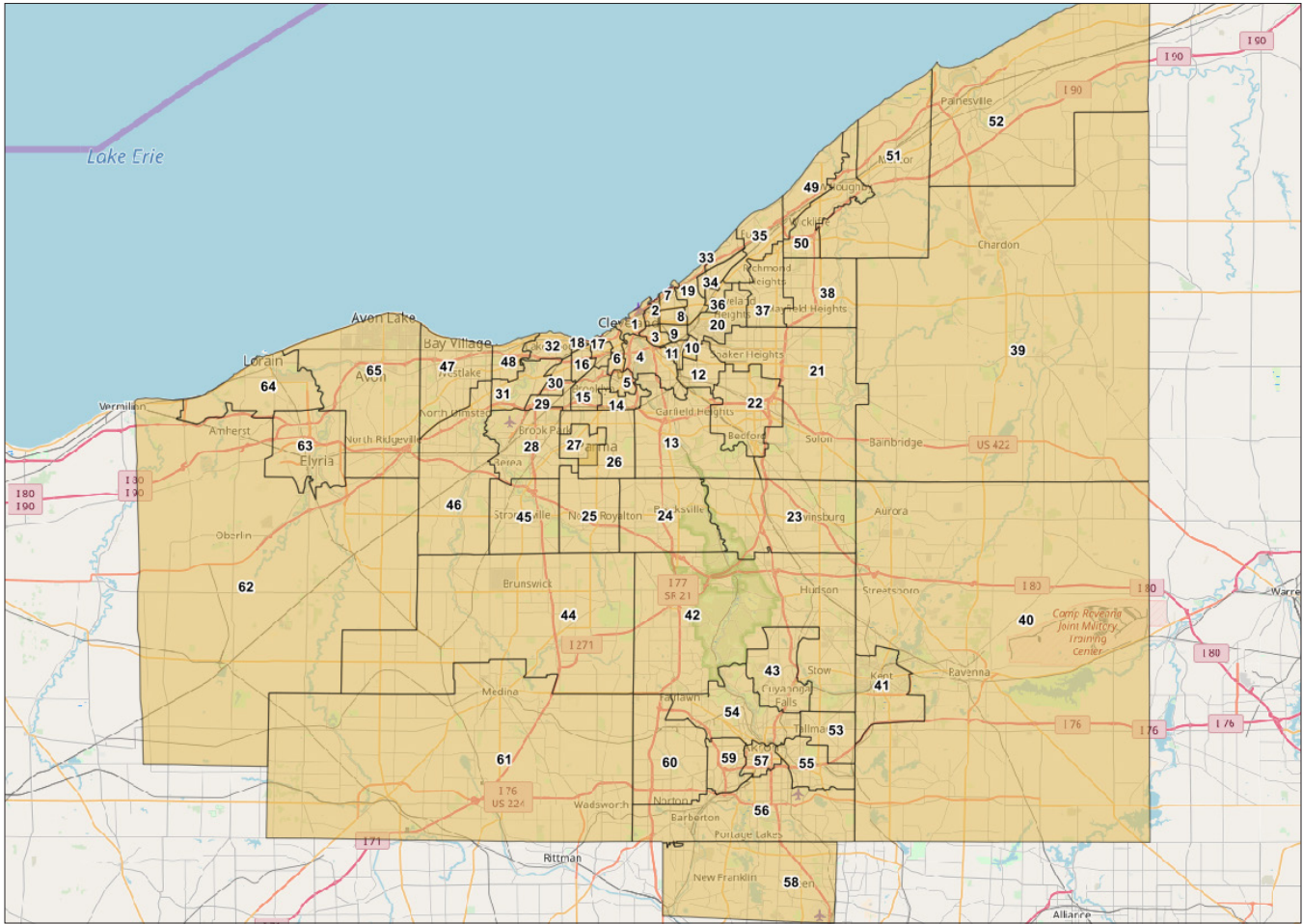


Cleveland-Area Community
Lands \$25M Fannie Mae Loan

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Cleveland Submarkets



| Area # | 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 # | 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 # | 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 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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