

Cleveland Rentals Solid

October 2023



Investment Volume Slows Down

Development Activity Tapering

Rent Growth Outpaces US

CLEVELAND MULTIFAMILY



Rental Sector Outperforms U.S.

Cleveland's multifamily market experienced mixed results in 2023 through August. Rents were up 0.3% on a trailing three-month basis, to \$1,156, lagging the U.S. average of \$1,728. Rate development moderated nationwide, after remaining 30 to 40 basis points above the national average since April 2023, with June recording the best performance, up 0.8% on a three-month basis.

Year-over-year, unemployment in Cleveland clocked in at 3.5% in July, after reaching 4.4% in June, according to preliminary data from the Bureau of Labor Statistics. The national figure was also 3.5%. Over the 12 months ending in June, Cleveland added 14,700 jobs, a 1.1% expansion and 165 basis points behind the U.S. average. Employment growth showed signs of recovery after decreasing during the spring months. Gains were led by the education and health services sector, which added 11,400 jobs, up 4.6% year-over-year through May, followed by other services with 3,600 jobs, up 7.1%, and mining, logging and construction with a 4.2% year-over-year growth rate, or 2,400 new positions.

Cleveland had 4,150 units under construction as of August. Deliveries totaled 947 units, representing 0.6% of total stock, 60 basis points below the national average. Multifamily investment interest decreased, with transaction volume through August at \$73 million and no sales recorded within the Lifestyle segment.

Market Analysis | October 2023

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Recent Cleveland Transactions

Fir Hill Towers



City: Akron, Ohio
Buyer: Green Harvest Capital
Purchase Price: \$24 MM
Price per Unit: \$95,617

Gold Zone Valley



City: Akron, Ohio
Buyer: Gold Zone Rentals
Purchase Price: \$18.3 MM
Price per Unit: \$97,420

Park Place Suites



City: Akron, Ohio
Buyer: Reynolds Asset
Management
Purchase Price: \$6.5 MM
Price per Unit: \$51,269

Concord Place

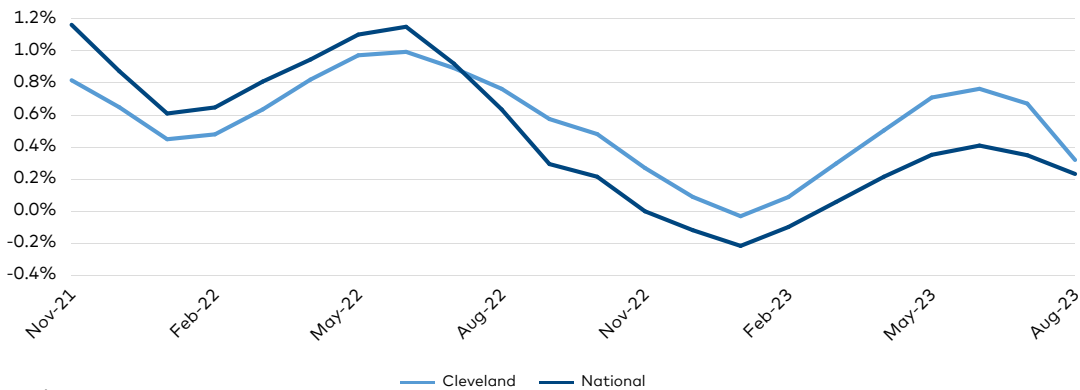


City: Akron, Ohio
Buyer: Ryan P. Sommers
Purchase Price: \$5.8 MM
Price per Unit: \$64,066

RENT TRENDS

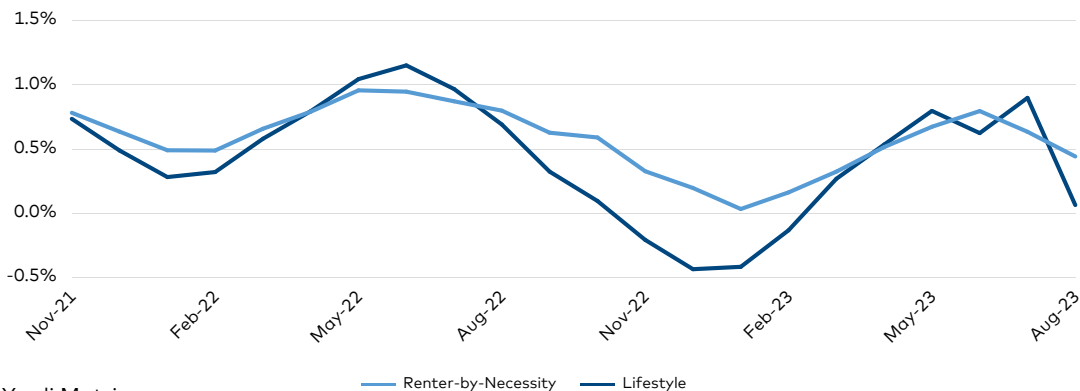
- ▶ Cleveland rents were up 0.3% on a trailing three-month (T3) basis through August, 10 basis points above the national average, after outperforming the national rate of growth by 30 to 40 basis points for the better part of 2023. Despite limited growth in Q3, Cleveland hasn't seen negative short-term movement in rents this year.
- ▶ The average rate in the metro reached \$1,156 as of August, well below the \$1,728 national figure. Rates in the Renter-by-Necessity segment were up 0.4% on a T3 basis, to \$1,069. Meanwhile, Lifestyle rents were only up 0.1%, to \$1,791. This comes on the heels of a very strong summer for the quality segment, when rents were up by as much as 0.9%. RBN figures saw improvement at 0.4%, as of August.
- ▶ Demand in the metro slowed, as the overall occupancy rate in stabilized assets fell 80 basis points year-over-year, to 95.1%, still 10 basis points higher than the U.S. rate, which has stagnated for the past four months. The Lifestyle segment fared better, with occupancy rates dropping only 10 basis points year-over-year, to 95.0%. Meanwhile, occupancy for RBN assets was down 90 basis points, to 95.1% year-over-year in August.
- ▶ Most Cleveland submarkets recorded gains over the past 12 months, with 10 submarkets recording increases ranging between 12% and 41.7%. Rent growth was led by Akron-South (up 21.3% to \$886), Broadway (14.7% to \$1,386) and Avon (12.6% to \$1,266). Growth was diversified across different metro locales.

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 unemployment rate dropped 90 basis points month-over-month to 3.5% as of July, according to data from the Bureau of Labor Statistics. The national unemployment rate was also at 3.5%.
- ▶ Over the 12 months ending in June, Cleveland added 14,700 jobs, a 1.1% expansion and 170 basis points behind the U.S. average. Employment growth was stable throughout the first half of 2023, albeit at a limited rate, with the metro's job growth staying below the 2.0% mark since October 2022.
- ▶ Education and health services, the metro's economic cornerstone, gained 11,400 jobs, up 4.6% year-over-year through May. Other services (up 3,600 jobs, 7.1%) and mining, logging and construction, with 2,400 positions, rounded out the top three. Trade, transportation and utilities lost 5,500 jobs, down 2.2% year-over-year, while professional and business services lost 1,200 positions, down 0.9% year-over-year.
- ▶ Sherwin-Williams' new global headquarters, which broke ground in 2022, is currently being built in downtown Cleveland. It is slated to comprise approximately 1 million square feet and include a two-story pavilion, a 36-floor office tower and a multilevel parking garage. A total of 3,100 employees are expected to move to the new building.

Cleveland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	262	18.7%
80	Other Services	55	3.9%
15	Mining, Logging and Construction	59	4.2%
30	Manufacturing	158	11.3%
70	Leisure and Hospitality	136	9.7%
90	Government	171	12.2%
50	Information	19	1.4%
55	Financial Activities	88	6.3%
60	Professional and Business Services	204	14.6%
40	Trade, Transportation and Utilities	248	17.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Cleveland lost 9,695 residents in 2021, a population decrease of 0.5% year-over-year. After gaining some 36,000 new residents during the first year of the pandemic, the metro saw demographic trends slide, well under the national rate of improvement of 0.1%.

Cleveland vs. National Population

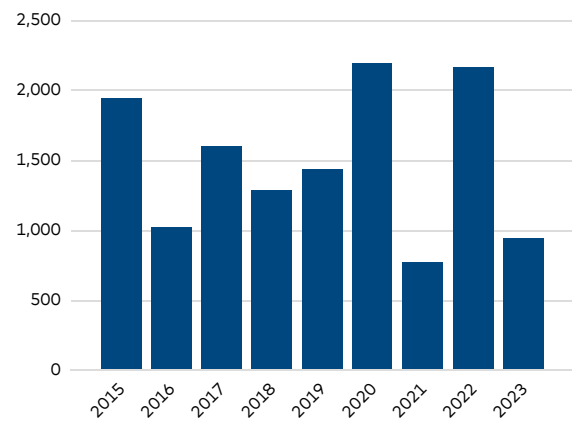
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Cleveland	2,053,841	2,049,028	2,085,357	2,075,662

Source: U.S. Census

SUPPLY

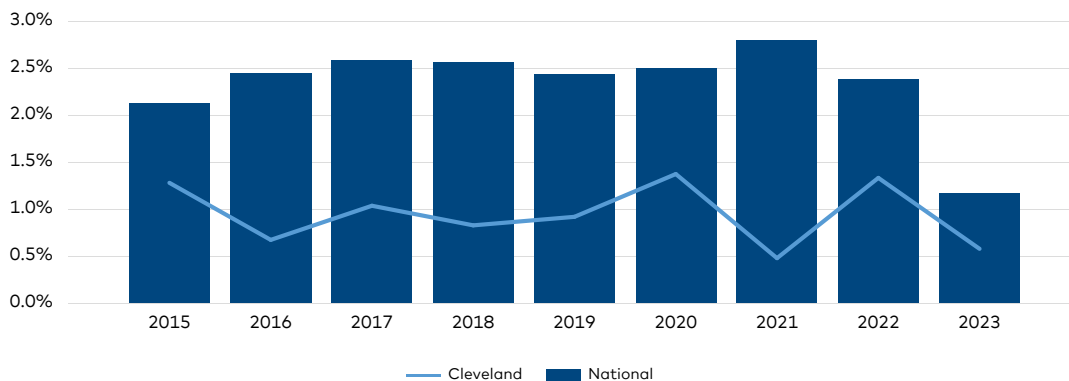
- ▶ As of August, Cleveland had 4,150 units under construction across 26 properties, 6.5% more than the total for the same period last year. The metro also had 17,800 units in the planning and permitting stages. The pipeline remained heavily tilted toward upscale assets, with 84% of units in the Lifestyle segment, while only 9.5% represented fully affordable projects.
- ▶ During the first eight months of 2023, Cleveland developers completed 947 units, which is roughly 100 units more than the number delivered by the same time last year. Completions represented 0.6% of total stock, 60 basis points below the national average.
- ▶ Developers broke ground on eight properties comprising 1,459 units in 2023 through August, a 4% decrease from the number recorded over the same period last year.
- ▶ Downtown Cleveland continued to record the most construction activity in the market, with 925 units under construction. The other urban submarkets leading activity are Broadway (762 units), Glenville (558 units) and Fairfax (281 units).
- ▶ The largest property completed in 2023 through August was the 258-unit Station 73 at Battery Park in Shoreway. Developed by Avenue Partners, the property was built using a \$43 million construction loan originated by Northwest Bank.

Cleveland Completions (as of August 2023)



Source: Yardi Matrix

Cleveland vs. National Completions as a Percentage of Total Stock (as of August 2023)



Source: Yardi Matrix

TRANSACTIONS

- ▶ Cleveland's multifamily transaction volume during the first eight months of 2023 reached \$73 million, accounting for less than a quarter of what traded during the same period last year. Although slightly oscillating over the past five years, investment activity was consistently over the \$200 million mark in the metro. However, increasing interest rates and high costs of capital have tempered sales activity.
- ▶ A total 13 properties traded year-to-date through August, with all of them in the RBN segment. With all deals targeting value-add plays, average per-unit prices have taken a slide, from \$88,680 in 2022, to \$62,629. That's also well below the U.S. average of \$186,926.
- ▶ The most expensive multifamily property that changed hands this year through August was Fir Hill Towers in downtown Akron, which traded for \$24 million, or \$95,618 per unit.

Cleveland Sales Volume and Number of Properties Sold (as of August 2023)



Source: Yardi Matrix

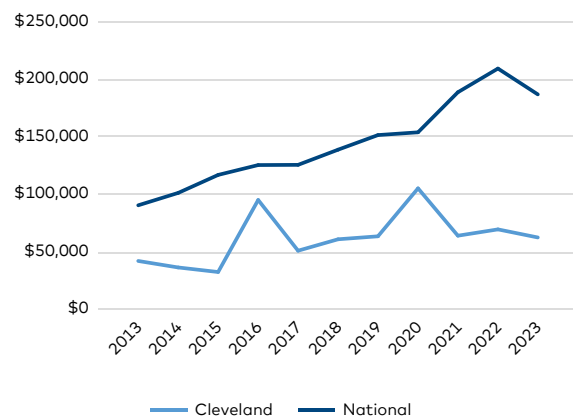
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Akron-Downtown	29
Kent	22
Akron-South	21
Euclid	11
Lorain-Downtown	8
Willoughby	7
Garfield Heights	7

Source: Yardi Matrix

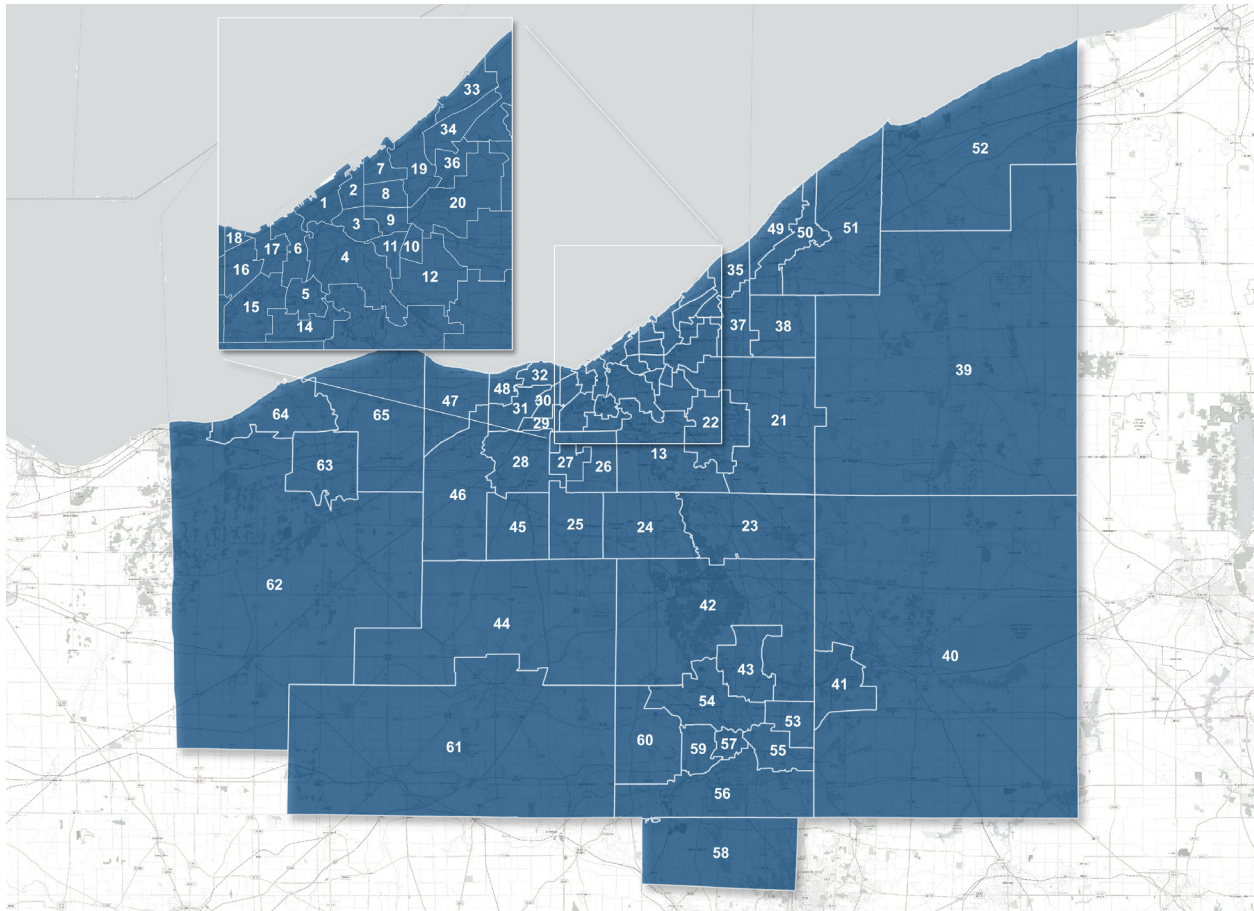
¹ From September 2022 to August 2023

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 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.

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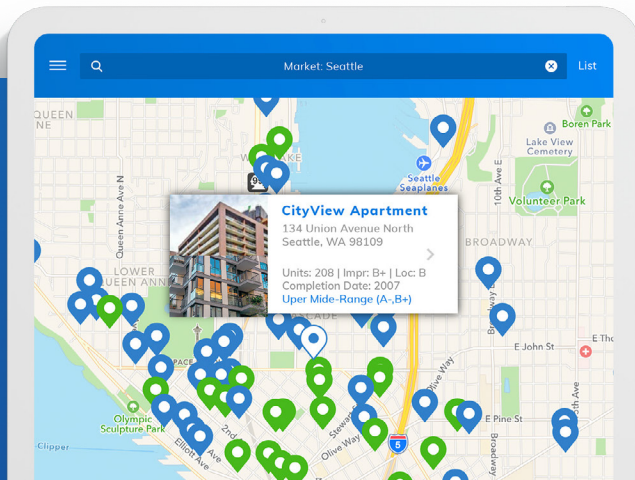
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- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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