



Yardi® Matrix

# Cleveland On the Rebound

Multifamily Report Winter 2019

**Job Growth Accelerates**

**City Core Draws Development**

**Investors Eye Value-Add Properties**

## Market Analysis

Winter 2019

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## Rent Growth Picks Up

Cleveland's core continues to drive the city's multifamily market, with most development and investor activity taking place within or close to downtown. With demographic contraction tempering and demand improving, rent growth is once again accelerating, at 2.2% year-over-year through October 2018.

After a lethargic 2017 and first half of 2018, job growth finally picked up during the past two quarters. Trade, transportation and utilities led growth by adding 9,200 positions year-over-year through September. The state's Department of Transportation is supporting a \$306 million investment in the city's infrastructure—an upcoming boulevard between Interstate 490 and East 105th Street near the Cleveland Clinic. The hospitality sector is also performing well, with medical tourism expanding, backed by the metro's reputable health-care system.

The metro had roughly 2,800 units under construction as of October. All multifamily projects completed in the first 10 months of the year cater to Lifestyle renters, a fact that is putting further pressure on working-class households. As long as job gains in Cleveland continue to sustain demand at current levels, the upcoming stock should be easily absorbed, despite an overall aging population and slow household formation.

## Recent Cleveland Transactions

Crystal Tower



City: East Cleveland, Ohio  
Buyer: Odin Properties  
Purchase Price: \$7 MM  
Price per Unit: \$24,757

The Crossing



City: Elyria, Ohio  
Buyer: Cornerstone  
Managed Properties  
Purchase Price: \$4 MM  
Price per Unit: \$24,431

West Erie Terrace



City: Lorain, Ohio  
Buyer: Watermark Partners  
Purchase Price: \$2 MM  
Price per Unit: \$31,667

Hill Chateau

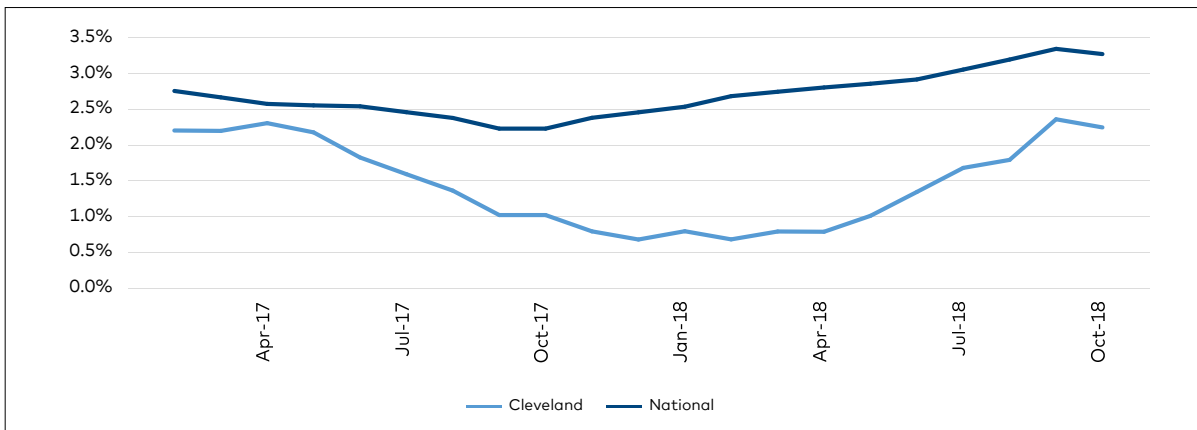


City: Akron, Ohio  
Buyer: Watermark Partners  
Purchase Price: \$2 MM  
Price per Unit: \$24,590

## Rent Trends

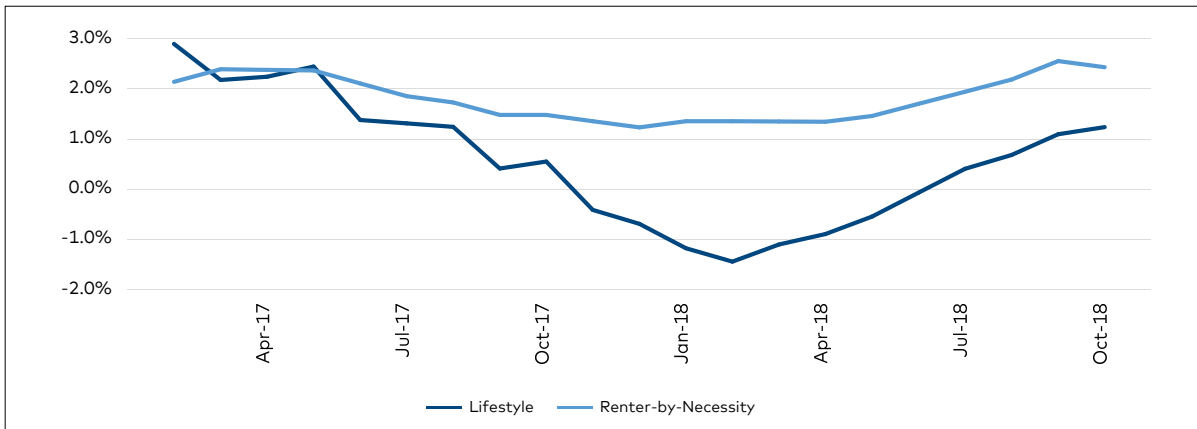
- At 2.2% year-over-year through October, rent growth in the metro is on the rebound. Continued improvement has led to an overall rent of \$910. The figure remains close to averages for nearby Columbus (\$951) and Cincinnati (\$957), but well below the \$1,420 national figure. Despite almost 5,400 units being delivered since 2015, demand is still substantial, especially in core urban areas. Occupancy in stabilized properties was 95.3% as of September, down just 0.2% over 12 months and only 10 basis points below the national rate.
- With job growth across the board pushing up workforce housing demand, rates in the Renter-by-Necessity segment rose 2.4% in the 12 months ending in October, to \$843. Meanwhile, Lifestyle rents reached \$1,473 after a 1.2% uptick. With gains in the professional and business services sector picking up, rents for upscale properties recovered in the second half of the year after nearly three quarters of year-over-year contraction.
- Rents in Lakeside submarkets such as Lake (up 7.0%) and Shoreway (up 6.5%) improved the most, boosted by the rehabilitation of waterfront infrastructure. However, Glenville (\$1,722) and Ohio City (\$1,621) remain Cleveland's most expensive submarkets. Average rents decreased in 12 submarkets, including Cleveland-Downtown (down 1.1%), which continues to lead development by far.

### 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)

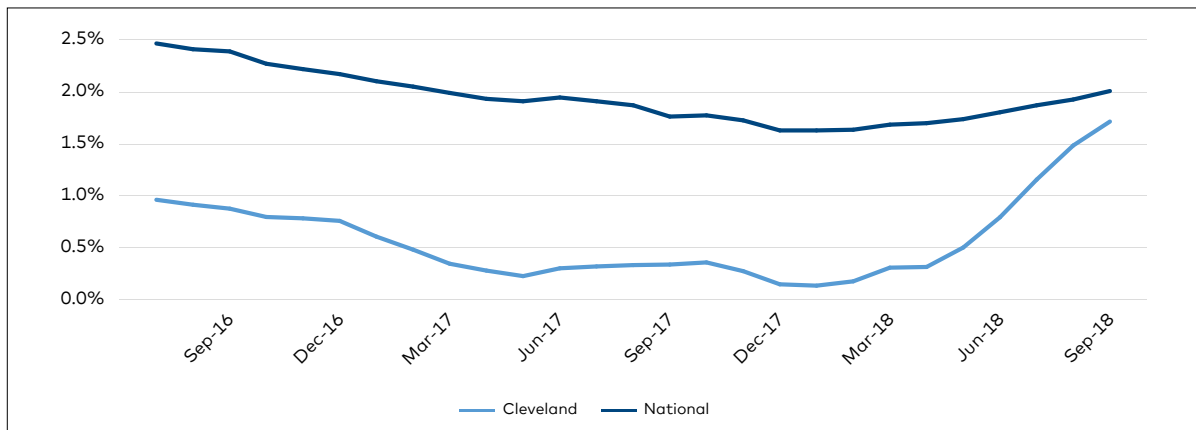


Source: YardiMatrix

## Economic Snapshot

- Employment growth is picking up, with Cleveland adding 34,600 jobs in the 12 months ending in September for a 1.7% year-over-year increase, 30 basis points below the U.S. average.
- Trade, transportation and utilities led gains, adding 9,200 positions. The Ohio Department of Transportation is investing \$306 million in a boulevard connecting Interstate 490 at East 55th Street with East 105th Street and University Circle. The Opportunity Corridor is expected to be completed by fall 2021. The sector is poised for rapid expansion as e-commerce continues to grow in the metro. This fall, Amazon opened an 855,000-square-foot fulfillment center on the site of the former Randall Park Mall in North Randall, just in time for the winter holiday season. The online retail giant is building another facility on the site of a former shopping center—Euclid Square. Plans call for a 1.5 million-square-foot facility on two levels. The projects are expected to create more than 3,000 jobs.
- Manufacturing, education, health services, and leisure and hospitality also added a collective 19,600 positions. The city is moving toward a strong hotel year in 2018. According to lodging data and analytics provider STR, occupancy was at 71.0% as of September, 3.0% higher than the same time last year. Cleveland’s renowned health-care network—backed by the Cleveland Clinic and Mayo Clinic—remains a major contributor to the metro’s medical tourism industry.

### 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	258	17.9%	9,200	3.7%
30	Manufacturing	168	11.7%	7,700	4.8%
65	Education and Health Services	263	18.3%	6,400	2.5%
70	Leisure and Hospitality	145	10.1%	5,500	3.9%
60	Professional and Business Services	214	14.9%	4,300	2.1%
55	Financial Activities	83	5.8%	700	0.8%
15	Mining, Logging and Construction	55	3.8%	700	1.3%
80	Other Services	53	3.7%	200	0.4%
90	Government	182	12.7%	100	0.1%
50	Information	18	1.3%	-200	-1.1%

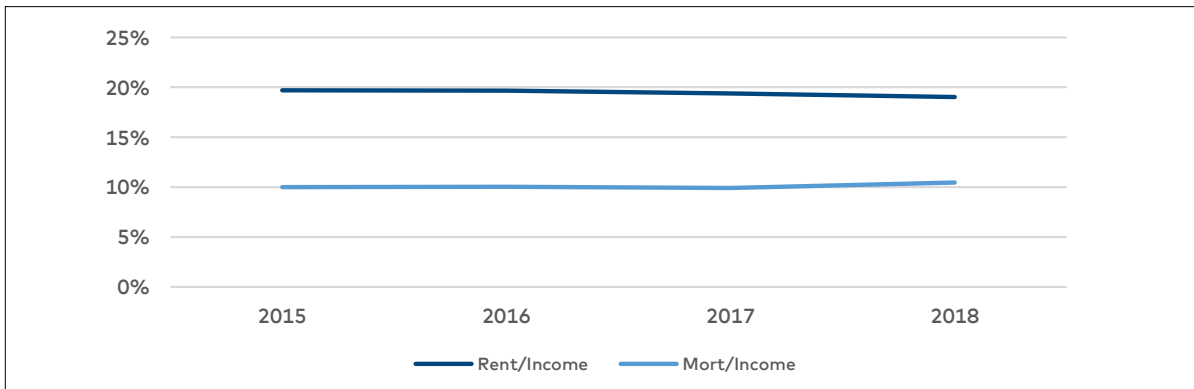
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

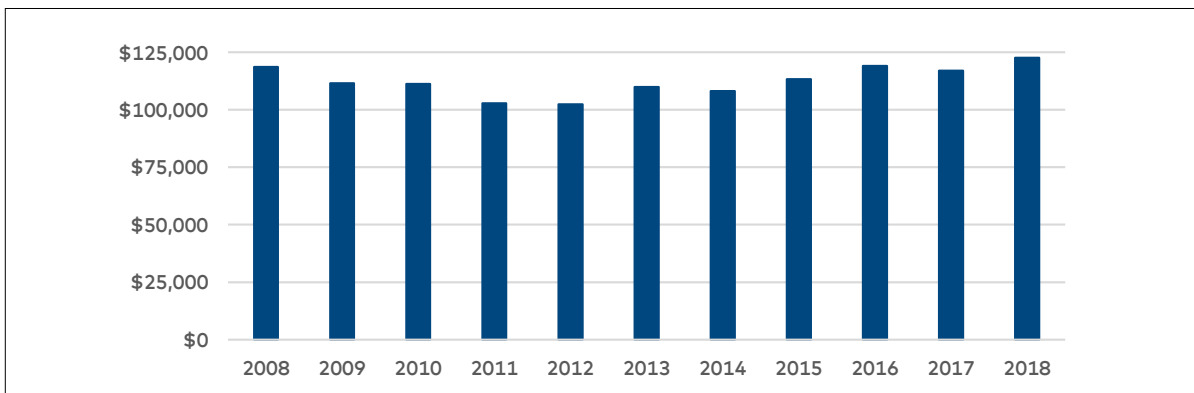
- The median Cleveland home price reached a cycle peak of \$122,542 in the first half of 2018, up 19% from the 2011 trough. Renting is significantly more expensive than owning: The average rent equated to 19% of the area's median income, while the average mortgage payment accounted for only 10%.
- Homes in the metro remain among the most affordable in the country. However, the cost of living is escalating, while wage growth remains flat. Cleveland residents are increasingly challenged to find affordable housing, especially since roughly two-thirds of incoming stock is targeting professionals relocating to high-end properties in the area.

### 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 roughly 1,200 residents last year, a 10-basis-point slide.
- Although the metro contracted by more than 16,700 people since 2010, the rate is slowing down.

### Cleveland vs. National Population

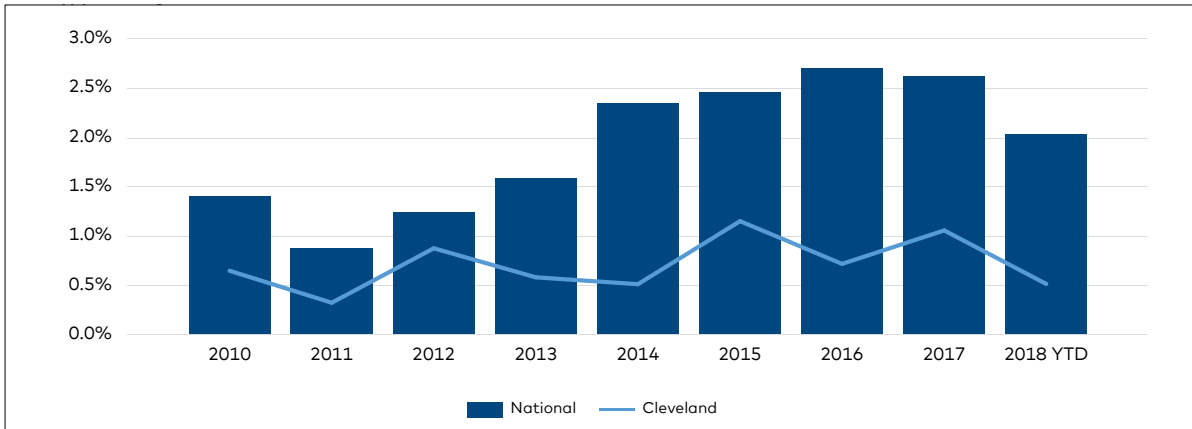
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Cleveland Metro	2,065,844	2,066,227	2,062,842	2,060,065	2,058,844

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

## Supply

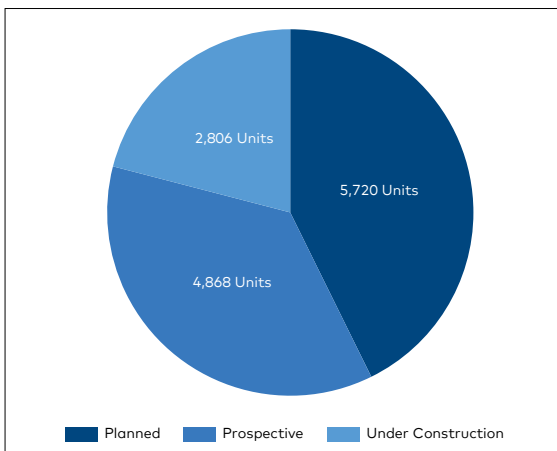
- Roughly 820 units came online in Cleveland in the first 10 months of 2018, with all five new properties being in the Lifestyle segment. Also affected by rising building costs and the construction workforce shortage, Cleveland's delivery pace slowed down significantly this year, following last year's 1,667 new apartments.
- More than 2,800 units were under construction in Cleveland as of October and 10,600 others were in planning and permitting stages. According to an Urban Partners study, developers could build and fill roughly 6,800 apartments in the metro's downtown area by 2030, with no risk of oversaturation.
- With roughly 850 units underway, Cleveland-Downtown is spearheading development. Cleveland Heights and Solon follow with 860 units combined. Apartment demand in core areas is accelerating, with downtown leading the way. Many office buildings are being converted to multifamily stock in the city core, but new developments are also breaking ground. Playhouse Real Estate Services is building a 34-story, 318-unit property on a former parking lot. The Lumen, downtown's largest residential project in four decades, broke ground in April and is slated for a 2020 completion.

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



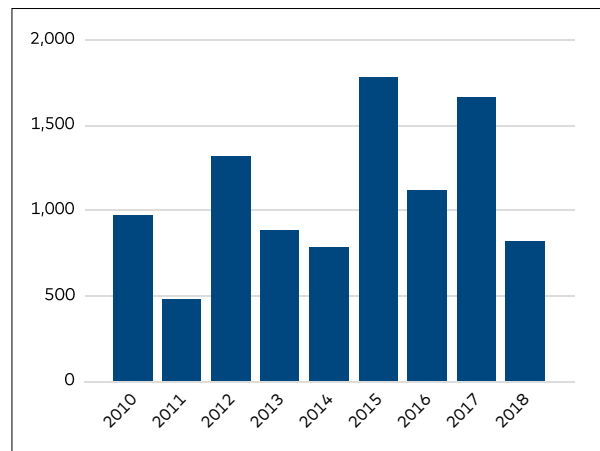
Source: YardiMatrix

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



Source: YardiMatrix

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

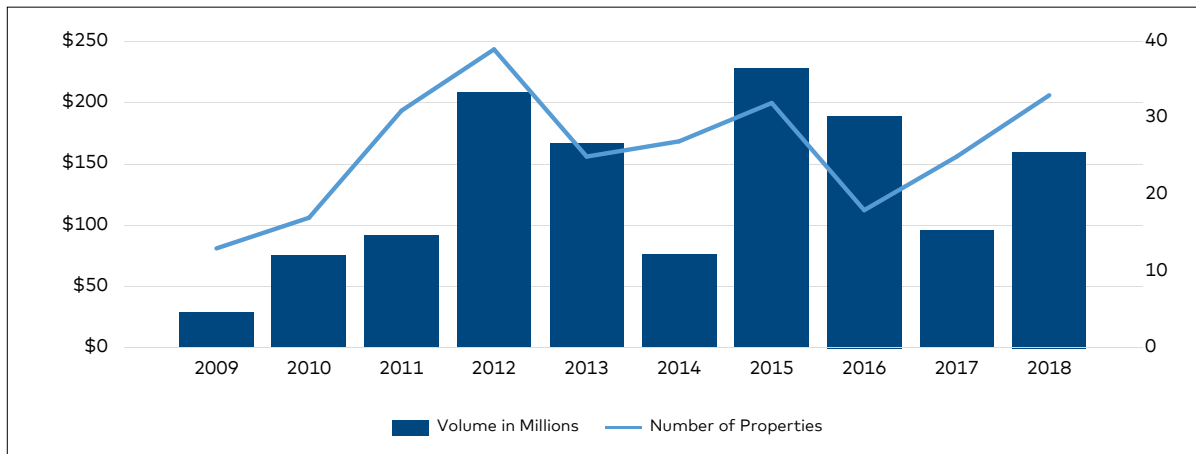


Source: YardiMatrix

## Transactions

- After hitting a high point of \$228 million in 2015, transaction volumes softened in Cleveland, with only \$160 million in multifamily assets changing hands this year through October. Almost all properties that changed hands are in the value-add Renter-by-Necessity segment, a fact that has kept a lid on per-unit prices. In the first 10 months of 2018, the average price per unit in the metro was only \$63,272, well below the \$152,579 national figure.
- Multifamily investors continued to mostly target working-class stock. In the first half of the year, acquisition yields were in the 8.0% to 9.0% range for Class B assets and went as high as 11.0% for Class C properties. In the 12 months ending in October, investment activity was mostly focused in Cleveland–Downtown, where sales totaled nearly \$88 million. Portfolio transactions were common in the metro, with New York-based Fairstead alone purchasing eight assets comprising 2,321 units combined.

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



Source: YardiMatrix

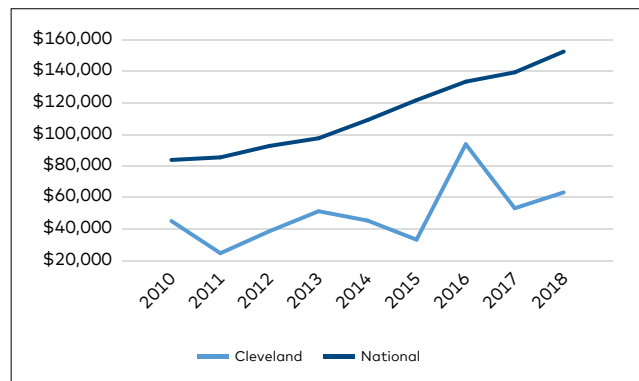
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Cleveland–Downtown	88
Richmond Heights	41
Akron–North	7
Cleveland–East	7
North Collinwood	6
Lorain–Downtown	5
Elyria	4
Avon	3

Source: YardiMatrix

<sup>1</sup> From November 2017 to October 2018

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



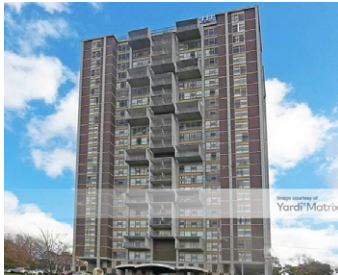
Source: YardiMatrix

## News in the Metro

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### Cleveland's Crystal Tower Changes Ownership

K&D sold the 268-unit building to Odin Properties in a \$6.6 million deal. The purchase involved a \$5.8 million loan held by Firsttrust Bank.



### Cornerstone Managed Properties Buys Northeast Ohio Community

The \$4 million sale of the 144-unit, fully occupied community was subject to a \$4.8 million acquisition and development loan.



### PNC Bank Secures \$33M Loan for Cleveland-Area Community

A joint venture between Millennium Management and Forest City Enterprises owns Hamptons Luxury, a 651-unit property in Beachwood.



### KeyBank Provides Financing For Historic Asset

The \$39 million mortgage comprises three different types of loans, which will contribute to the redevelopment and preservation of Commodore Apartments.



### Downtown Cleveland Redevelopment Receives \$40M Loan

With the construction loan secured by Berkadia, the former John Hartness Brown complex will be reinvented as The Euclid Grand, a mixed-use property.

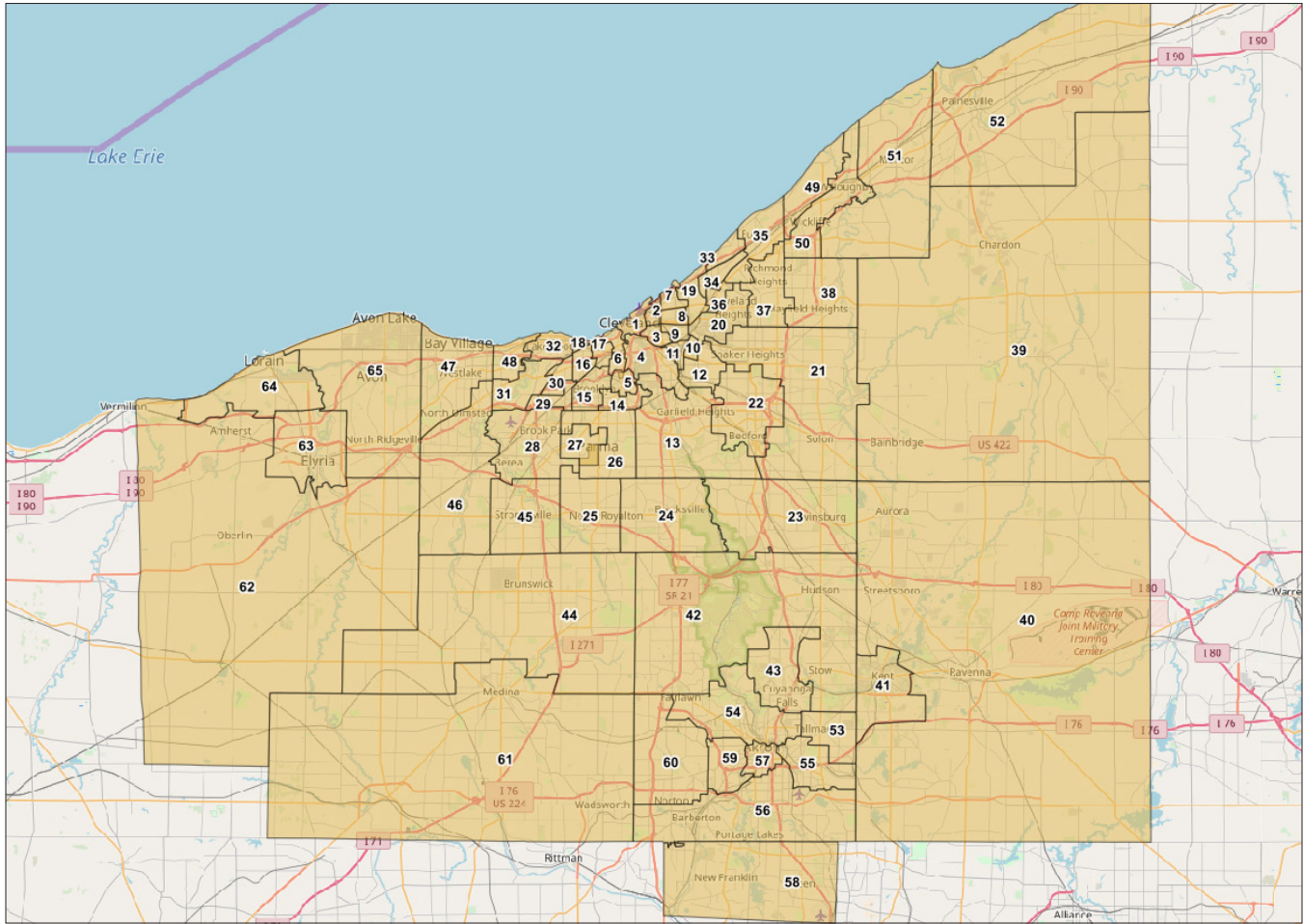


### Income Property Organization Facilitates 308-Unit Ohio Transaction

The Shaker Square Apartments portfolio encompasses 15 buildings in Shaker Heights. IPO's Paul McHugh brokered the \$18.7 million deal.



## 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.

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