

Cleveland's Fundamental Promise

Multifamily Fall Report 2016

Which Submarkets Are Driving Rental Demand?

Investors Embrace Low Prices with High Volume

Controlled Supply Keeps Pace with Population

Market Analysis

Fall 2016

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Stable Fundamentals in the Buckeye State

As a component of the slow-growth Rust Belt, Cleveland's multifamily rent levels have historically lagged the national rate. However, despite recording a below-average 3.1% year-over-year rent growth through August 2016, the metro is displaying relatively stable fundamentals.

The Weston/Citymark project, the nuCLEus high-rise and the 925 Building renovation—three Downtown investments that add up to more than \$1 billion in value—are on the verge of redefining the city's skyline and adding 2,300 units to Cleveland's multifamily stock. As skilled Millennials and downsizing Baby Boomers are renting more and more in downtown Cleveland and surrounding submarkets, old office buildings are being converted to upscale residential or mixed-use properties. The hospitality industry was boosted by this summer's Republican National Convention and the Cavaliers' National Basketball Association championship. The education and health services sector continues to add consistent numbers of highly paid jobs, easing the city's transition from a post-industrial center to a diversified economy.

Taking into account the city's still-shrinking population, multifamily fundamentals are promising. Strong demand has increased occupancy levels by 210 basis points in recent years, development reached cyclical peaks in 2015 and more than 11,500 units are currently in different stages of development.

Recent Cleveland Transactions

The Vue at Beachwood



City: Beachwood, Ohio
Buyer: Strategic Properties of N. America
Purchase Price: \$90 MM
Price per Unit: \$258,406

Hunter's Chase



City: Westlake, Ohio
Buyer: Morgan Management
Purchase Price: \$30 MM
Price per Unit: \$123,497

444 Park



City: Richmond Heights, Ohio
Buyer: NM Residential
Purchase Price: \$23 MM
Price per Unit: \$30,571

Cascade Falls

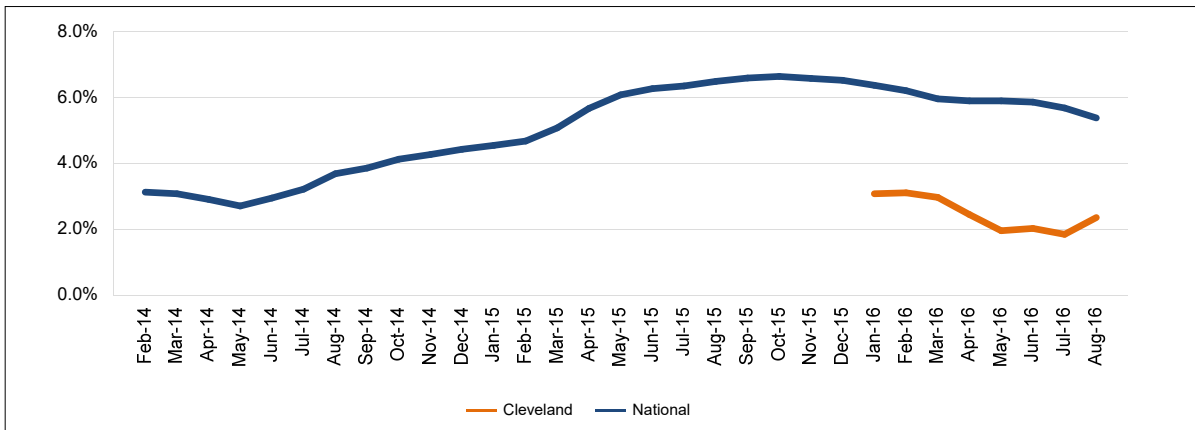


City: Akron, Ohio
Buyer: Read Property Group
Purchase Price: \$15 MM
Price per Unit: \$49,342

Rent Trends

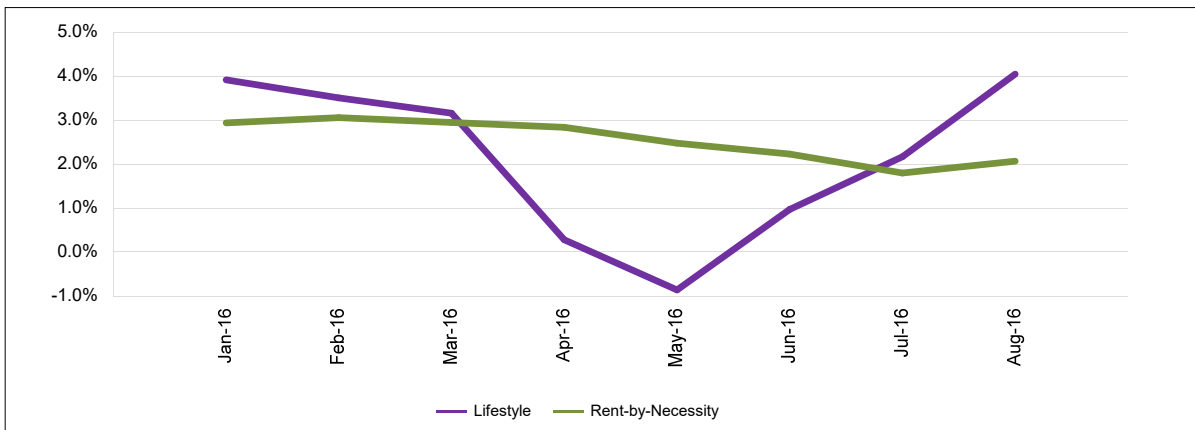
- Cleveland-Akron rents increased by 3.1% year-over-year through August, trailing the national average by 190 basis points. The average rent rose to \$848, well below the \$1,220 nationwide mark. After the rate of increase contracted during the second quarter of 2016, rents in the upscale Lifestyle segment are on the rise once more, up 3.8% year-over-year to an average of \$1,267. During the same period, the working-class Renter-by-Necessity segment saw a 3.0% increase to an average of \$800.
- Cleveland is a good example of the urbanization trend. As businesses expand or relocate to the central business district, a handful of core submarkets are driving multifamily demand. Overall population in the metro has declined slightly in recent years, but downtown Cleveland is in the middle of a rebirth, its population having increased by 79% since 2000. Goodrich-Kirtland Park, Westlake, Parma and Lakewood—alongside the downtown itself—are recording consistent rent growth.
- With Cleveland’s population contracting and completions at a cycle high, rent increases are likely to remain moderate. This is in line with nationwide averages, as most primary and secondary markets across the country have seen a slight deceleration in rent growth. However, we expect absorption to be robust in the near future, aligning with the metro’s occupancy rate of 95.7%—up 210 basis points in the last three years.

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)

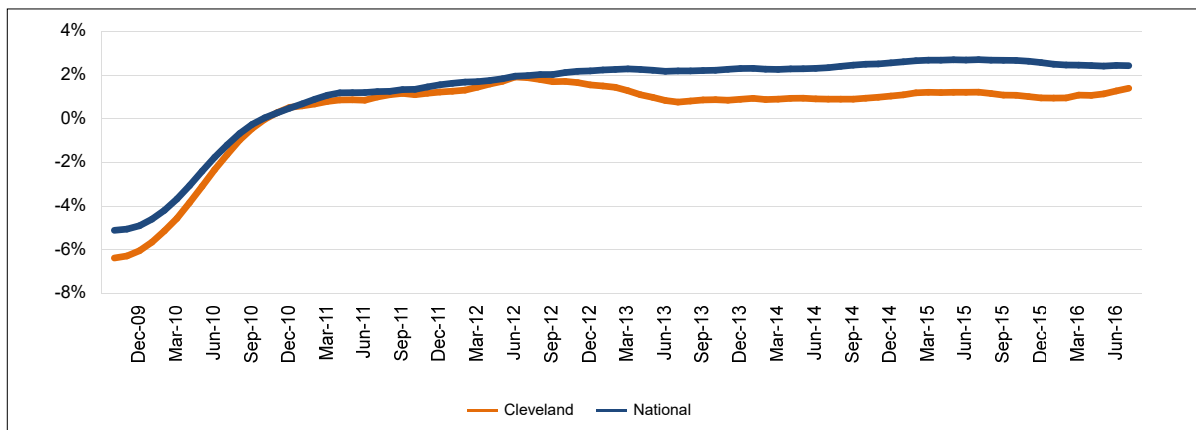


Source: YardiMatrix

Economic Snapshot

- Cleveland added roughly 27,600 jobs during the last 12 months. With continuous job growth since mid-2010 and a shrinking population, the metro's current unemployment rate of 5.3% is almost on par with the national average.
- The leisure and hospitality sector continues to be a key economic driver, adding 12,500 jobs, an 8.9% year-over-year increase, as hotel stock has grown 55% since 2012. The metro hosted the Republican National Convention and the NBA finals this summer. With investors betting on the aftereffects, Cleveland has a good chance of further expanding as a leisure destination and using the recent attention to boost its convention industry.
- Adding 11,600 jobs, the education and health services sector remains a Cleveland staple. The metro is home to several highly ranked hospitals and many biotech and biomedical companies, which contribute to the growth in white-collar jobs. Considering the metro's traditional manufacturing and industrial background, this comes as a healthy balance that helps diversify the economy.
- Still a significant component of the Rust Belt, Cleveland's manufacturing sector has contracted by 6,100 jobs, or 3.7%, year-to-date. This is the steepest yearly drop since the 10.6% contraction recorded at the end of 2009.

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	%
70	Leisure and Hospitality	152	10.7%	12,500	8.9%
65	Education and Health Services	263	18.6%	11,600	4.6%
90	Government	175	12.4%	5,200	3.1%
40	Trade, Transportation and Utilities	255	18.0%	3,500	1.4%
80	Other Services	57	4.0%	1,800	3.3%
60	Professional and Business Services	205	14.5%	100	0.0%
15	Mining, Logging and Construction	52	3.7%	0	0.0%
50	Information	19	1.3%	-300	-1.6%
55	Financial Activities	79	5.6%	-700	-0.9%
30	Manufacturing	159	11.2%	-6,100	-3.7%

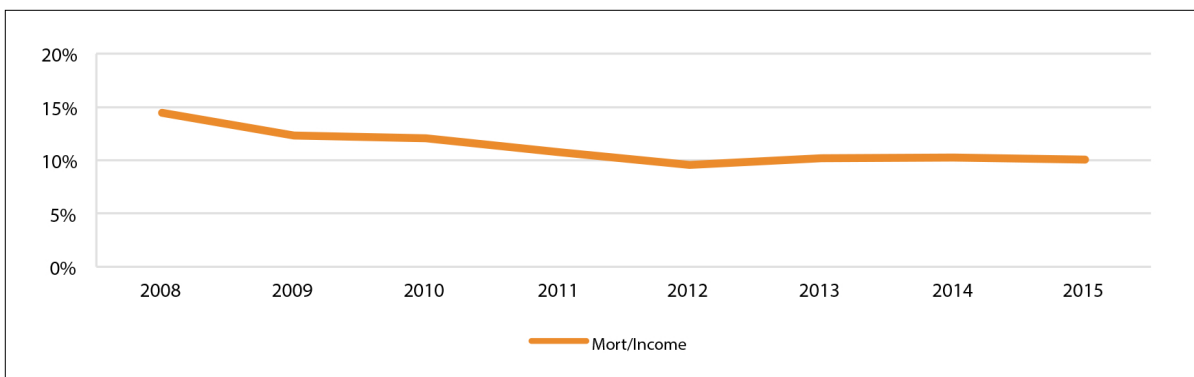
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

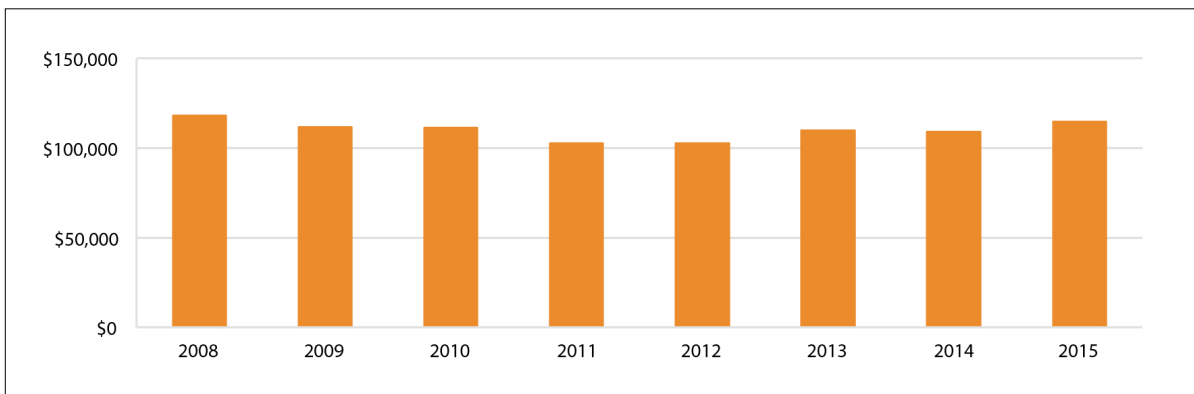
- Due to its manufacturing and industrial background, the metro has a very high percentage of Renter-by-Necessity stock, which translates into high affordability rates. Workforce and Fully Affordable assets currently add up to more than 75% of the total stock.
- As the average mortgage payment is just 10% of the \$50,722 median income, owning continues to be drastically more affordable than renting. The current average rent represents roughly 18% of the metro's median income.
- Cleveland home prices rose to \$114,587 in 2015, just \$3,600 shy of the 2008 median value.

Cleveland Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Cleveland Median Home Price



Source: Moody's Analytics

Population

- The metro's population contracted by a little over 3,200 residents in 2015, contrasting with the 0.8% national growth.
- Since 2011, the Cleveland-Elyria area has shrunk by 0.4%.

Cleveland vs. National Population

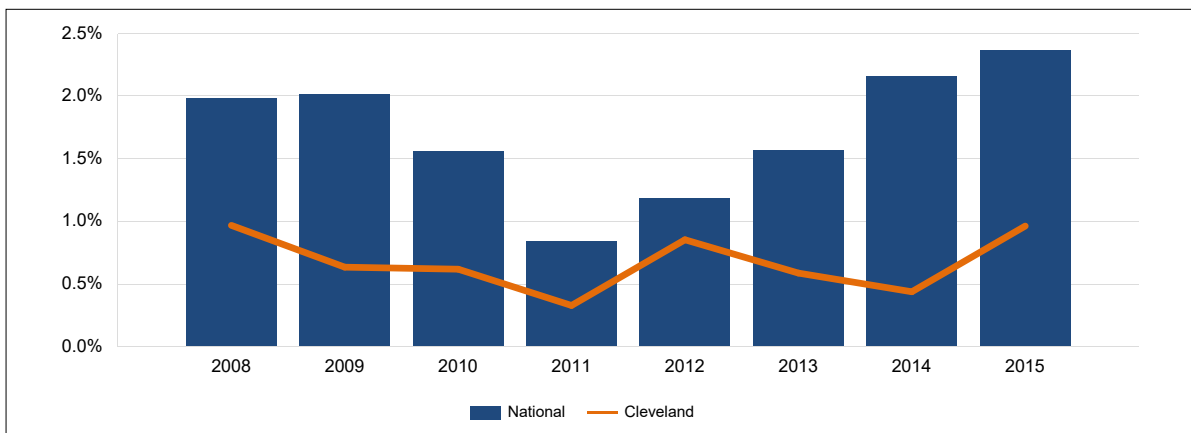
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Cleveland-Elyria, OH Metropolitan Statistical Area	2,068,349	2,064,321	2,064,854	2,064,079	2,060,810

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

Supply

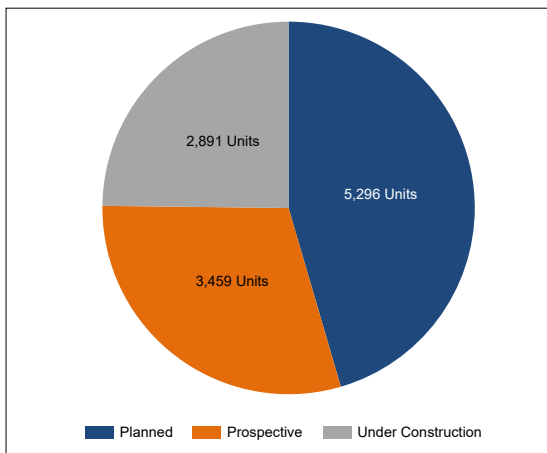
- Given the shrinking population, development has been tepid. Just 556 units came online in 2015, 1.0% of the total stock and less than half the national average. That was double the metro's growth rate for 2014, but going forward the numbers don't look to be much higher. The pipeline as of August encompassed 11,646 units in different stages of development, a quarter of them already under construction. The metro is expected to add roughly 1,500 units this year.
- The new supply distribution is uneven across the map, with Downtown Cleveland and several other core areas driving the market. With five properties totaling 1,124 units under construction, the thriving Downtown submarket remains the city's flagship, seconded by Ohio City (449 units). However, more than 50 of the metro's 65 submarkets currently have no developments or significant reconversions in the works.
- The 318-unit Ovation at Crocker Park in Westlake is the largest development slated for completion by year-end. In the longer run, three major mixed-use developments will add some 2,300 units to Cleveland's Downtown area: The Huntington Building reversion, the Asher family's Warehouse District project and Stark Enterprises' 53-story nuCLEus tower will have a combined cost exceeding \$1 billion.

Cleveland vs. National Completions as a Percentage of Total Stock (as of August 2016)



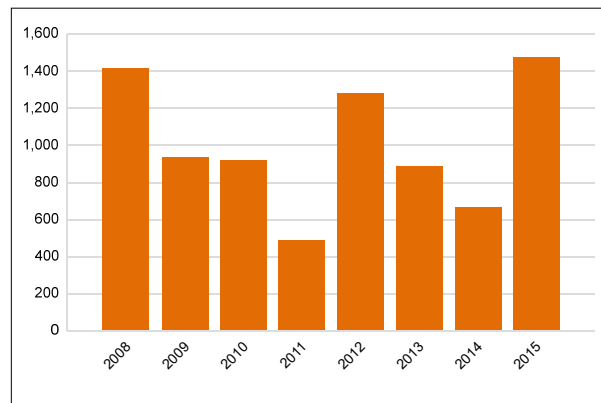
Source: YardiMatrix

Development Pipeline (as of August 2016)



Source: YardiMatrix

Cleveland Completions (as of August 2016)

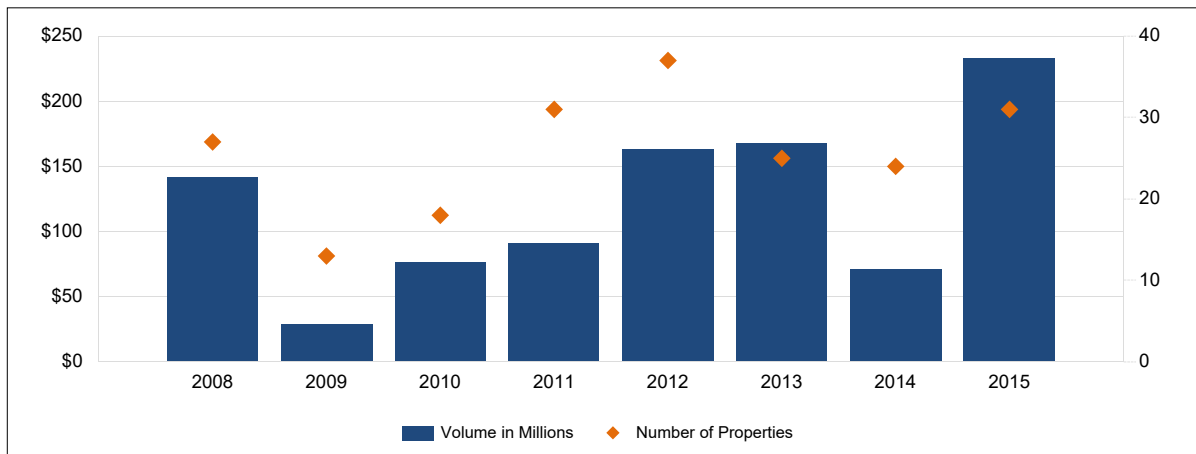


Source: YardiMatrix

Transactions

- Last year, the sales volume increased by 220% year-over-year, reaching a cyclical high. Year-to-date through August, more than 1,100 units had sold, for a combined \$142 million, on par with 2015's volume.
- At roughly \$41,000, the metro's 2015 average price per unit was nowhere close the \$117,358 national median.
- For a Midwestern secondary market, the Cleveland-Akron area is attracting strong demand for properties compared to historic figures. Investors are focusing on value-add opportunities close to core areas, with almost all acquisitions made in the Renter-by-Necessity segment. This also partially explains the very low price per unit.
- Trading for some \$90 million, the Vue at Beachwood represents, by far, the largest transaction of the last 12 months. With a price per unit in excess of \$250,000, the asset is the only large Lifestyle property to trade in Cleveland since 2012.

Cleveland Sales Volume and Number of Properties Sold (as of August 2016)



Source: YardiMatrix

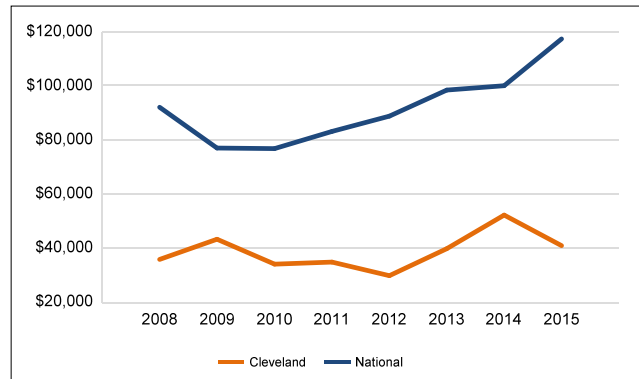
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Solon	90
Westlake	30
Richmond Heights	23
Akron North	15
Parma	12
Glenville	9
Euclid	4
Summit	4

Source: YardiMatrix

¹ From September 2015 to August 2016

Cleveland vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Cleveland's \$132M Rockside Road Project Gets Green Light



Cleveland AC By Marriott Hotel To Open in 2018



Howard Hanna Taps New Ohio Manager

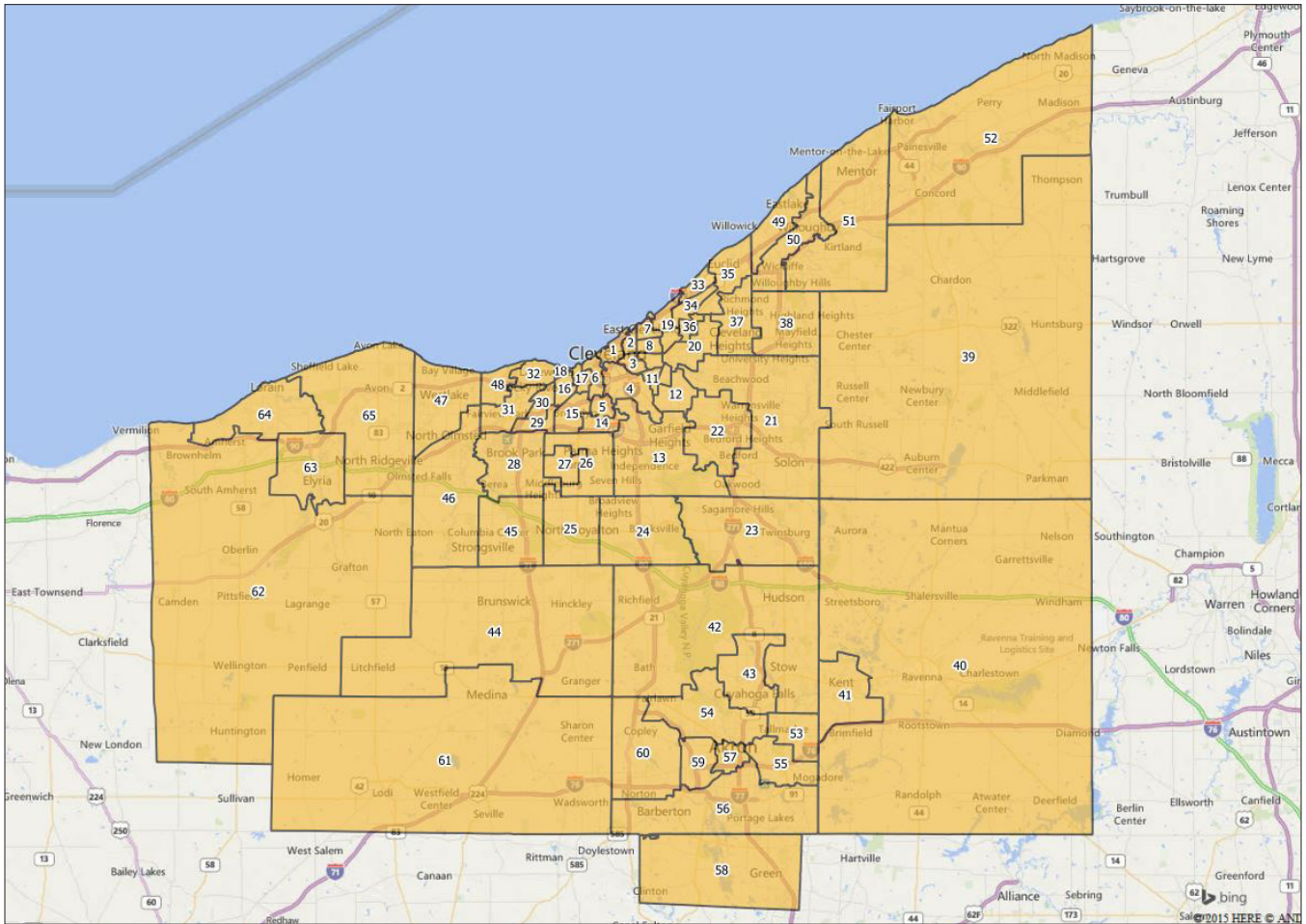


K&D Group Buys Cleveland Tower for \$38M

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Cleveland Submarkets



Area #	Submarket
1	Cleveland-Downtown
2	Goodrich-Kirtland Park
4	Broadway
5	Brooklyn Centre
6	Ohio City
8	Hough
12	Shaker Heights
13	Garfield Heights
14	Old Brooklyn
15	Brooklyn
16	Cudell
18	Edgewater
19	Glenville
20	Cleveland Heights
21	Solon
22	Bedford
23	Twinsburg
24	Broadview Heights
25	North Royalton
26	Parma

Area #	Submarket
27	Parma Heights
28	Brookpark
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
45	Strongsville
46	Olmsted
47	Westlake

Area #	Submarket
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.

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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