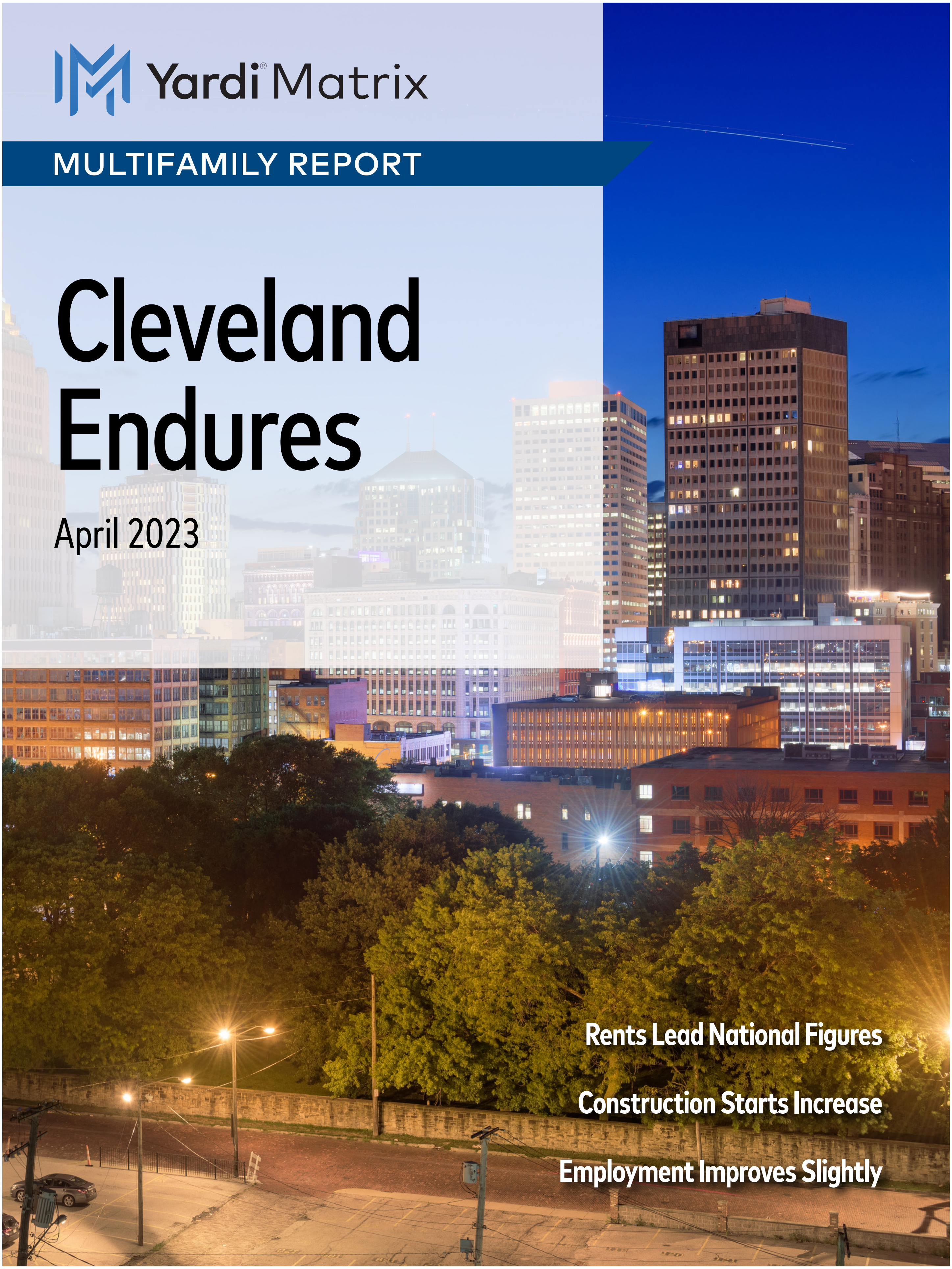
Yardi® Matrix

MULTIFAMILY REPORT

Cleveland Endures

April 2023



Rents Lead National Figures

Construction Starts Increase

Employment Improves Slightly

CLEVELAND MULTIFAMILY

Yardi Matrix

Multifamily Performance Shifting

Cleveland's multifamily market started 2023 at a slower pace, with several metrics following a downward trend. Still, rent growth on a trailing three-month basis through February was 0.1%, above the U.S. rate by 20 basis points. The overall average was $1,115, up 6.2% year-over-year, outpacing the U.S. figure by 140 basis points.

Unemployment was 4.9% as of February, according to preliminary data from the Bureau of Labor Statistics, 130 basis points higher than the U.S. rate. The job market expanded by 2.0% in 2022, with the metro adding 23,500 jobs. More than half of the new positions were in the leisure and hospitality sector, which expanded by 10.8%. The other sectors that recorded significant gains were manufacturing (up 5,300 jobs, or 3.4%) and education and health services (up 5,200 jobs, or 2.1%). MetroHealth, one of the city's largest health-care employers, announced it is on track to complete a $1 billion transformation of its 52-acre campus on the West Side. Last year, the company opened a $767 million inpatient center, a major milestone for the project.

Cleveland had 3,952 units under construction as of February, and an additional 17,800 units in the planning and permitting stages. In 2022, the market's inventory expanded by 1.2%, with 1,958 units added—more than double the volume in 2021.

Market Analysis | April 2023

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Recent Cleveland Transactions

Tinkers Creek

City: Garfield Heights, Ohio
Buyer: DWCLE Holdings
Purchase Price: $7 MM
Price per Unit: $72,083

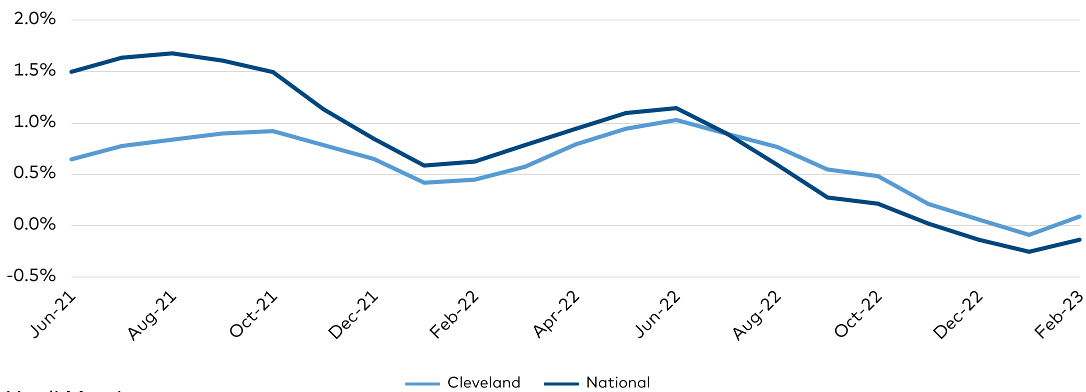
Pearl Village

City: Lorain, Ohio
Buyer: Green National
Purchase Price: $5 MM
Price per Unit: $60,000

RENT TRENDS

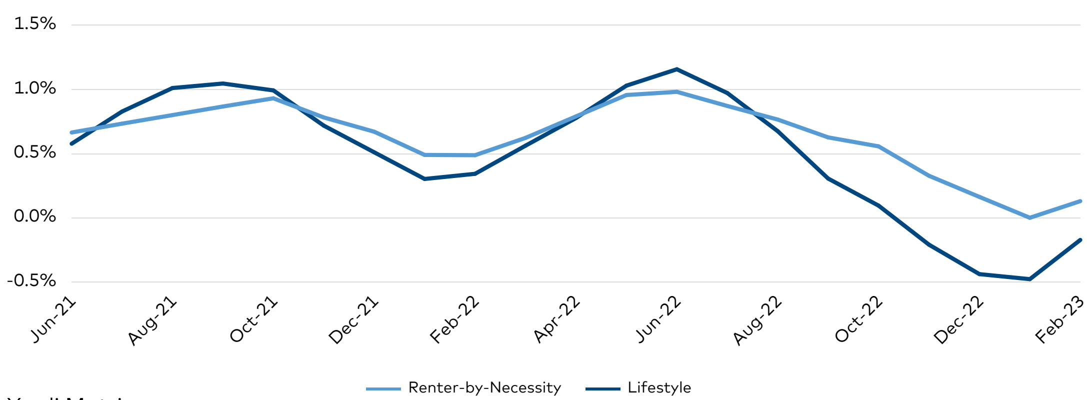
- Cleveland rates were up 0.1% on a trailing three-month (T3) basis through February, 20 basis points above the U.S. figure. Cleveland rent gains were slightly above the national average through most of 2022, with June marking the strongest month, when T3 rents were up 1.0%. On a year-over-year basis, the metro's rates advanced 6.2%—140 basis points above the U.S. figure.
- The average rent in Cleveland was $1,115 as of February, remaining far below the U.S. figure, which stood at $1,702. Rates in the working-class Renter-by-Necessity segment remained positive and were up 0.1% on a T3 basis through February, to $1,032. Meanwhile, Lifestyle rents were down 0.2%, to $1,734, according to Yardi Matrix data.
- Occupancy in stabilized assets was down 50 basis points in the 12 months ending in January, clocking in at 95.7%, some 50 basis points higher than the U.S. average. Both quality segments recorded declines one year earlier—occupancy for RBN assets was down 50 basis points, to 95.8%, while for Lifestyle communities it decreased 70 basis points, to 95.2%.
- Rent expansion was the highest in core submarkets across Cleveland and Akron, with a few exceptions. The list of submarkets showing strong gains year-over-year as of February included Jefferson (up 20.9%, to $809), Rocky River (18.3% to $1,237) and Akron-South (17.7% to $946). Downtown Akron recorded a significant drop—rents were down 6.9%, to $843.

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 reached 4.9% as of February, according to preliminary data from the BLS—130 basis points higher than the U.S. rate. Unemployment dropped 110 basis points since February 2022, with the job market in a slightly better position than it was before the pandemic. Ohio's jobless rate stood at 3.9% in February.
- In 2022, the metro added 23,500 jobs, with all but two sectors recording gains. At 2.0%, the expansion rate stood 170 basis points below the national average. In 2022, Cleveland job gains fluctuated between 2.1% and 2.4%, behind national levels.
- The leisure and hospitality sector led growth, with 12,900 jobs added, for a 10.8% expansion—totaling more than half of all positions gained in 2022. Manufacturing recorded a 3.4% increase, with 5,300 jobs, followed by education and health services with 5,200 jobs, or a 2.1% expansion. Two sectors contracted—professional and business services with 3,900 positions lost, or a 1.9% reduction, followed by trade, transportation and utilities, with 3,800 jobs lost, or a 1.5% drop-off.
- MetroHealth has announced it is on track to complete the $1 billion transformation of its 52-acre campus. The health-care provider reached a milestone last year, when it opened the $767 million Glick Center, a new inpatient facility.

Cleveland Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	132	9.5%
30	Manufacturing	159	11.4%
65	Education and Health Services	254	18.3%
80	Other Services	54	3.9%
90	Government	174	12.5%
15	Mining, Logging and Construction	54	3.9%
50	Information	19	1.4%
55	Financial Activities	83	6.0%
40	Trade, Transportation and Utilities	257	18.5%
60	Professional and Business Services	202	14.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Metro Cleveland's population continued to contract—in 2021, it lost 9,695 residents, representing a 0.5% decline. Ohio has followed the same trend, with the exception of Columbus, which recorded a 0.5% increase during the same period.

Cleveland vs. National Population

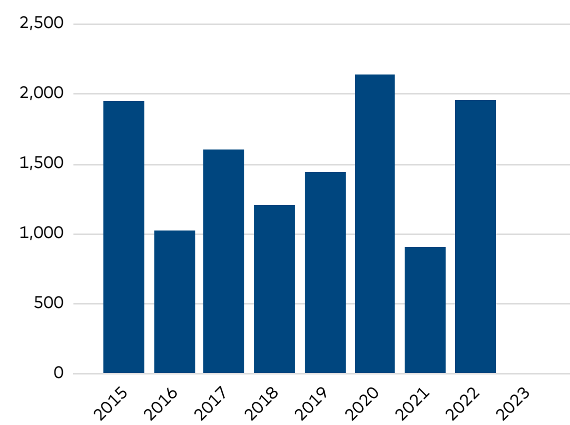
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Cleveland	2,053,841	2,049,028	2,085,357	2,075,662

Source: U.S. Census

SUPPLY

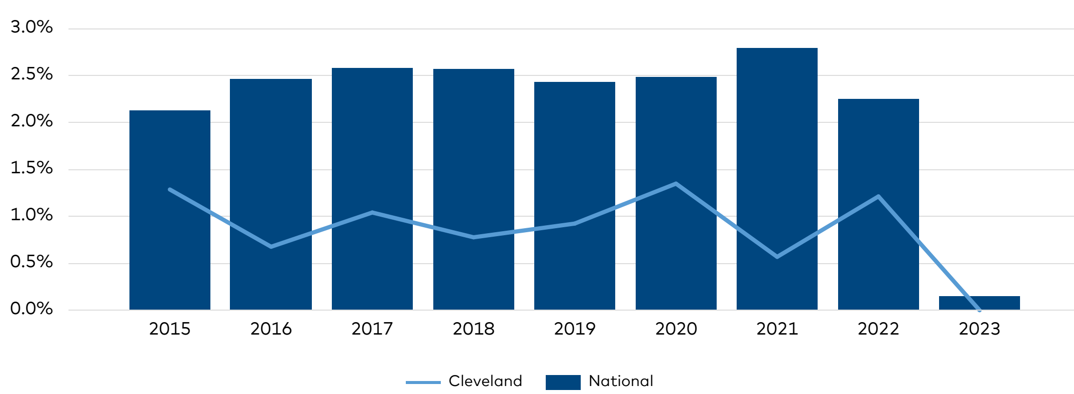
- As of February, Cleveland's pipeline comprised 3,952 units underway. More than two-thirds of properties under construction fell into the Lifestyle segment, while roughly 13% were fully affordable. An additional 17,800 units were in the planning and permitting stages.
- No properties of more than 50 units were completed during the first two months of 2023, but deliveries continued an overall upward trend that began in 2021. Last year, a total of 1,958 units were added to the market, representing 1.2% of existing stock. Although this was 110 basis points below the U.S. rate, the number of completions more than doubled year-over-year. On average, Cleveland added 1,531 units to the market every year over the past five years.
- New construction amped up in 2022. Developers broke ground on 18 properties comprising 2,764 units—42.3% more than the previous year's volume.
- Development was strongest in urban core submarkets, with downtown Cleveland recording the most units underway—925. Other submarkets with more than 200 units under construction included Glenville (557 units), Ohio City (440), Broadway (259) and Shoreway (258).
- The two largest properties underway were both in the downtown Cleveland area and accounted for more than half of the units under construction in the submarket. Bluelofts at 45 is an adaptive reuse project that will add 367 units upon completion later this year, while City Club is an Opportunity Zone project that will comprise 304 units and is expected to come online in 2024.

Cleveland Completions (as of February 2023)



Source: Yardi Matrix

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

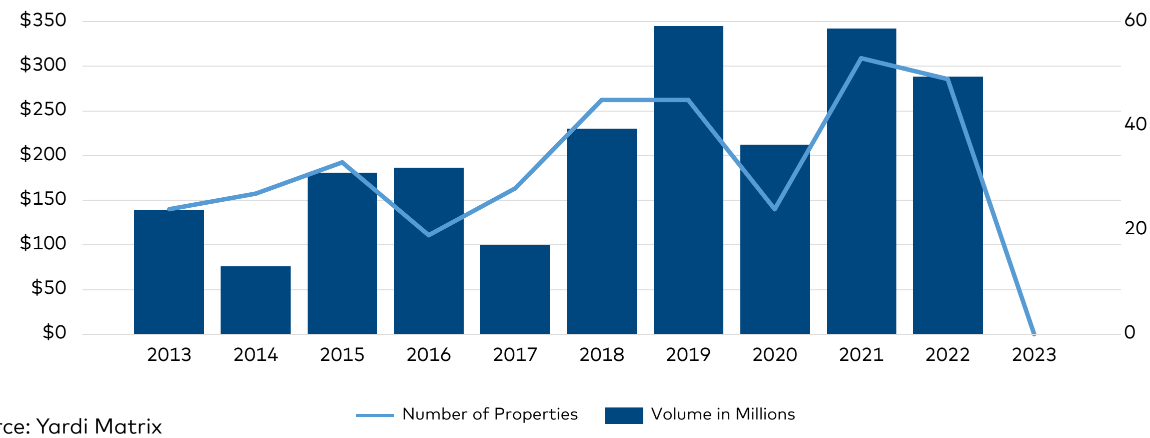


Source: Yardi Matrix

TRANSACTIONS

- No transactions for assets of more than 50 units were recorded in the first two months of the year. In 2022, multifamily sales totaled $288 million, down 15.8% year-over-year, but still the second-best year of the decade. Investors targeted value-add plays—out of the 49 sales recorded, 44 were in the RBN segment, generating $239 million. This was slightly above the five-year average of $284 million.
- In 2022, the average price per unit grew 7.8%, to $69,270. Cleveland remained a cheaper investment alternative compared to other metros, with the national price per unit at $211,138. Investor preference for RBN assets continued to drive prices up, rising 11.4% year-over-year for the segment, to $64,697.
- The Solomon Organization was one of the most-active buyers in metro Cleveland in the 12 months ending in February. In June, the firm acquired five suburban communities totaling 795 units.

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



Source: Yardi Matrix

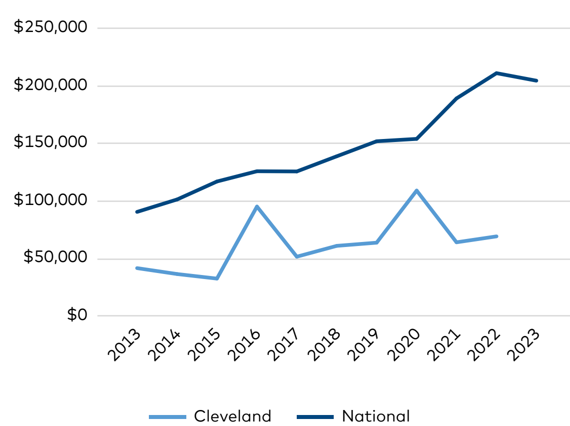
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Akron-North	$52
Westlake	$33
Portage	$31
Cuyahoga Falls	$19
Summit	$18
Jefferson	$15
Lorain-Downtown	$15

Source: Yardi Matrix

[1] From March 2022 to February 2023

Cleveland vs. National Sales Price per Unit



Source: Yardi Matrix

What's Shaping Multifamily Development in the Midwest

By Anda Rosu

Multifamily developers continue to be active in the Midwest, despite the uncertain economic environment. This doesn't mean that they don't have challenges to deal with, but the region's historic resilience and lower cost of doing business are pushing multifamily developers' projects forward. Milhaus Vice President of Development Brad Vogelsmeier weighed in on trends in the region and how the current volatility is impacting the Midwestern multifamily sector.

Why are Midwestern markets more resilient in the face of adversity than markets in other regions of the country?

Midwestern markets are generally more resilient, especially during periods of economic uncertainty. Unemployment tends to stay lower in secondary Midwestern markets compared to both the national average and larger gateway markets, which creates a lot more stability, including in the multifamily space. The cost of doing business here is also more affordable, which plays a large part in driving both job and household growth. These items collectively make the Midwest an attractive place for new investment and development.

Are there any particular development trends you're seeing in the Midwest multifamily market?

The biggest trend in the last 12 to 24 months has been on densification, particularly in suburban locations. We're seeing this in a lot of Midwestern

markets that are capitalizing on more flexible remote work.

Is the unknown still your main challenge as a multifamily developer?

The challenge is still the unknown, but today it's a different type of unknown. Now it's tied to economic stability. Capital providers are more hesitant—people are worried about heading into a recession, if we're not in one already, and are looking at safer investment alternatives. This hesitancy, along with exorbitantly high construction costs, means a lot of projects aren't moving forward.

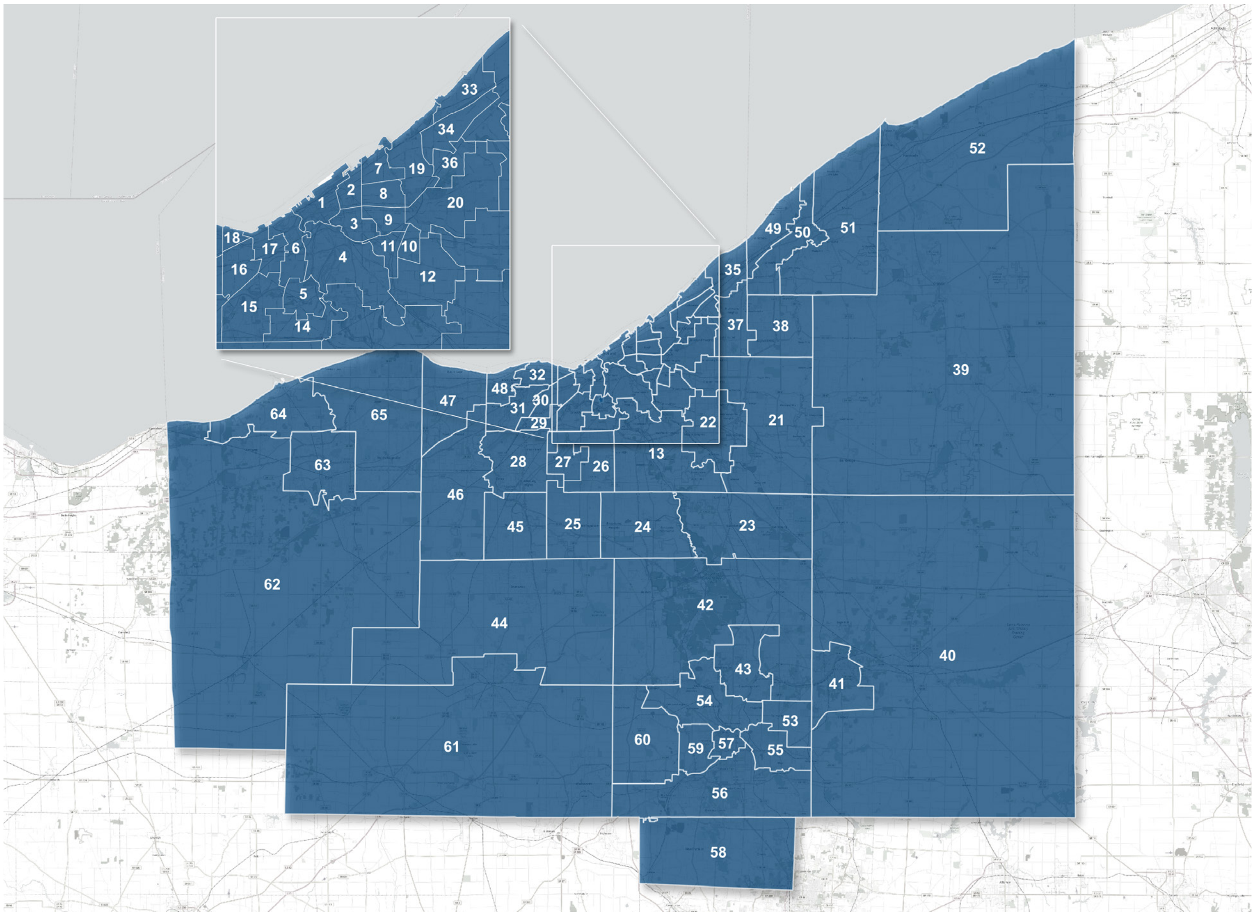
With the country's undersupply of housing and the economic growth we are still seeing in many markets, we're working hard to navigate the current climate and find ways to get deals closed and under construction.

What has pushed multifamily development forward in the Midwest in the past decade?

The Midwest has been successful because of our roll-up-your-sleeves attitude at all levels of development. Developers, municipalities, as well as public and private stakeholders alike think more creatively about development in the Midwest. You don't find this in a lot of major gateway cities, and it's an important element of why these cities, and in turn Milhaus, have seen so much growth over the last decade. In Midwestern cities, we have the mentality to keep moving forward despite economic uncertainty.

(Read the complete interview on multihousingnews.com.)

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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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MULTIFAMILY KEY FEATURES

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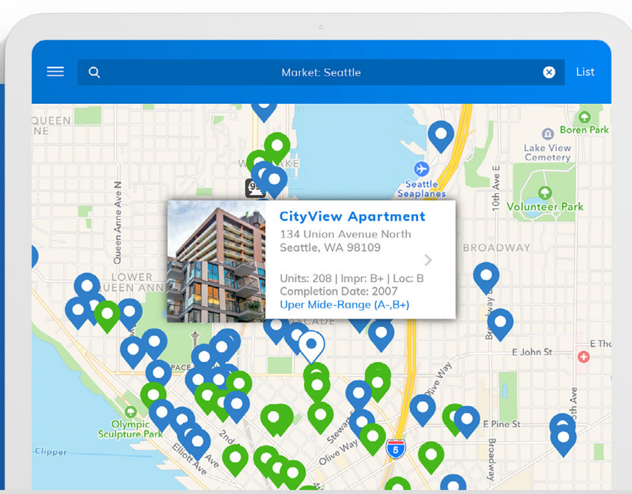
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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