



YARDI[®] Matrix

Reinventing Cleveland

Multifamily Winter Report 2017

**Downtown Renewal
Feeds Rent Growth**

**Biotech, Medical
Spur Office Demand**

**Fourfold Rise in
Completions Brews**

Market Analysis

Winter 2017

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Cleveland Reinvents Its Downtown

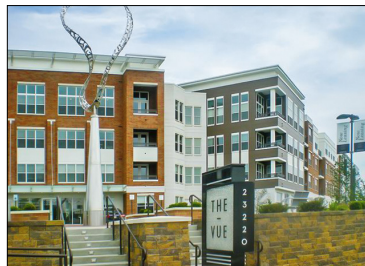
Cleveland has been one of the slowest-growing metros in recent years, but while its real estate fundamentals continue to lag the rest of the country, there are signs of emerging opportunities.

Employment growth has been steady for the past six years as a more diverse workforce has emerged and the region has gradually severed ties to its industrial past. Consistent job gains in health services and education have bolstered the employment market, while formerly traditional sectors, such as construction and manufacturing, lost positions. The metro continues to develop its biomedical and innovation centers, and in December, top cancer center University Hospitals broke ground on its Rainbow Center for Women & Children, located within Cleveland's Health-Tech Corridor.

Rent growth across the metro remains slow but steady, and strong gains were made in certain downtown and lakeside areas. New construction is also concentrated in Downtown Cleveland, as well as four other core submarkets. Construction jobs may return to the metro, as completions are expected to increase 400% in 2017 compared to 2016. Given the relatively soft real estate fundamentals, the metro remains affordable, and may provide investors with unique growth opportunities as the region continues to reinvent itself.

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

Big Sky Park



City: Wadsworth, Ohio
Buyer: Stark Enterprises
Purchase Price: \$6 MM
Price per Unit: \$74,167

Triumph Tower



City: Euclid, Ohio
Buyer: Michael Dong
Purchase Price: \$4 MM
Price per Unit: \$34,683

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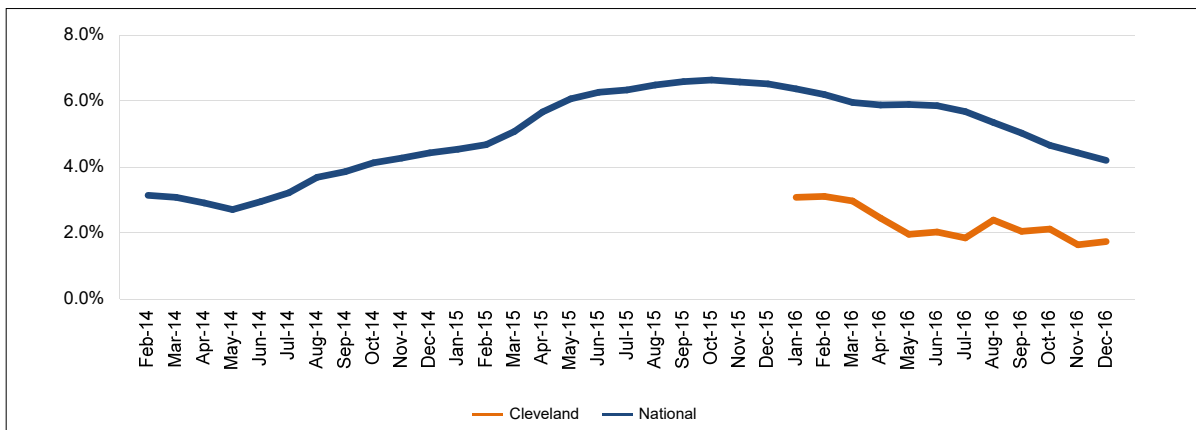
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Rent Trends

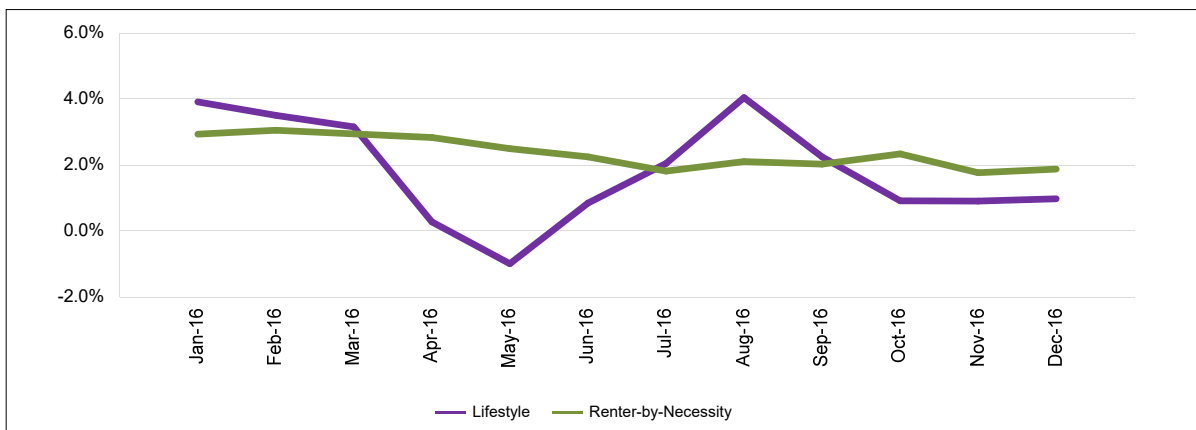
- Rents in Cleveland rose 2.3% year-over-year in 2016, well below the 3.9% national figure. At \$843, rents lagged the national average of \$1,210. Rent growth was led by the working-class Renter-by-Necessity segment, which grew 2.4% to \$800. Rents for higher-end Lifestyle assets increased 1.8% to \$1,225.
- Demand for apartments has been consistent due to the steadily growing job market. While rent growth is not expected to outperform other metros, we anticipate measured gains, especially in submarkets located close to the urban core. We expect absorption to be strong and outpace supply additions, resulting in further occupancy growth from its current 95.7%.
- While Cleveland's population has shrunk, the downtown area is in the midst of a rejuvenation. Some of the best-performing submarkets are lakeside and in close proximity to downtown, including Lakewood (6.0%), Westlake (5.0%) and Goodrich-Kirtland Park (4.3%). Rents declined, however, in Mayfield, Twinsburg and Uniontown, which lie outside the urban core.

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)

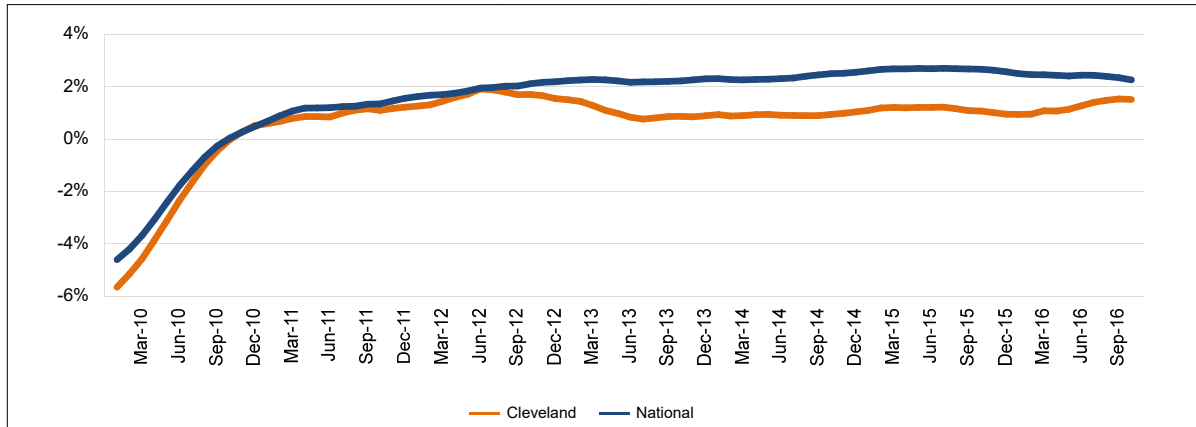


Source: YardiMatrix

Economic Snapshot

- Employment grew 1.2%, nearly half the national rate, as 12,900 jobs were added in the metro in 2016. Cleveland has consistently trailed the national average employment growth rate for much of the past five years.
- Job growth was heavily concentrated in leisure and hospitality, though education and health services contributed more than 12,400 new jobs combined. The disparity between sectors is striking, as only a few hundred jobs were created last year in professional and business services and financial activities. The traditionally strong manufacturing sector lost 5,000 jobs as Cleveland's industrial roots continued to decline.
- Office development increased in the metro, as affordability has enticed companies to the region. There's a high demand for medical office space, and vacancy in 2016's second quarter dropped to a 15-year low. High-skilled industries such as biotech and medical-device research-and-development are expanding in the metro and continuing to generate job growth. Because of strong office absorption, the average vacancy rate has continuously declined each quarter of the past year, pushing lease rates up.

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	%
65	Education and Health Services	266	18.8%	7,700	3.0%
70	Leisure and Hospitality	141	10.0%	4,700	3.5%
40	Trade, Transportation and Utilities	254	17.9%	2,100	0.8%
80	Other Services	56	4.0%	1,900	3.5%
90	Government	186	13.1%	1,700	0.9%
60	Professional and Business Services	204	14.4%	200	0.1%
55	Financial Activities	80	5.6%	100	0.1%
50	Information	18	1.3%	-100	-0.5%
15	Mining, Logging and Construction	51	3.6%	-400	-0.8%
30	Manufacturing	160	11.3%	-5,000	-3.0%

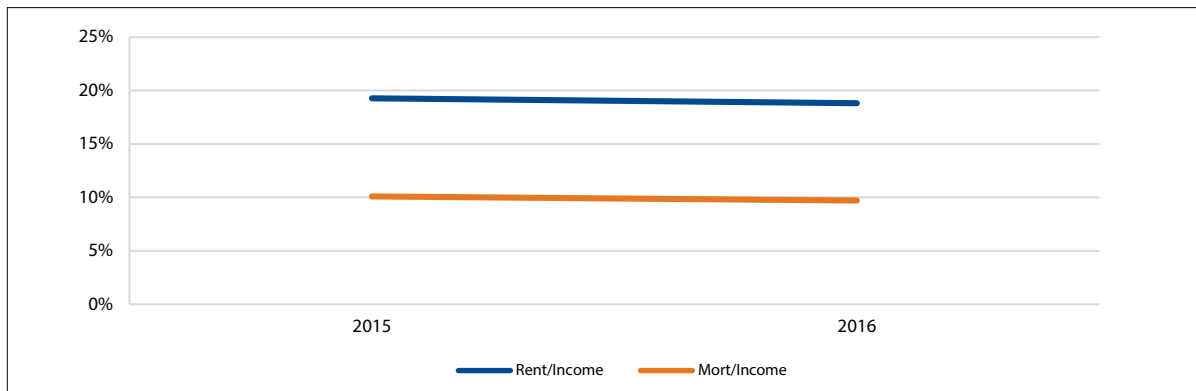
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

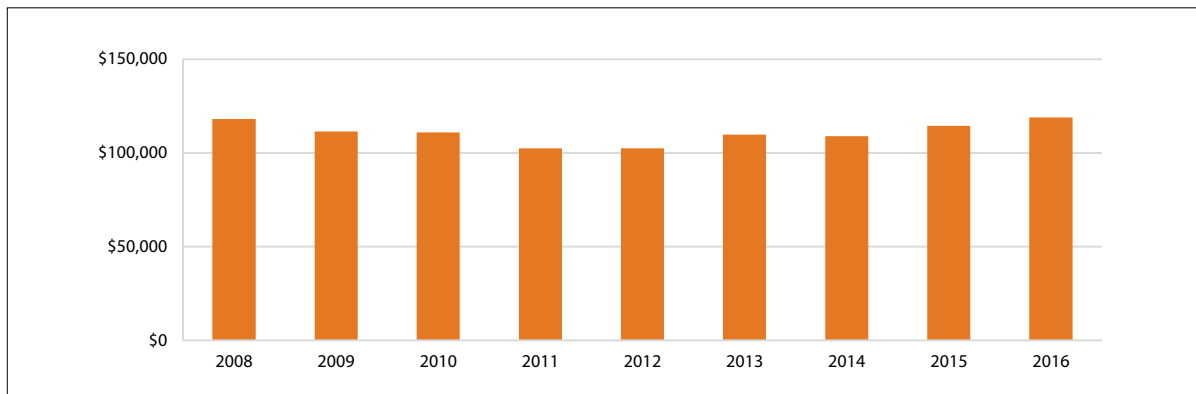
- Home prices in Cleveland have continued to escalate in recent years, reaching a median value of \$119,015 in 2016, a new cycle high. The median home value has risen 16.2% since 2011. Despite the upswing, Cleveland remains affordable, as both home prices and rent levels are significantly below national figures.
- In the past five years, the average mortgage payment has fallen to 10% of a Clevelander's income. Given recent rent growth, owning continues to be more affordable than renting. Currently, rent represents 19% of a resident's income.

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 continued to contract, falling by 3,269 residents in 2015, while the nation grew by 0.8%.
- Population has declined by 14,748 residents in the last seven years.

Cleveland vs. National Population

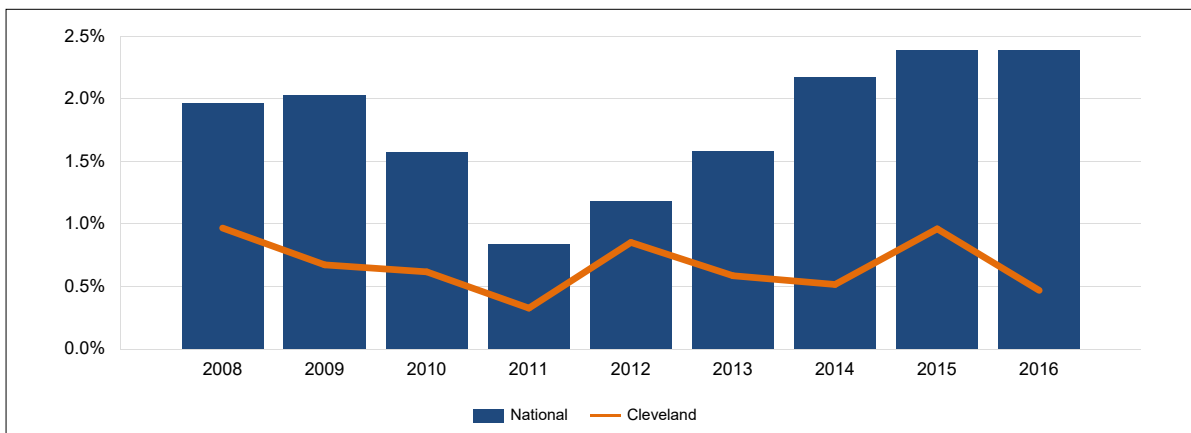
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Cleveland-Elyria, OH Metropolitan Statistical Area	2,068,349	2,064,321	2,064,854	2,064,079	2,060,810

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

Supply

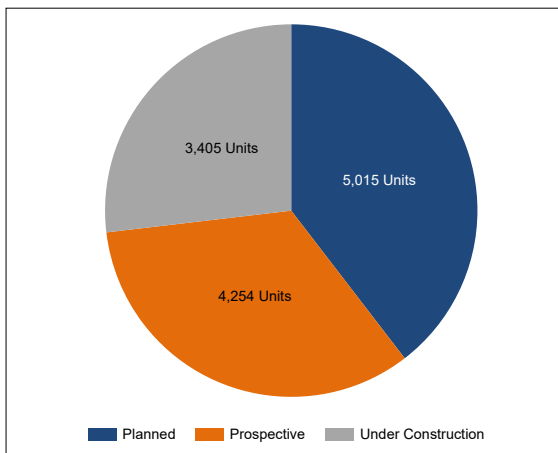
- Construction is expected to gain momentum in 2017 after a weak 2016. More than 3,000 units are slated to be built in 2017, which would mark a current cycle high. The projected construction growth is roughly four times the 724 units completed in 2016.
- Downtown Cleveland and four other submarkets in the city's core continued to feed the pipeline. Developers have focused on the city's lakefront area, where 1,623 units are now underway and demand is increasing, particularly downtown. New construction projects are also underway in Ohio City (306 units) and Cleveland Heights (376 units). In stark contrast to downtown, three quarters of Cleveland's submarkets have no development projects in the works at this time.
- Westlake's Ovation at Crocker Park is the largest multifamily project currently under construction and is slated for completion this year. The 318-unit development is being built by Stark Enterprises. Three other projects will add more than 280 units each to the metro's multifamily stock: NRP Group's The Edison at Gordon Square, the 21-story Standard Building and One University Circle, the city's first new high-rise apartment tower in more than 40 years.

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



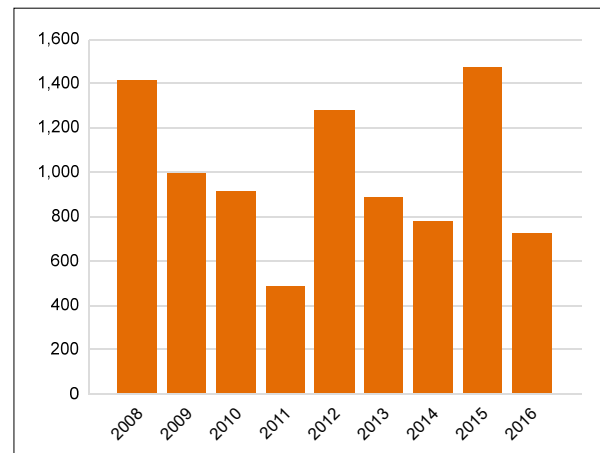
Source: YardiMatrix

Development Pipeline (as of December 2016)



Source: YardiMatrix

Cleveland Completions (as of December 2016)

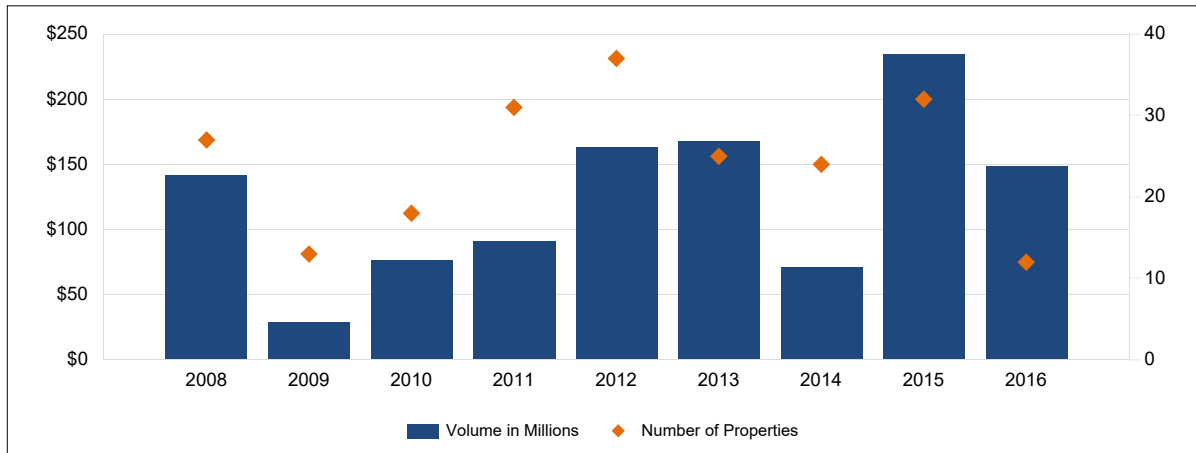


Source: YardiMatrix

Transactions

- Institutional investment demand is still weak in Cleveland. Only \$149 million in multifamily properties changed hands last year, down more than 40% from the cycle high reached in 2015. Investors remained tepid about the metro's growth potential and liquidity.
- Price per unit increased to \$54,000, up 34% compared to 2015. While the per-unit price was as high in 2016 as it's been in this cycle, it stayed well below the \$135,000 national average.
- The Vue at Beachwood, a 348-unit community in the Solon submarket, was the largest property to be traded in Cleveland in 2016 and the only Lifestyle property to trade in the past five years. In August, NRP Group sold the asset to Strategic Properties of North America for \$90 million, or \$258,406 per unit.

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



Source: YardiMatrix

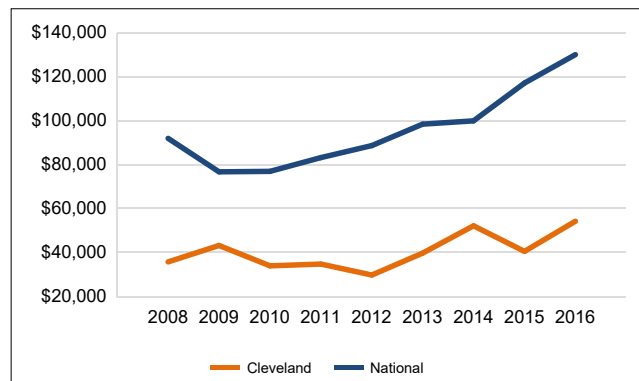
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Solon	90
Westlake	30
Medina	6
Euclid	4
Summit	4
Akron-South	4
Lake	3
Garfield Heights	3

Source: YardiMatrix

¹ From January 2016 to December 2016

Cleveland vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



**Berkadia Secures \$50M
To Finance Cleveland Project**



**Cleveland's Key Center
Sells for \$268M**



**New \$13M Condo Project
Planned in Cleveland**

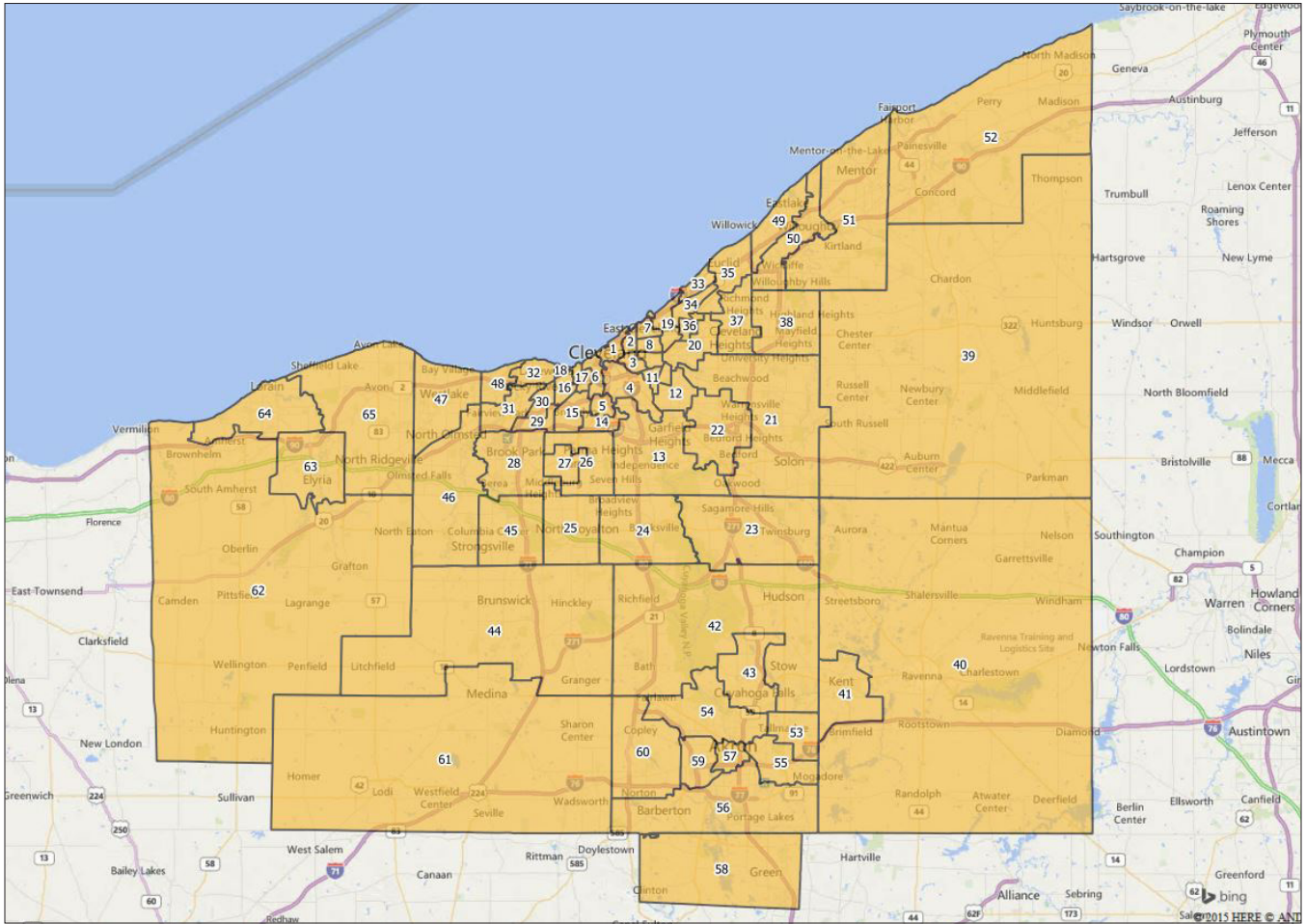


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Cleveland Submarkets



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.

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