

A photograph of the Cleveland skyline at dusk. The sky is a deep blue, and the city lights are beginning to glow. In the foreground, a white motorboat with a blue stripe is on the water. The background features several prominent buildings, including the Terminal Tower on the left and the Terminal Tower on the right, both illuminated with red lights. A bridge with arches is visible in the middle ground.

Yardi® Matrix

Cleveland Grows From the Core

Multifamily Report Summer 2019

Deliveries Slated for Cycle Peak

Rent Growth Matches US Average

Downtown Drives Development Boom

Market Analysis

Summer 2019

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Downtown Braces for Record Deliveries

Boosted by the ongoing revival of the urban core and by steady rent gains in workforce housing, Cleveland's multifamily market remained relatively stable going into 2019, offering predictability to value-add investors, as well as to developers looking to convert and reposition downtown assets. Rents were up 2.4% year-over-year through May, just 10 basis points below the U.S. figure and relatively on par with other Midwestern metros—many of which recorded gains in the 2.0% to 3.5% range.

Anchored by education and health services, and boosted by job gains in the construction sector, Cleveland's economy generated 16,200 jobs for an 80-basis-point expansion, just half the national rate. Even so, the metro still has its share of large-scale projects, including Stark Enterprises' nuCLEus, a \$350 million mixed-use development inching closer to breaking ground.

The metro had 3,013 units underway as of May, with a small section of downtown accounting for more than half of the pipeline. Meanwhile, the occupancy rate in stabilized assets remained flat over 12 months, at 94.9% as of April. Nonetheless, the 1,577 apartments slated to come online in the second half of the year are set to bring another development cycle peak, putting additional pressure on occupancy rates. Overall, we expect the average Cleveland rent to advance 2.0% in 2019.

Recent Cleveland Transactions

The Hamptons Luxury



City: Beachwood, Ohio
Buyer: GoldOller Investments
Purchase Price: \$45 MM
Price per Unit: \$69,547

Butternut Ridge



City: North Olmsted, Ohio
Buyer: KC Venture Group
Purchase Price: \$33 MM
Price per Unit: \$126,278

Willogrove



City: Willoughby, Ohio
Buyer: The Snavely Group
Purchase Price: \$29 MM
Price per Unit: \$74,444

Triumph Tower

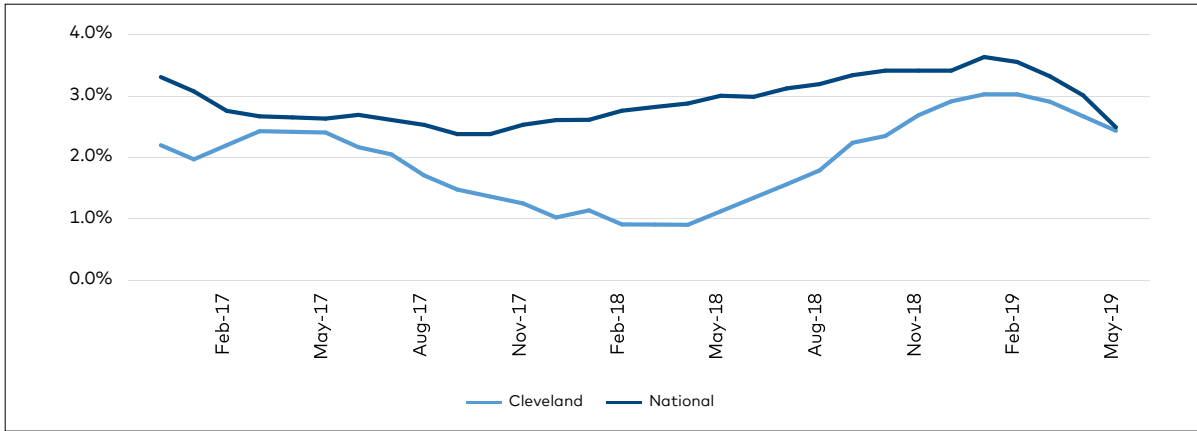


City: Euclid, Ohio
Buyer: Wolfe Investments
Purchase Price: \$4 MM
Price per Unit: \$31,975

Rent Trends

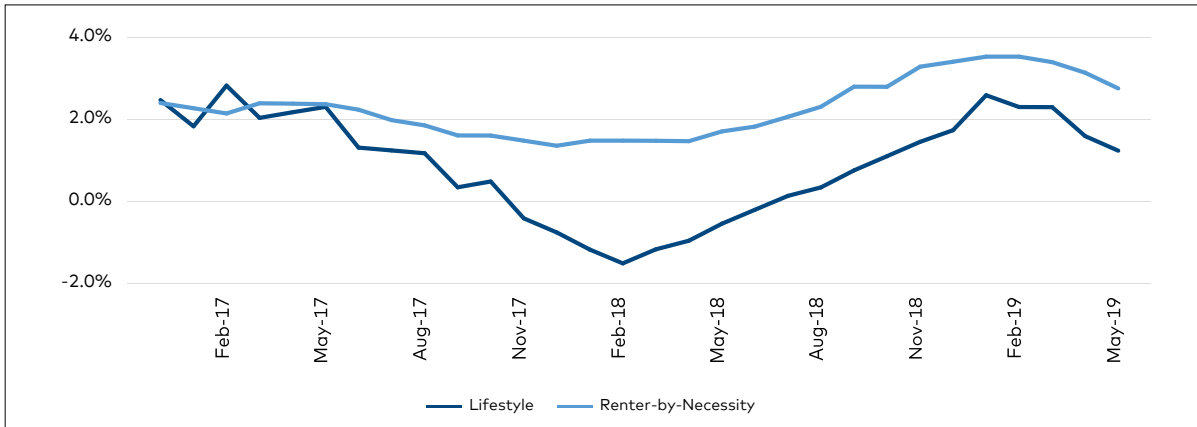
- Cleveland-Akron rents were up 2.4% year-over-year through May, 10 basis points below the U.S. average and in line with other Midwestern metros, including Milwaukee (2.9%), Detroit (2.6%) and Indianapolis (2.5%). At \$927, the average rent was still significantly below the \$1,442 U.S. figure.
- The average working-class Renter-by-Necessity rate was up 2.8%, reaching \$858, and still leading growth. Meanwhile, rents in the much smaller Lifestyle segment were up 1.2%, to \$1,475. The spread in rent growth rates between the two segments remained consistent during the past two years and is in line with nationwide trends: While the economy added jobs across employment sectors and pushed up demand for both workforce and upscale apartments, developers continued to heavily focus on delivering upscale units. As a result, Lifestyle assets make up more than 80% of the new stock.
- The ongoing expansion of the city core remains evident: Although downtown Cleveland has by far the largest pipeline and commands the highest rates, the average rent was up 6.6% year-over-year to \$1,471, the second-highest jump of all submarkets, trailing only North Collinwood (8.3% to \$599).
- With occupancy in stabilized assets flat over 12 months (94.9% as of April) and 2,130 units slated to come online this year, we expect the average Cleveland rent to improve 2.0% in 2019.

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)

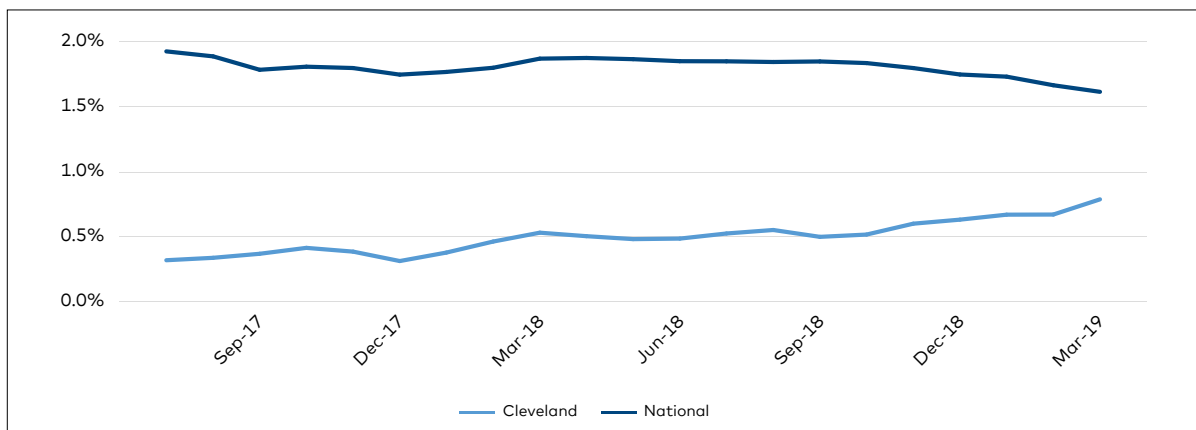


Source: YardiMatrix

Economic Snapshot

- Metro Cleveland added 16,200 jobs in the 12 months ending in March for a 0.8% expansion, half the 1.6% U.S. rate. Strong gains across several sectors—most notably construction and education and health services—were offset by losses in government, professional and business services, and information, which contracted by a collective 3,700 positions. Even so, at 4.4% as of March, the metro's unemployment rate still reflects a relatively tight labor market.
- Construction added 6,100 jobs for a solid 12.9% boost. Economic growth is tepid, but the metro has its share of large-scale projects. Quicken Loans Arena, which is set to be rebranded as Rocket Mortgage FieldHouse, is on track to wrap up a \$185 million renovation this fall. Just steps away from the arena, Stark Enterprises' nuCLEus, a \$350 million mixed-use project announced in 2014, is getting closer to tying up its last loose financing threads. The Stark development is slated to add two 24-story downtown towers encompassing 450,000 square feet of office, 80,000 square feet of retail space and 250 housing units.
- Meanwhile, Cuyahoga County officials are seeking investors for the area's 64 Opportunity Zones, which include parts of the city's waterfront and downtown, as well as University Circle and parts of Ohio City, among others.

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	%
15	Mining, Logging and Construction	53	3.8%	6,100	12.9%
65	Education and Health Services	264	18.8%	5,600	2.2%
40	Trade, Transportation and Utilities	248	17.6%	3,000	1.2%
70	Leisure and Hospitality	136	9.7%	2,500	1.9%
80	Other Services	54	3.8%	1,400	2.7%
30	Manufacturing	163	11.6%	1,000	0.6%
55	Financial Activities	83	5.9%	300	0.4%
50	Information	18	1.3%	-500	-2.7%
60	Professional and Business Services	204	14.5%	-900	-0.4%
90	Government	184	13.1%	-2,300	-1.2%

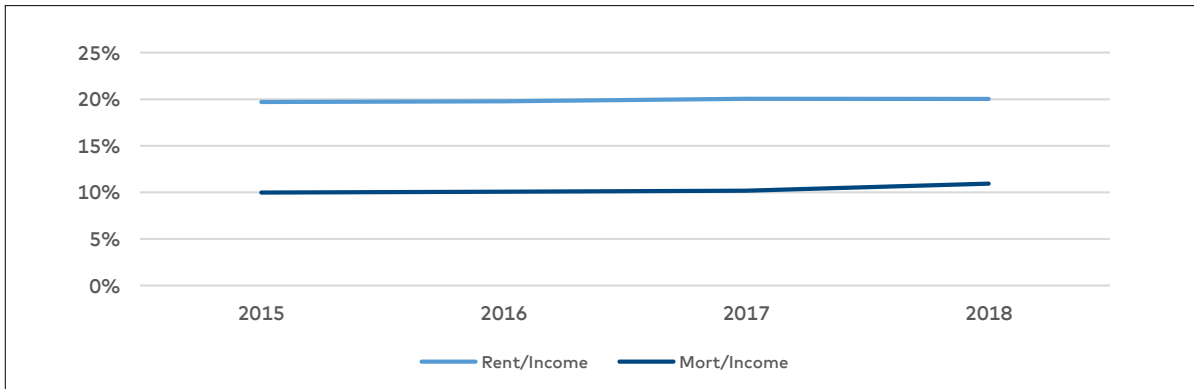
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

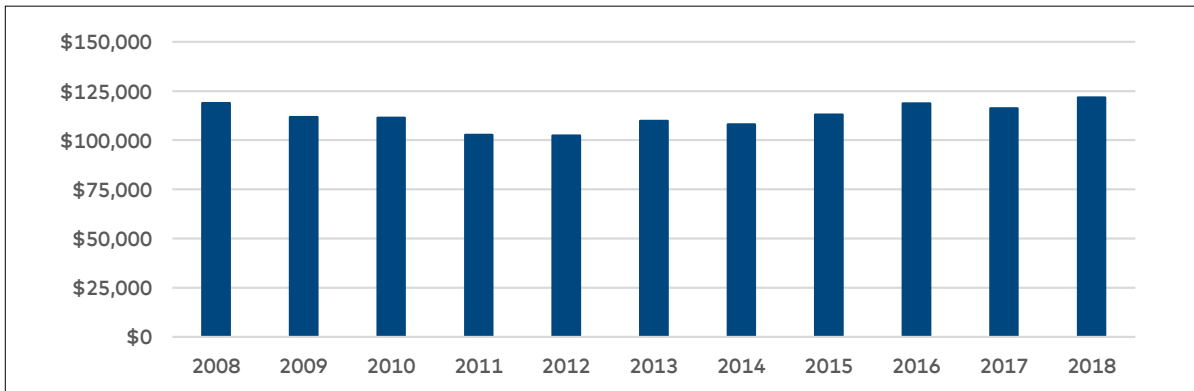
- The median home price in Cleveland rose to \$121,673 last year for a new cycle high, but the metro remains relatively affordable. This is true even across the Midwest, with the median home price in Cleveland trailing those in cities such as Indianapolis (\$172,868), Columbus (\$173,030), St. Louis (\$145,976) or Pittsburgh (\$145,237).
- Owning in Cleveland continued to be much more affordable than renting, with the average mortgage payment accounting for only 11% of the area median income last year. Meanwhile, the average rent equated to 20% of the same measurement.

Cleveland Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Cleveland Median Home Price



Source: Moody's Analytics

Population

- Although the downtown area continues to rapidly expand, the metro as a whole is slowly losing residents. Cleveland-Elyria lost 16,713 people between 2010 and 2017, a 0.8% demographic contraction.

Cleveland vs. National Population

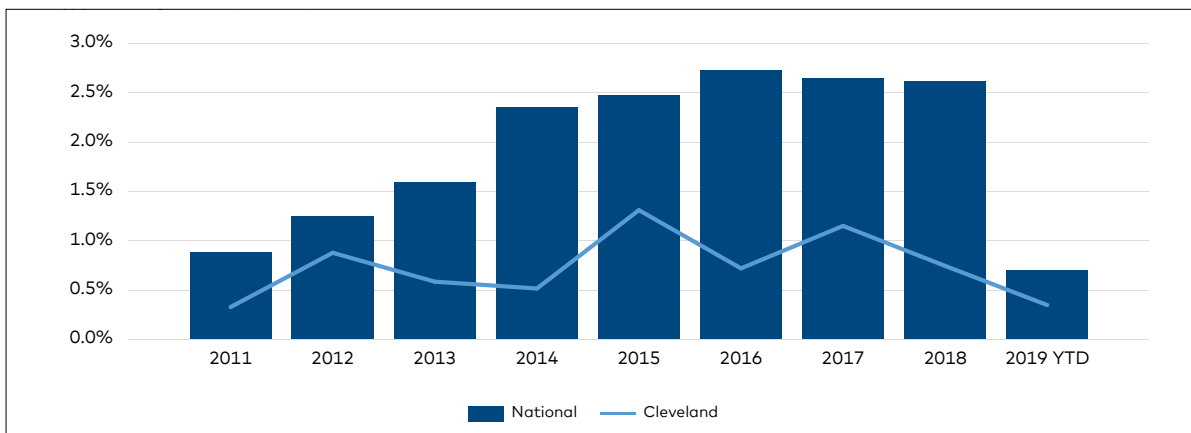
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Cleveland Metro	2,065,844	2,066,227	2,062,842	2,060,065	2,058,844

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

Supply

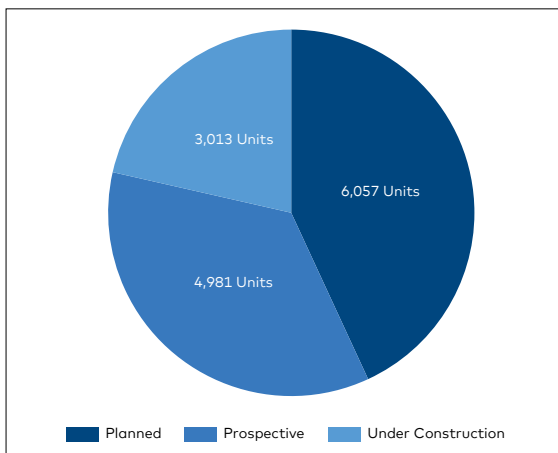
- The metro had 3,013 units under construction as of May, with more than half in downtown-area projects along or close to Euclid Avenue, all within half a mile of each other. The city's walkable core has added almost 2,000 units across 11 upscale projects since the beginning of 2015, driving a downtown resurgence that is also apparent across several other Midwestern cities.
- Developers delivered 553 units in Cleveland-Akron this year through May, coming on the heels of the 1,181 units delivered in 2018. Overall, some 12,000 units came online during the last decade across the metro, with one-third in communities within 3 miles of downtown. We expect a total inventory expansion of 2,130 apartments this year, which would mark a new cycle high.
- Cleveland's downtown area has the largest three projects underway, none expected to come online by year's end. The list includes the 318-unit Lumen and K&D's 298-unit Terminal Tower Redevelopment, both slated for completion in 2020, as well as Bedrock Real Estate's repurposing of the May Company Building, which is set to deliver 308 apartments and a 519-spot parking structure by the end of 2021.

Cleveland vs. National Completions as a Percentage of Total Stock (as of May 2019)



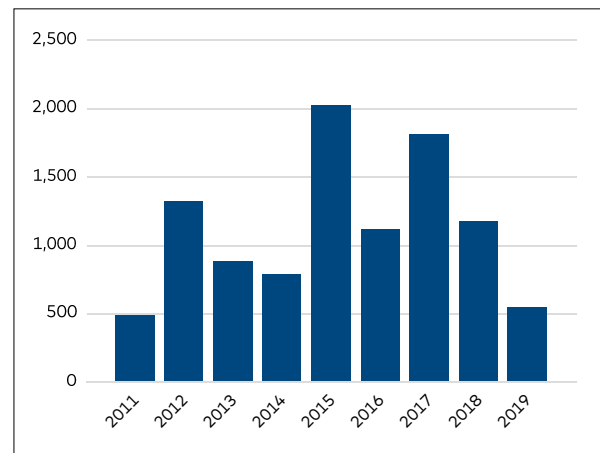
Source: YardiMatrix

Development Pipeline (as of May 2019)



Source: YardiMatrix

Cleveland Completions (as of May 2019)

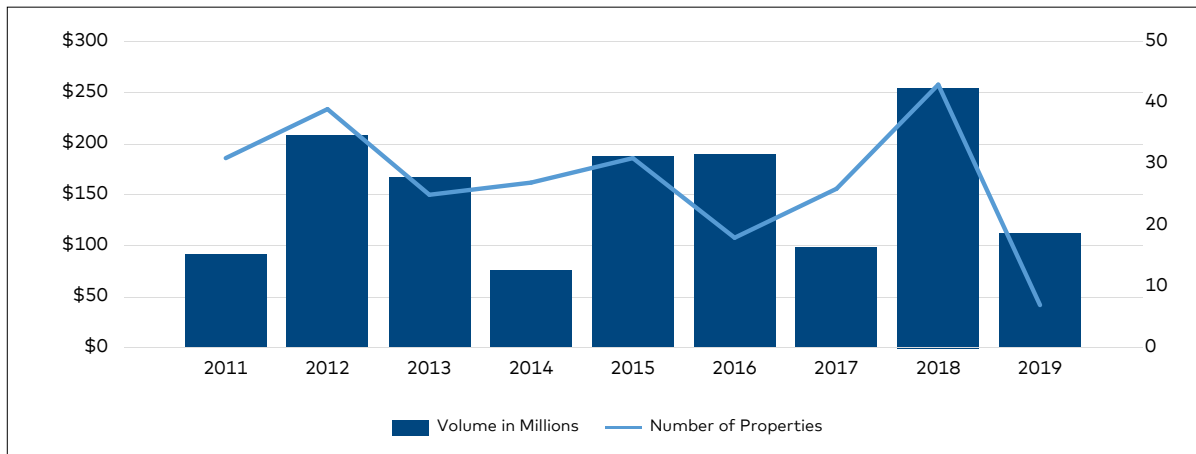


Source: YardiMatrix

Transactions

- Confirmed Cleveland transactions for assets with 50 or more units totaled \$112 million in the first five months of the year. This followed a solid 2018, when 43 communities traded for a collective \$255 million, this cycle's highest point, when assets traded at an average per-unit price of \$65,681. Investors continued to favor value-add plays, taking advantage of the metro's large workforce-level stock at attractive acquisition yields, which ranged above 9.0% in the case of Class C suburban assets.
- Watermark Partners was one of the metro's most active investors in the 12 months ending in May. The Michigan-based company acquired three Class C assets adding up to 242 units from three different sellers. The 128-unit Rosewood Park in Elyria, the 60-unit West Erie Terrace and the 54-unit Lorain Overlook—the last two located in Lorain—traded for a total of almost \$9 million, or \$36,000 per unit.

Cleveland Sales Volume and Number of Properties Sold (as of May 2019)



Source: YardiMatrix

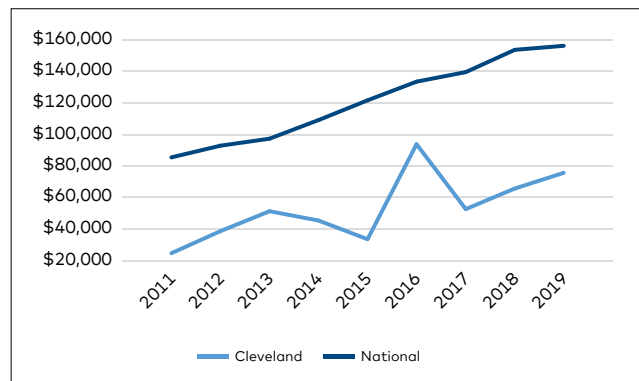
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Solon	45
Richmond Heights	41
Olmsted	33
Cleveland-Downtown	29
Willoughby	29
Kent	28
Bedford	23
Elyria	9

Source: YardiMatrix

¹ From June 2018 to May 2019

Cleveland vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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The Snavely Group Buys 32-Building Cleveland Asset

Willogrove encompasses 384 units and is located in the city's Willoughby submarket. The sale involved a \$21.4 million loan held by First National Bank of Pennsylvania.



KeyBank Provides \$12M for Adaptive Reuse Project

The developer will use the financing to create 38 affordable units at Forest City Square Apartments, an environmentally friendly housing development.



Northeast Ohio Portfolio Scores \$67M Refi

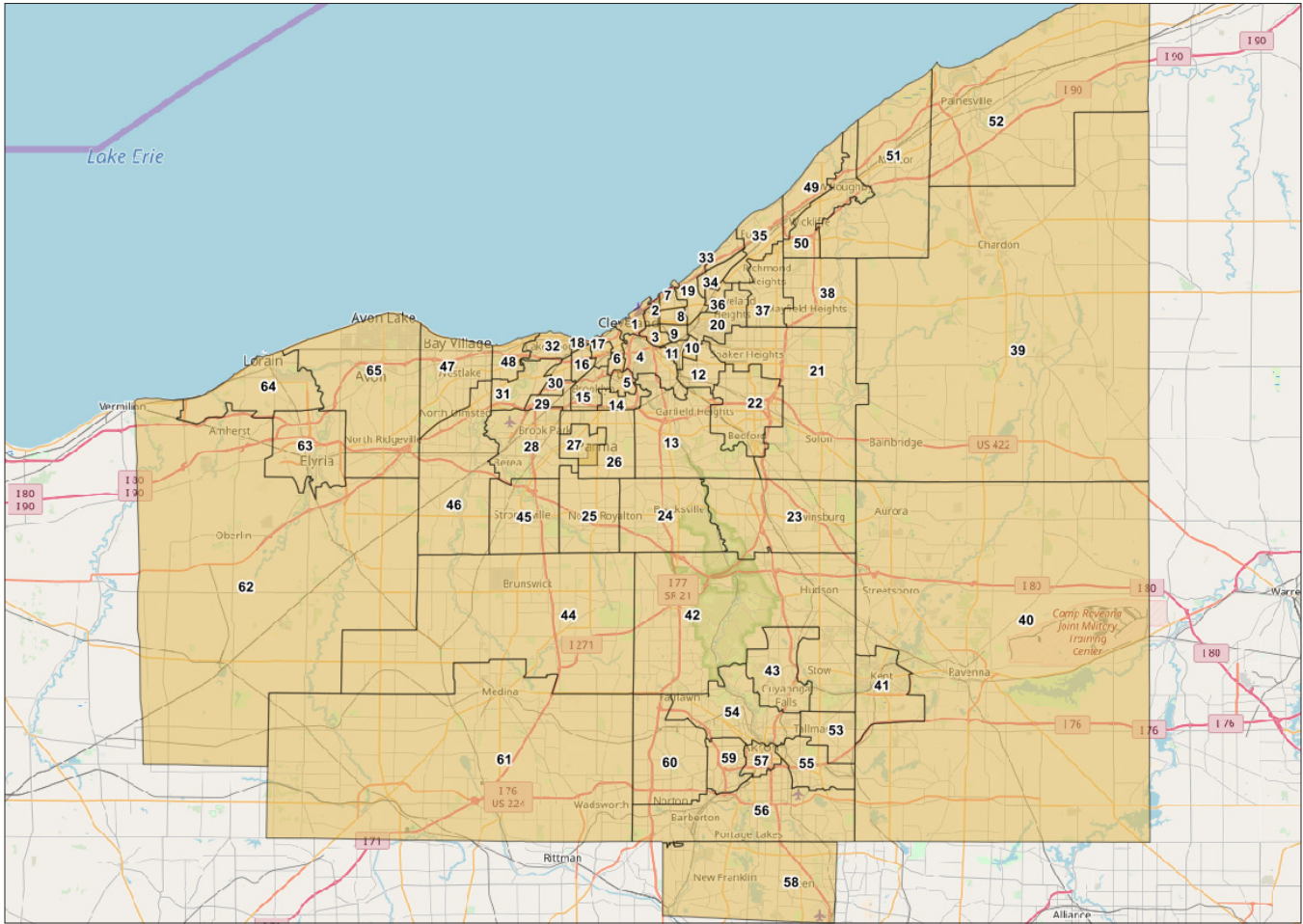
The 10-year Freddie Mac loan is retiring existing acquisition financing for the 1,137-unit Timber Top and the 114-unit Timberland Village, both located in Akron.



Evergreen Grows Affordable Housing Portfolio

The Chicago-based firm added nine communities totaling more than 1,000 units to its management portfolio, 438 of which are located in two Ohio properties.

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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