

Yardi® Matrix

# Steady Cleveland

Multifamily Report Summer 2018

**New Supply Tempers Rent Growth**

**Hiring Picks Up, Unemployment Drops**

**Downtown Population Reaches Milestone**

## Market Analysis

Summer 2018

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## Downtown Boom Drives Demand

Demand for apartments is strong in Cleveland's urban core, which reached a milestone of 15,000 residents and more than 95,000 jobs in 2017, becoming the largest downtown in Ohio. However, last year's spate of new supply, especially in the Lifestyle segment, has put a damper on rent growth, where the average rate remained flat year-over-year as of May.

Employment growth stayed below the previous years' averages, but job creation has begun to pick up, leading to reduced unemployment. The strengthening of the industrial sector led to increased hiring activity in trade, transportation and utilities. Growth was also strong in manufacturing, a driving force for the local economy, as well as biotech and office-using sectors such as financial activities, which is set to get a boost from insurer Progressive Corp. The company announced a \$30 million expansion in Highland Heights, where it plans to add 900 new jobs, while retaining nearly 10,000 local jobs, which have a total payroll of \$819 million.

Multifamily developers were active in the metro in 2017, a trend that is expected to persist through 2018. By the end of the year, 1,743 units are scheduled for completion, geared toward the Lifestyle renter cohort. Absorption is expected to keep up with the pace of new deliveries, generating 2.0% rent growth for the year.

## Recent Cleveland Transactions

Statler Arms



City: Cleveland  
Buyer: Millennia Housing Cos.  
Purchase Price: \$40 MM  
Price per Unit: \$135,593

Park Hill at Fairlawn



City: Akron, Ohio  
Buyer: Haley Real Estate Group  
Purchase Price: \$25 MM  
Price per Unit: \$126,933

Barrington Place



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

Hickory Hill

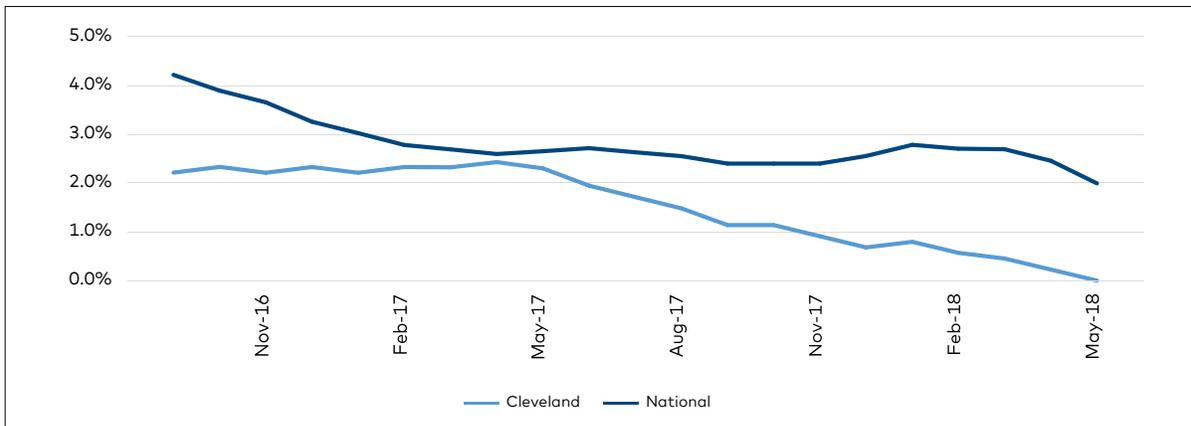


City: Brunswick, Ohio  
Buyer: DMG Rentals  
Purchase Price: \$12 MM  
Price per Unit: \$59,142

## Rent Trends

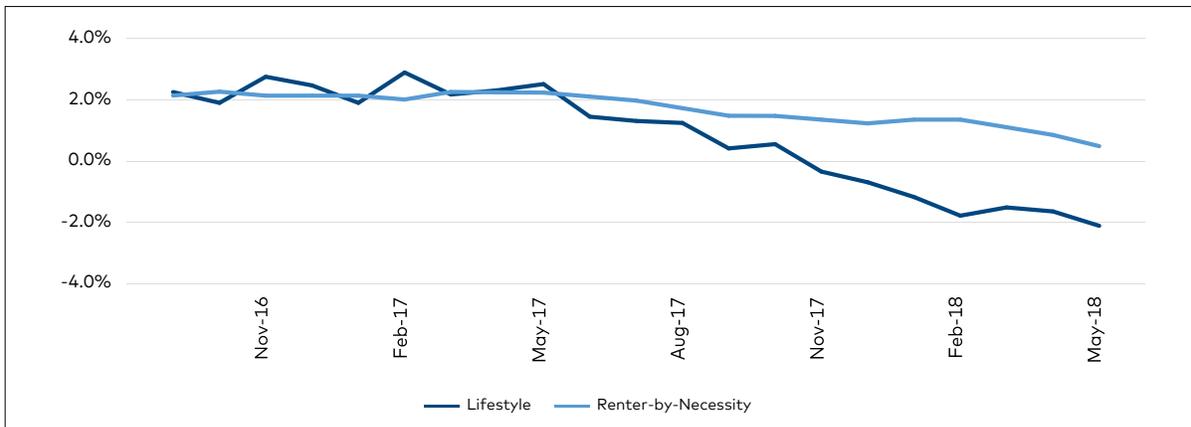
- Rents in Cleveland remained flat year-over-year through May, while the national growth rate reached 2.0%. The metro's average monthly rent stood at \$889, well below the \$1,381 U.S. figure. Following the delivery of 1,750 units in 2017, occupancy in stabilized properties dropped by 90 basis points year-over-year to 94.7% as of April, below the 94.9% national average.
- Rents in the working-class Renter-by-Necessity segment rose 0.5% to \$826, while Lifestyle rents contracted 2.1% to \$1,435. A shrinking population coupled with last year's spate of new deliveries—especially high-end product in core areas—has put a damper on rent growth.
- Fairfax, which benefited from the city's tax abatements to encourage developers to build or renovate apartments, saw the fastest rent gains (9.3%), followed by Avon (7.3%) and Rocky River (4.5%). Rents declined in expensive areas such as Akron–Downtown (-4.7%), Uniontown (-3.8%) and Cleveland–Downtown (-3.6%), as well as in Woodland Hills (-4.4%) and North Collinwood (-4.4%).
- In 2017, downtown Cleveland reached a milestone of 15,000 residents and more than 95,000 jobs, becoming the largest downtown in Ohio. The trend is expected to persist, bolstering demand for apartments. Yardi Matrix expects rent growth should reach 2.0% by the end of the year.

### 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)

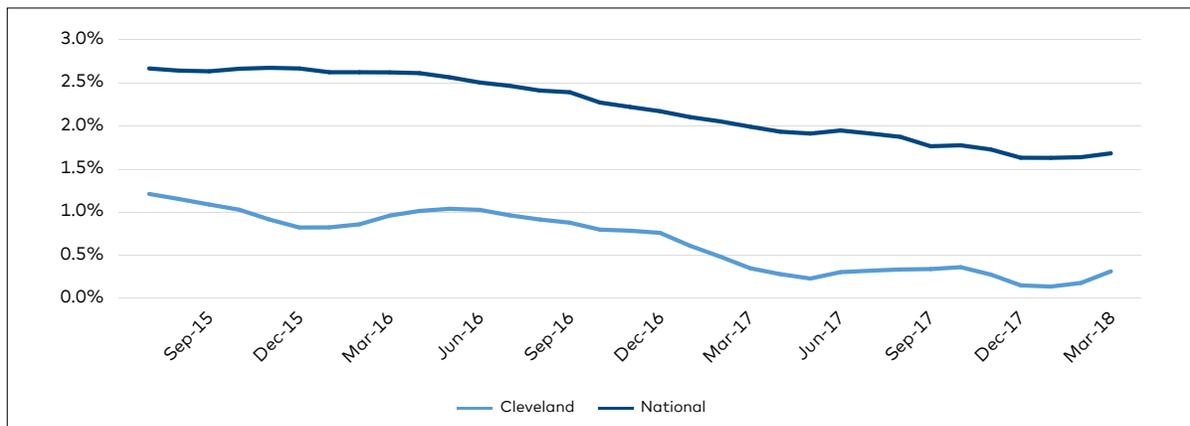


Source: YardiMatrix

## Economic Snapshot

- Cleveland added 15,100 jobs in the 12 months ending in March, a 0.3% increase, well below the 1.7% national growth rate. The unemployment rate for the same month descended to 4.7% in Cleveland–Elyria, and 4.5% in Akron, but remained above both the state’s 4.4% rate and the 4.1% national figure.
- Growth was led by trade, transportation and utilities, which gained 5,700 jobs, due to the strengthening of the industrial market. Manufacturing, a driving force for the local economy, expanded with the addition of 4,600 positions. In June, Innovative Fabrications celebrated the opening of a 160,000-square-foot factory in Stow, where it plans to hire more than 300 people. Biotech continues to advance in Cleveland, with firms such as Abeona Therapeutics working to develop gene and cell therapies for rare diseases. This year, the company opened the Elisa Linton Center for Rare Disease Therapies, a 6,000-square-foot manufacturing facility, which it intends to expand by another 20,000 square feet.
- Office-using employment is also growing, spurring demand for more space, especially in the urban core. By mid-2018, MCPc Inc. plans to relocate its cybersecurity operation to Midtown. Mayfield-based insurer Progressive Corp. announced a \$30 million expansion in Highland Heights by 2021, with plans to add 900 new jobs, while retaining nearly 10,000 local jobs, which have a total payroll of \$819 million.

### 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	%
40	Trade, Transportation and Utilities	253	18.1%	5,700	2.3%
30	Manufacturing	164	11.8%	4,600	2.9%
65	Education and Health Services	261	18.7%	3,000	1.2%
15	Mining, Logging and Construction	48	3.4%	2,300	5.1%
55	Financial Activities	82	5.9%	1,900	2.4%
90	Government	185	13.3%	700	0.4%
60	Professional and Business Services	203	14.6%	600	0.3%
50	Information	18	1.3%	-100	-0.5%
80	Other Services	52	3.7%	-500	-1.0%
70	Leisure and Hospitality	129	9.2%	-3,100	-2.3%

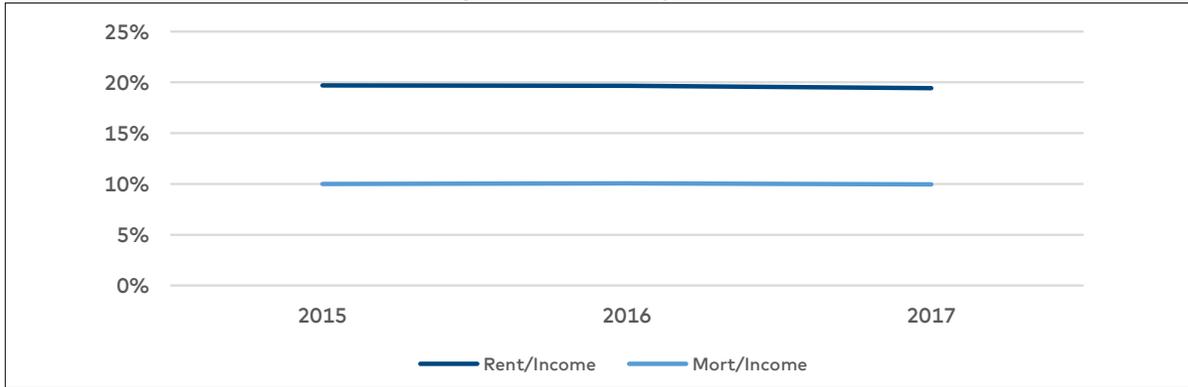
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

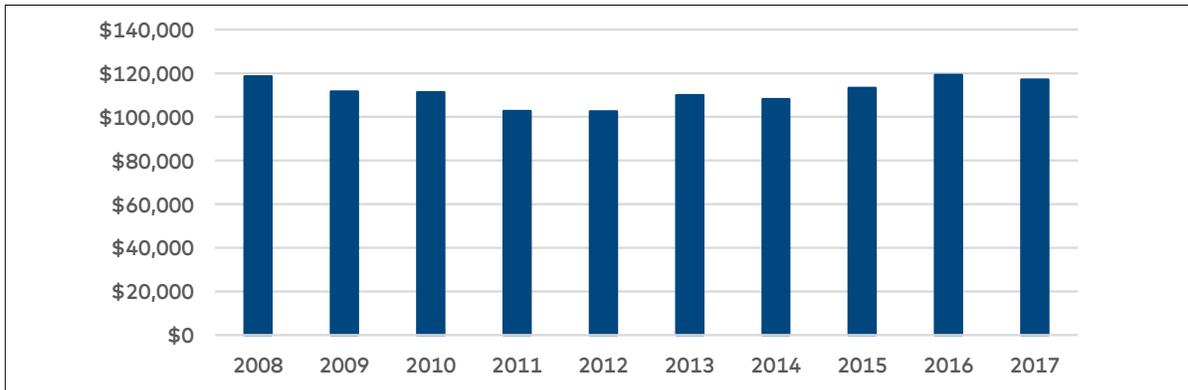
- The median home price in Cleveland rose to \$117,173 in 2017. Owning continued to be more affordable than renting, with the average mortgage payment accounting for 10.0% of the area's median income, while the average rent equated to 19%.
- Cleveland neighborhoods have benefited from the city's tax abatement program meant to entice developers to build or renovate homes and apartments that could be sold or rented at affordable prices. Since 1994, more than 24,000 homes—both single- and multifamily—have been granted deductions, including nearly 1,300 units built under Cleveland's Green Building Standards program.

### 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 decreased by 1,221 residents in 2017, down less than 0.1%, while the national rate stood at 0.7%.
- Since 2013, the metro's population declined by 7,000 residents, or 0.3%.

### Cleveland vs. National Population

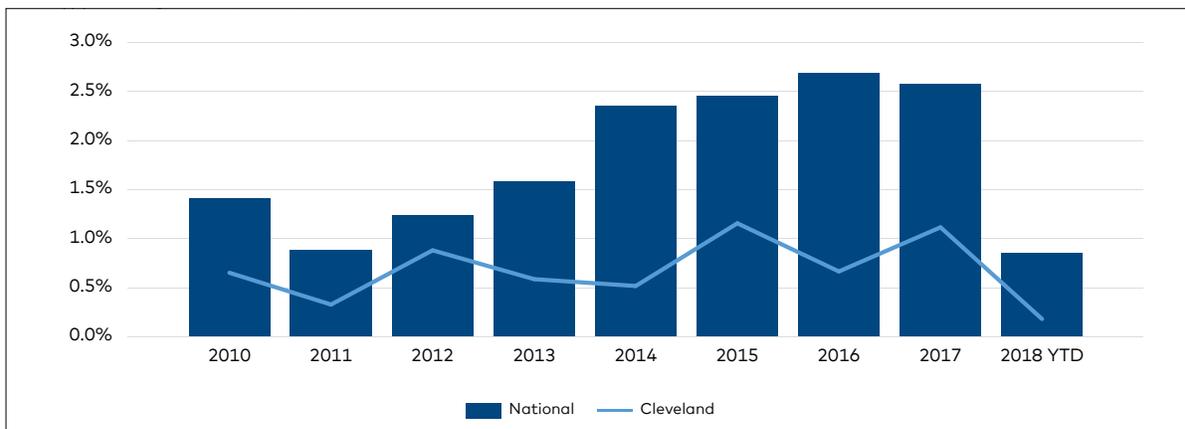
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Cleveland Metro	2,065,844	2,066,227	2,062,842	2,060,065	2,058,844

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

## Supply

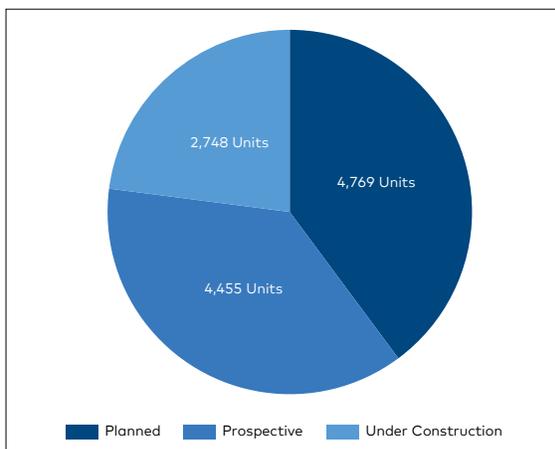
- The Standard, a 281-unit, converted Class A community located downtown, was the metro's only property to come online during the first five months of 2018. By the end of the year, 1,743 units are scheduled for completion, representing 1.1% of stock and nearly matching the 1,750 deliveries of 2017. Most of the new stock is geared toward the Lifestyle renter cohort.
- More than 2,700 units were underway as of May, while another 9,200 were in the planning and permitting stages. Absorption is expected to keep up, especially in Cleveland–Downtown, which has an occupancy above 95%, and apartments lease up as soon as they become available. The area's population exceeded 15,000 residents in 2017 and is set to reach 20,000 residents by 2020. The largest number of residents are Millennials, but empty nesters are the fastest-growing demographic, accounting for a 128% increase among 55- to 64-year-olds between 2010 and 2015.
- Submarkets with the largest number of apartments underway included Cleveland Heights (548 units), Solon (395 units) and Cleveland–Downtown (359 units). The 376-unit One University Circle, the tallest residential building constructed in 40 years in the region, ranked as the largest project as of May.

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



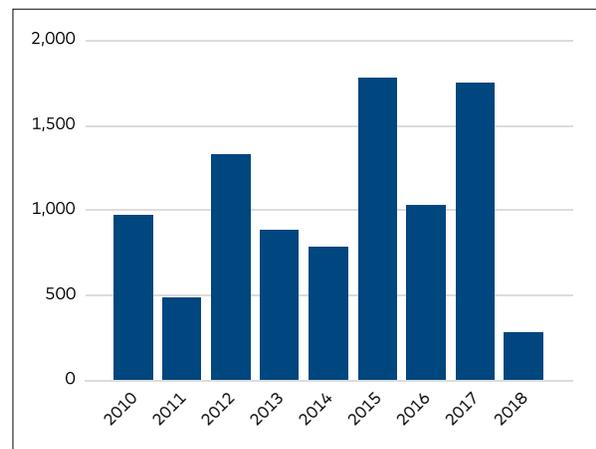
Source: YardiMatrix

**Development Pipeline** (as of May 2018)



Source: YardiMatrix

**Cleveland Completions** (as of May 2018)

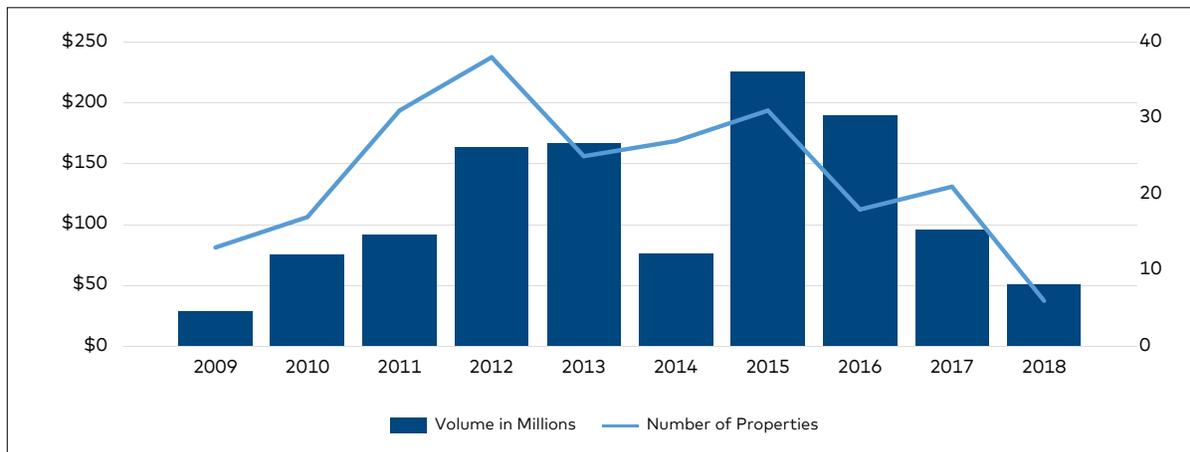


Source: YardiMatrix

## Transactions

- Six properties worth nearly \$51 million changed hands in Cleveland this year through May, five in the Renter-by-Necessity category. In 2017, more than \$95 million in multifamily assets traded at an average per-unit price of \$53,143, well below the \$139,879 national average.
- Drawn by low entry costs and favorable returns, multifamily investors mostly targeted value-add opportunities in metro Cleveland, where acquisition yields can go as high as 8.0% for Class A assets, 8.8% for Class B and 9.0% for Class C.
- The \$40 million purchase of the 295-unit, nearly vacant Statler Arms building in Cleveland–Downtown ranked as the metro’s largest multifamily deal of the year. Millennia Housing Cos. paid \$135,593 per unit to buy the 1912-built property from an affiliate of the California State Teachers’ Retirement System.

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



Source: YardiMatrix

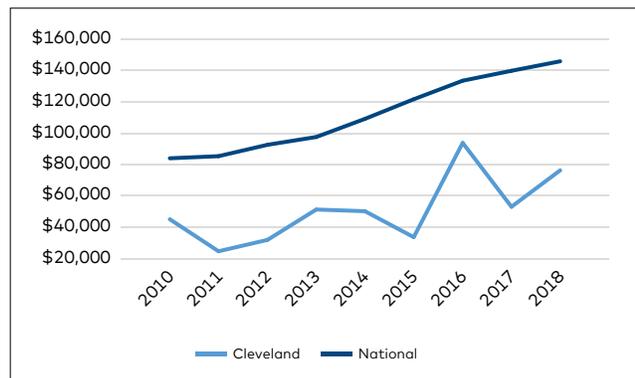
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Cleveland–Downtown	40
Akron–North	32
Westlake	20
Brunswick	12
Parma	9
North Collinwood	6
Hough	6
Lorain–Downtown	4

Source: YardiMatrix

<sup>1</sup> From May 2017 to April 2018

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



Source: YardiMatrix

## News in The Metro

Brought to you by:



Cleveland Luxury Property Receives \$93M Refi

Bellwether Enterprise's Flats at East Bank Apartments is an eight-story, 241-unit community that features 13 restaurants.



NHI Acquires Ohio Senior Housing Portfolio for \$70M

Totaling 320 units, the communities will be leased to an affiliate of Bickford Senior Living at an initial rate of 6.9 percent with annual fixed escalators and a 15-year maturity.



FOURMIDABLE Expands Ohio Management Portfolio

The Village at Arlington I & II is located in Youngstown and comprises 120 affordable units, a playground and a computer center.



Iconic Cleveland Building Changes Hands for \$40M

Institutional Property Advisors, a division of Marcus & Millichap, brokered the sale of the 295-unit Statler Arms. Michael Barron, Joshua Wintermute and Daniel Burkons represented the buyer.

Log on to [Multi-HousingNews.com](http://Multi-HousingNews.com) to get the latest metro-specific news.



### The Midwest—The Hottest Market for Smart Communities

Smart home systems are a perfect differentiator for many developers and managers. With many new smart communities popping up across Midwestern cities, we've asked IOTAS CEO & Founder Sce Pike to discuss the attractiveness of smart projects in this region.

We wanted to find out more about the growth of smart multifamily projects in the Midwestern region and why developers have focused their attention on this area. In addition to new smart communities coming up in Columbus, St. Louis, Minneapolis, Dallas and Chicago, Omaha has welcomed its first fully enabled smart community. Known as 1415@The Yard, the 101-unit property allows tenants to control most areas of the apartment through an app.

#### *How is the Midwest attracting developers of smart communities?*

Rent growth in the Midwest market is currently experiencing a plateau. As a result, developers and property managers alike are looking for alternatives that generate revenue and retain tenants, while still being cost-conscious. One of the best approaches is to focus on technology—more specifically, smart technologies. For example, we've seen smart-enabled apartments lead to up to \$45 monthly rent bumps in Class B properties for every \$500-\$600 investment. While implementing smart technologies within units may not be the first idea that comes to mind, it is ultimately a better investment than other amenities such as cocktail hours or fitness facilities.

#### *Which metros in the Midwest are the most sought-after when it comes to smart-home development in 2018?*

The Midwest has been championing the adoption of smart-enabled communities. We've seen a significant



increase in demand for smart apartments with more than 180 different projects in the works alone. Some of the most sought-after Midwestern cities include Columbus, Minneapolis/St. Paul, Chicago, Oklahoma City and the first apartment community to adopt smart technology from the ground up in Omaha, Neb.

#### *What are the most attractive features of a smart apartment in the Midwest?*

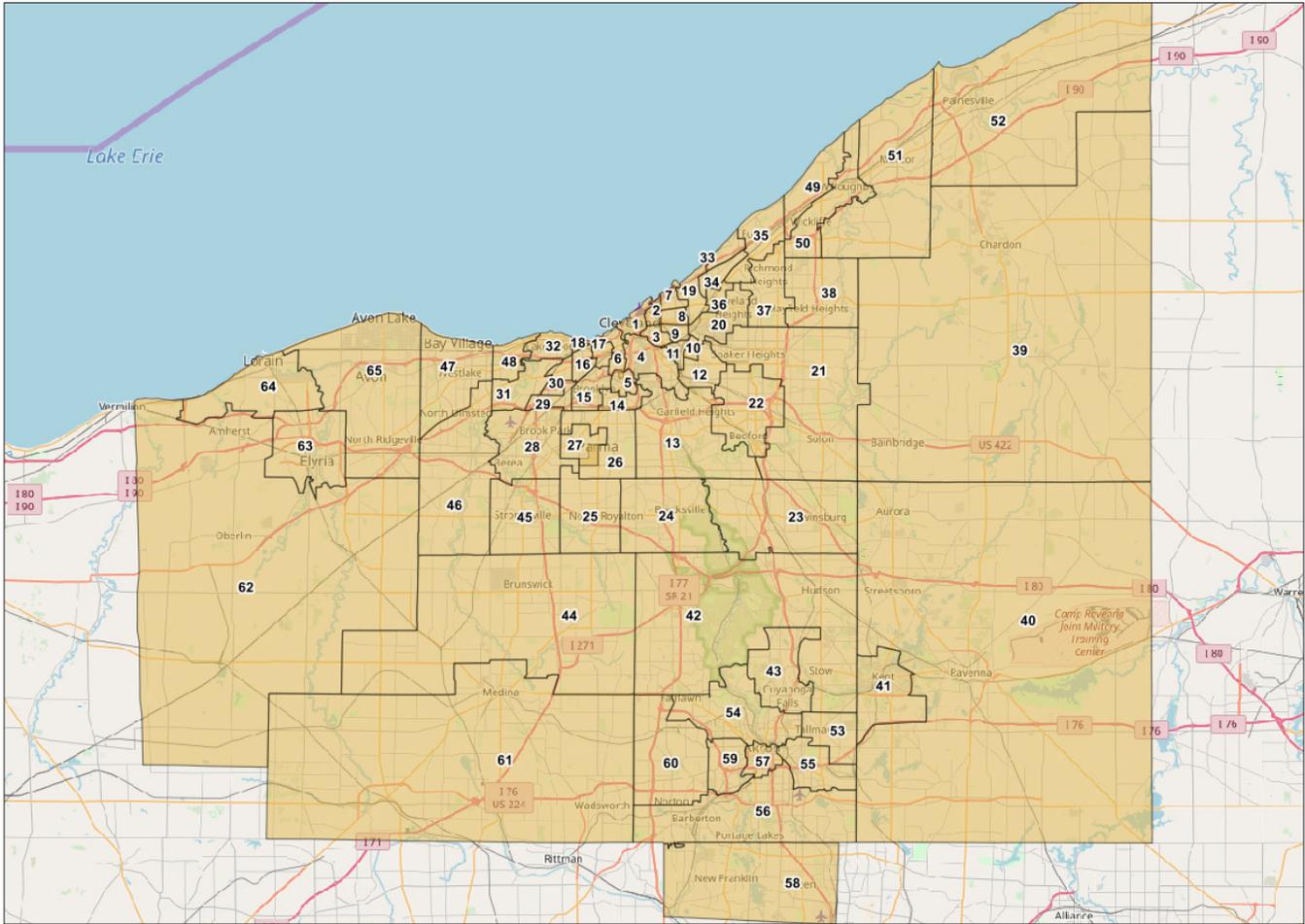
Attractive smart apartment features are not specific to geographic region. However, we have seen residents across communities focus on some

of the more practical uses of smart homes—remote temperature control, the ability to turn on and off lights regardless of location, automatic door locks, as well as complete voice control. Another benefit of an IOTAS-enabled apartment is the addition of "stories." Overtime, the system learns the habits of a resident. The resident can use these lessons to create "stories" that will allow for automation to fit their schedule.

#### *Where are the largest smart projects currently under construction located in the Midwest?*

There are quite a few right now. New construction projects in Minneapolis and St. Paul lead the charge. Dallas-Fort Worth areas have quite a few properties going vertical now, as well. Surprisingly, it's the secondary and tertiary markets leading the charge, such as suburb communities outside of Columbus, Dallas, Cleveland, Austin, Oklahoma City and others.

## 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

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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.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

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