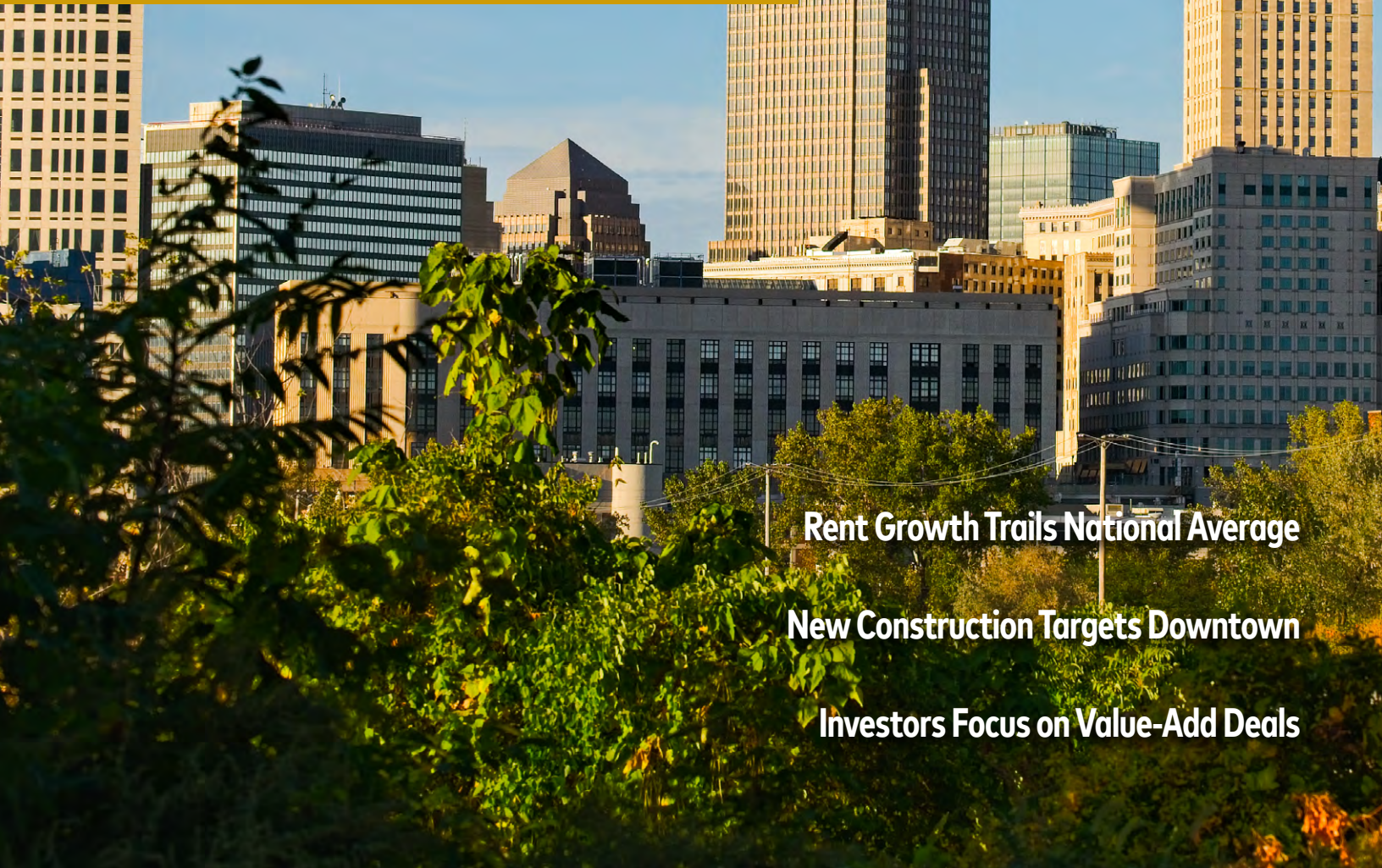


Yardi® Matrix

MULTIFAMILY REPORT

Cleveland's Core Drives Growth

Winter 2020



Rent Growth Trails National Average

New Construction Targets Downtown

Investors Focus on Value-Add Deals

Yardi® Matrix

Downtown In The Spotlight

Cleveland's multifamily market remained relatively stable going into 2019's last quarter, with demand continuing to outpace supply. The metro's population decline has been decelerating in recent years as downtown Cleveland's revival continues.

Employment growth in the 12 months ending in September was led by professional and business services, with the addition of 7,700 jobs. Boosted by a booming medical community, education and health services added 6,300 positions. On the city's West Side, MetroHealth System is building a \$1 billion hospital, while University Hospitals is investing \$200 million in the second phase of the University Hospitals Ahuja Medical Center in Beachwood. Meanwhile, the Ohio Tax Credit Authority is drawing employers from a variety of industries including Amazon, which announced the creation of 1,500 full-time jobs at its upcoming distribution center in Akron.

Drawn by the market's improving fundamentals, investors pushed the total transaction volume in 2019 through November to \$262 million, above the annual cycle peak recorded in 2018. Developers also completed 892 units, while another 3,000 were under construction. Most of the new development targets downtown Cleveland; the area ranks as the largest jobs hub in Ohio and is expected to see a population increase from 17,500 to 30,000 residents by 2030.

Market Analysis | Winter 2020

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Recent Cleveland Transactions

Colony Club Apartments & Townhomes



City: Bedford, Ohio
Buyer: GSH Group
Purchase Price: \$38 MM
Price per Unit: \$64,061

The Drake



City: Cleveland
Buyer: AJH Management
Purchase Price: \$36 MM
Price per Unit: \$36,999

Butternut Ridge



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

The Avenue District



City: Cleveland
Buyer: Geis Cos.
Purchase Price: \$15 MM
Price per Unit: \$261,781

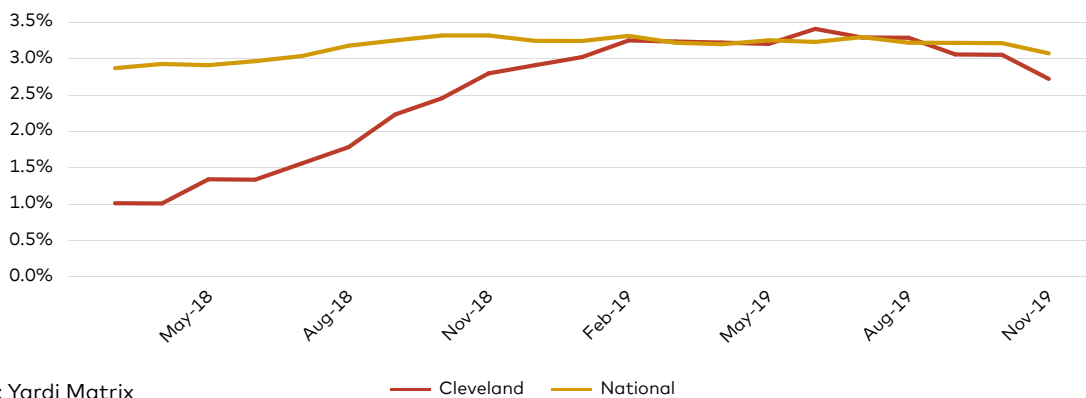
RENT TRENDS

- ▶ Cleveland rents rose 2.6% year-over-year through November, staying below the 3.1% national rate. The metro's average rent stood at \$942, well below the \$1,473 national figure. Cleveland's rate of growth trailed several Midwestern metros, including Indianapolis and Detroit (both at 4.0%) and Cincinnati (5.8%), but outpaced Milwaukee (2.4%) and Columbus (2.3%). Following a deceleration in supply growth, Cleveland's occupancy rate in stabilized properties rose to 95.4% as of October, up 30 basis points in 12 months.
- ▶ Working-class Renter-by-Necessity rents rose 2.9% to \$866, while Lifestyle rates were up 1.6% to \$1,505. Household creation and a slow but steady rise in employment sustained demand

across the board. Luxury units are especially abundant in the city's core, which has seen a steady influx of millennials, baby boomers and empty nesters.

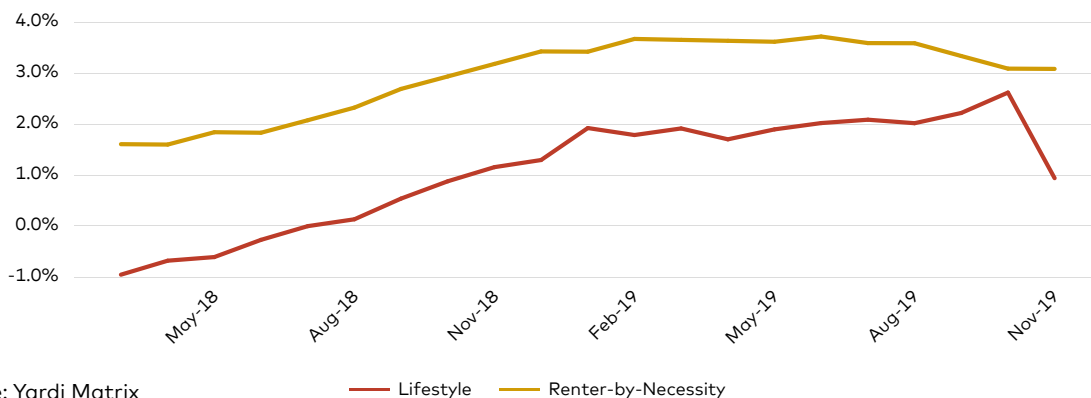
- ▶ Rent growth was highest in North Collinwood (8.3% to \$624), Lakewood (5.8% to \$914), Cleveland Heights (5.5% to \$1,092), Lake (5.4% to \$1,052), Parma Heights (5.3% to \$829) and Copley (5.2% to \$994).
- ▶ Ohio City (3.9% to \$1,683) commanded the metro's highest rents, followed by Cleveland-Downtown (1.1% to \$1,461), which also recorded the strongest supply growth. At the other end of the list, rents dropped in Akron-Downtown (-3.3% to \$1,129) and Kent (-0.4% to \$1,089).

Cleveland vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

Cleveland Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

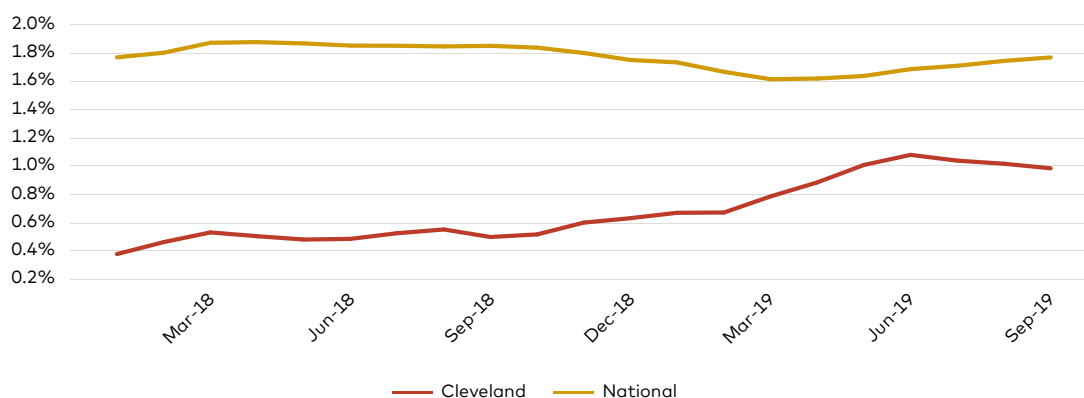


Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Cleveland gained 13,500 jobs in the 12 months ending in September, representing a 1.0% increase and trailing the 1.8% national average. The metro's unemployment rate stood at 4.0% for the same month, one of its lowest in recent years.
- ▶ Professional and business services led growth (7,700 jobs), followed by education and health services (6,300 jobs). The medical sector is booming: MetroHealth System is building a \$1 billion hospital near Cleveland's West Side, while University Hospitals is investing \$200 million in the second phase of a medical center in Beachwood, which is set to create 1,000 jobs upon completion in 2022. Meanwhile, Akron Children's Hospital completed an \$84 million expansion.
- ▶ Amazon is building a 700,000-square-foot distribution center in Akron set to bring 1,500 full-time jobs. The Ohio Tax Credit Authority awarded the company a 10-year job-creation tax credit program for the project. Other employers benefiting from state incentives include manufacturer CPP, which plans to add 128 full-time jobs in Euclid, with a \$9.5 million payroll; and software firm RIA In A Box LLC, which will bring 90 full-time positions to Orange Village and generate an extra \$6.3 million in new annual payroll.

Cleveland vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	%
60	Professional and Business Services	218	15.3%	7,700	3.7%
65	Education and Health Services	265	18.6%	6,300	2.4%
15	Mining, Logging and Construction	58	4.1%	1,700	3.0%
90	Government	182	12.8%	300	0.2%
70	Leisure and Hospitality	141	9.9%	100	0.1%
80	Other Services	53	3.7%	-200	-0.4%
50	Information	18	1.3%	-200	-1.1%
55	Financial Activities	83	5.8%	-200	-0.2%
30	Manufacturing	162	11.4%	-500	-0.3%
40	Trade, Transportation and Utilities	246	17.3%	-1,500	-0.6%

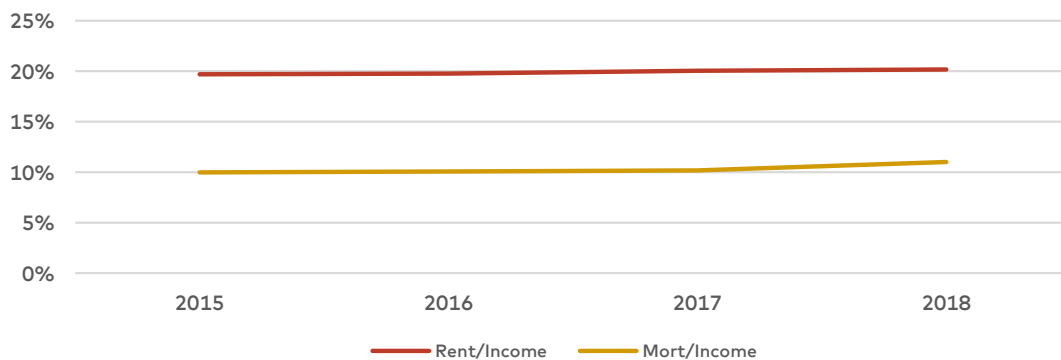
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

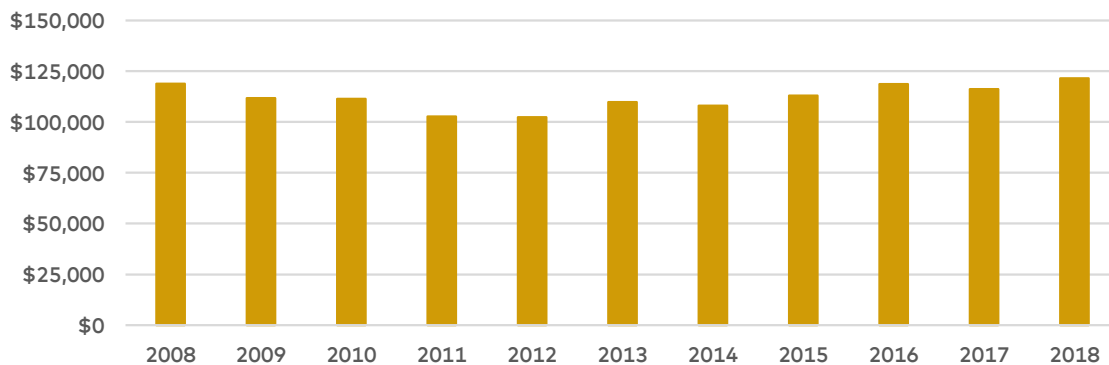
- ▶ The median home price in Cleveland rose to a cycle peak of \$121,612 in 2018, up 4.7% since 2017 and 18.8% above the 2011 level. The average rent accounted for 20% of the area median income, while the average mortgage payment equated to just 11%.
- ▶ Cleveland is among the nation's most affordable metros for home buyers. When considering rent and income growth, the metro also ranks as the third most affordable area in the U.S., according to a recent study published by researchers at the University of Southern California.

Cleveland Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Cleveland Median Home Price



Source: Moody's Analytics

Population

- ▶ Cleveland's population dropped by 1,540 residents in 2018—marking a 0.1% downtick—while the U.S. population expanded by 0.6%.
- ▶ Between 2014 and 2018, Cleveland lost 10,450 residents—a 0.5% decline.

Cleveland vs. National Population

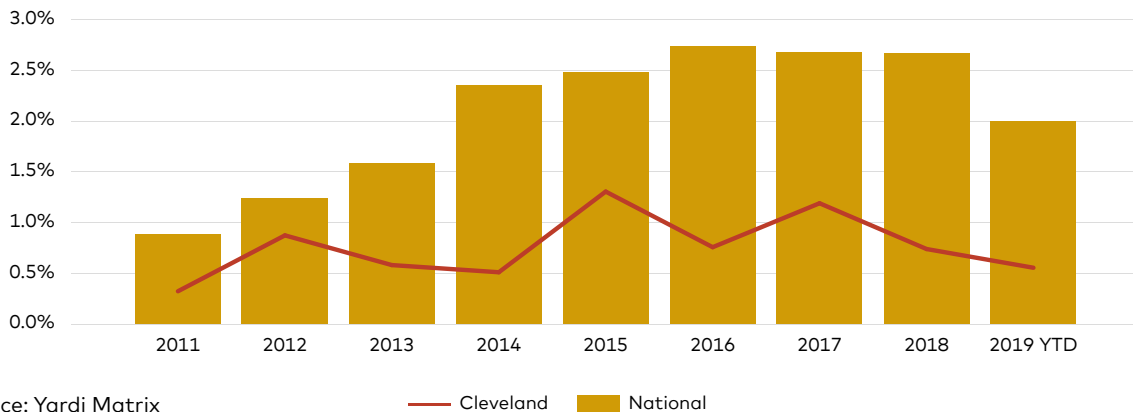
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Cleveland Metro	2,064,284	2,061,527	2,058,549	2,057,009

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

SUPPLY

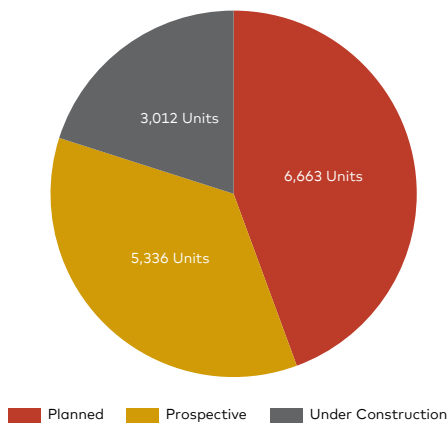
- A total of 3,012 units were under construction across Cleveland-Akron as of November, more than 2,400 of which cater to Lifestyle renters. In 2019 through November, 892 units came online, representing 0.6% of total stock and well below the 2.0% national average.
- Supply growth has been decelerating since 2017. Absorption outpaced deliveries, pushing the occupancy rate in stabilized properties up 30 basis points to 95.4% as of October 2019, above the 95.0% national average. The metro's pipeline as of November also included 12,000 units in the planning and permitting stages.
- Developers are especially active in downtown Cleveland, which had 1,575 units underway as of November. The area ranks as the largest employment hub in Ohio, as well as the fastest-growing neighborhood in Northeast Ohio, according to the Downtown Cleveland Alliance. It also has one of the largest concentrations of corporate headquarters jobs in the U.S. By 2030, downtown Cleveland's population is expected to rise from 17,500 to 30,000 residents.
- Kent rounded out deliveries with 252 units underway, followed by Lakewood (182 units). The Lumen in downtown Cleveland—owned by Playhouse Real Estate Services—ranked as the largest project under construction with 318 units.

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



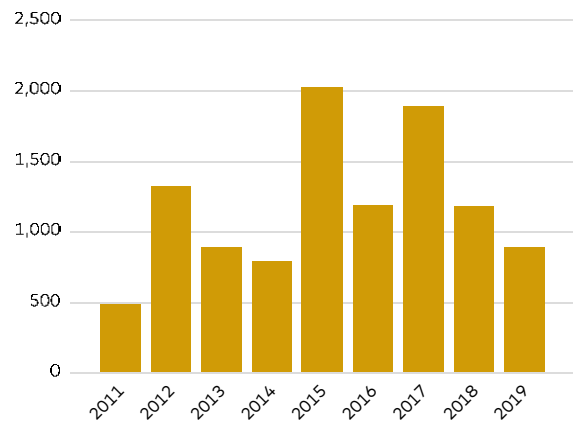
Source: Yardi Matrix

Development Pipeline (as of November 2019)



Source: Yardi Matrix

Cleveland Completions (as of November 2019)

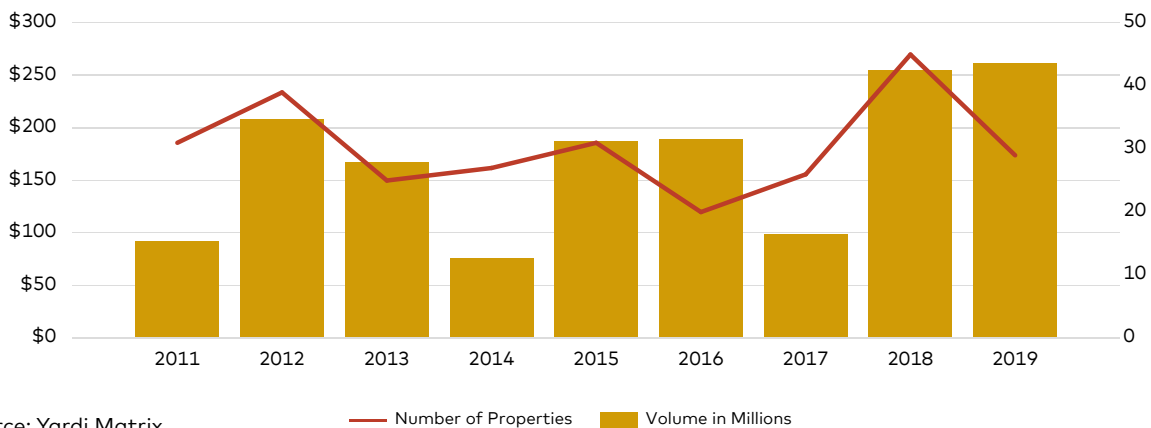


Source: Yardi Matrix

TRANSACTIONS

- Nearly \$262 million in multifamily assets traded in Cleveland in 2019 through November. The average per-unit price was \$66,868, well below the \$162,751 national average; 27 of the total 29 properties that traded were RBN assets. The 2019 transaction volume surpasses the metro's cycle peak of \$255 million, recorded in 2018.
- The market's improving fundamentals are attracting investors in search of higher yields than those available in primary markets. First-year returns for Class C communities with a value-add component in both urban and suburban locations can reach double digits.
- Zaremba Group's sale of the 588-unit Colony Club Apartments & Townhomes in Bedford was one of the metro's largest deals of 2019 through November. GSH Group bought the property with a \$28.4 million CMBS loan originated by Bellwether Enterprise Real Estate Capital.

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



Source: Yardi Matrix

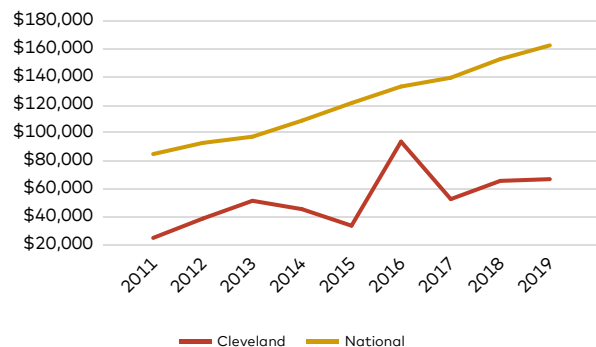
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Cleveland-Downtown	54
Solon	45
Bedford	38
Mayfield	36
Summit	35
Olmsted	33
Willoughby	28
Kent	28

Source: Yardi Matrix

¹ From November 2018 to October 2019

Cleveland vs. National Sales Price per Unit



Source: Yardi Matrix



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Berkadia Secures \$68M Loan

Director Dan Geuther arranged the Freddie Mac loan on behalf of Midwest Development Partners.



NRP Group Breaks Ground on Affordable Housing Project

The development is part of a mixed-age community that includes Cornerstone Senior Apartments.



Two Properties Score \$67M Refi

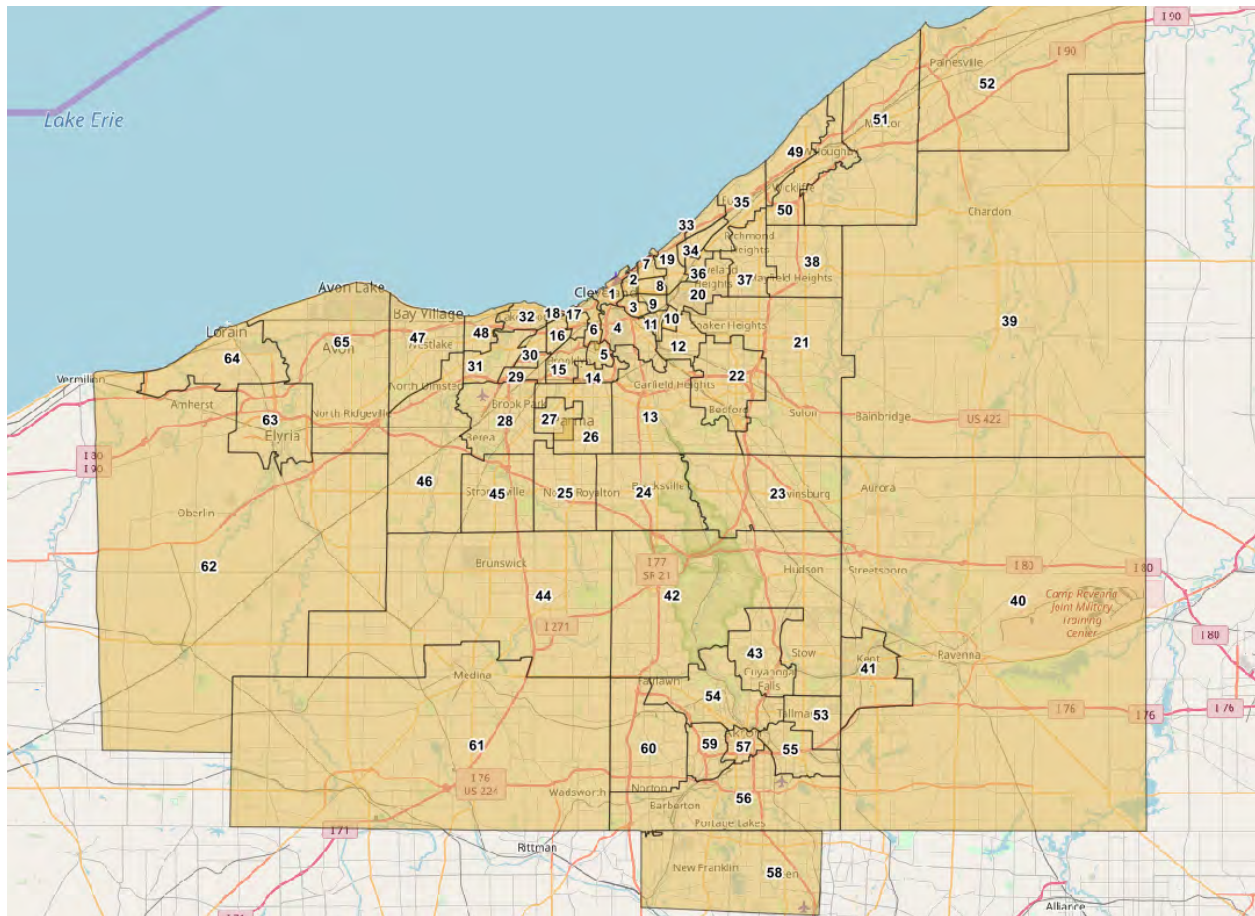
The 10-year Freddie Mac loan is retiring existing acquisition financing for two Akron assets totaling 1,251 units.



Snively Group Buys Community

The property encompasses 32 buildings and 384 units and is located in Willoughby. The sale involved a \$21.4 million loan.

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 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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