MARKET REPORT

Multifamily

Cincinnati Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

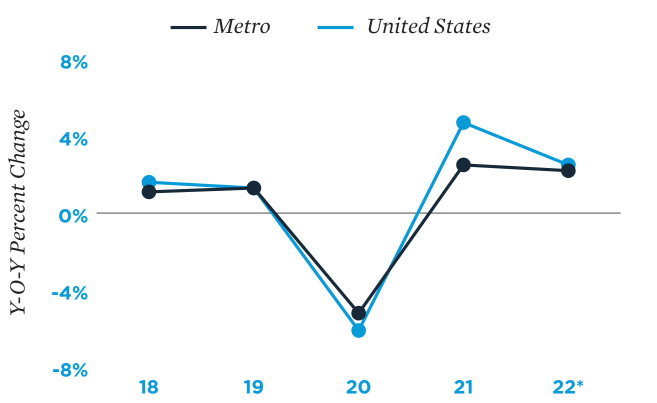
2Q/22

Demand Surge Prompts Rent Reversal as Downtown Makes Up Lost Ground

Tightening vacancy contributes to rising rents downtown. Cincinnati has welcomed new households consistently over the past decade. The metro continued to see elevated net in-migration through the pandemic, and is predicted to welcome 6,500 new residents in 2022. Household expansion, expected at 0.9 percent this year, matching 2021's two-decade high, means more residents are looking for apartments at a time when vacancy is tight and rents are rising. Given recent price hikes in the housing market and a preference toward the flexibility of apartments, the renter pool remains strong. Central Cincinnati, in particular, saw a pronounced drop in vacancy over the past year, as area offices reopened and more activity returned to the core.

Developers focus on downtown. This year, about 40 percent of metrowide completions are expected to come online in Central Cincinnati, despite the submarket only accounting for 8 percent of total stock. Record deliveries here may ease the pace of rent gains, which have sprung back following sharp declines in 2020 and early 2021. Rates grew more than 20 percent year-over-year in the first quarter of this year. As construction becomes more focused on downtown, an all-time low vacancy rate in the suburbs should keep sustained upward pressure on rents. The suburbs will continue benefiting from structural shifts in renter behavior.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

24,500 JOBS
will be created

EMPLOYMENT:

The number of jobs in the metro will increase by 2.2 percent from last year. While Cincinnati falls short of the national increase, the quickly growing sectors, such as trade, transportation and utilities, are contributing to the unemployment rate compression.

2,000 UNITS
will be completed

CONSTRUCTION:

Completions will be elevated this year, compared to the trailing five-year average of 1,400 units finalized, with developers expanding apartment inventory by 1.1 percent. Suburban deliveries represent approximately 60 percent of this year's pipeline.

0 BASIS POINT
change in vacancy

VACANCY:

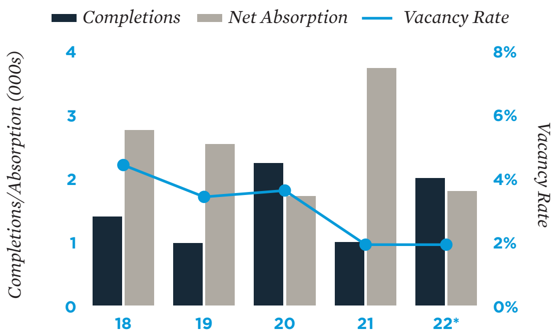
Vacancy remains relatively flat in 2022, matching last year's rate of 1.9 percent as net absorption hovers around 1,800 units. Vacant stock will remain below 3,200 units for the second-straight year, one of the lowest levels since at least 2000.

8.6% INCREASE
in effective rent

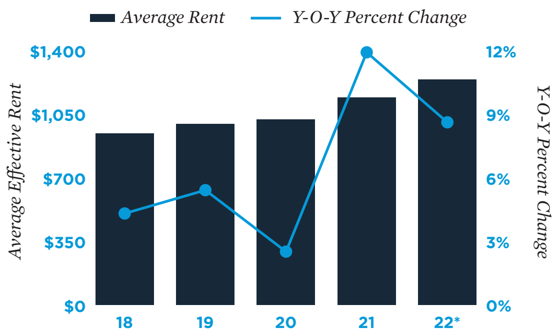
RENT:

The average effective rent will rise to $1,239 per month by the end of 2022. This year's growth rate marks the second-largest annual rent increase in over two decades, only trailing the 11.9 percent surge recorded in 2021.

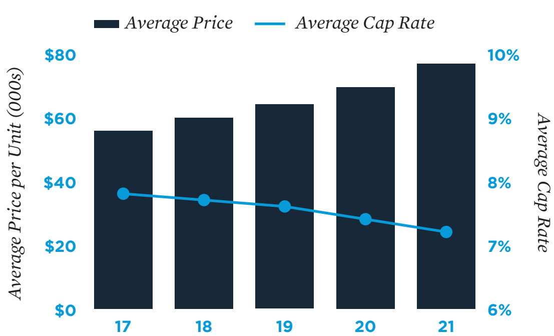
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

IPA Multifamily

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

1,347 units completed

- Despite completions tapering over the last four quarters, rental inventory still grew by 0.7 percent, which is on par with historical averages.
- At the end of 2021, Central Cincinnati had the highest number of completions annually, closely followed by North Central Cincinnati.

VACANCY

230 basis point decrease in vacancy Y-O-Y

- In-migration and a steady increase in the 20- to 34-year-old age cohort contribute to plunging vacancy. In the first quarter, the rate dropped to approximately 1.8 percent.
- Net absorption outpaced completions by approximately 3,500 units year-over-year, contributing to the downward pressure on vacancy.

RENT

13.5% increase in the average effective rent Y-O-Y

- Rents continue to grow at an elevated pace, with the average effective rate landing at about $1,174 per month in March, maintaining the momentum witnessed in the third and fourth quarters of 2021.
- The CBD began to rebound over the last year as vacancy tightened by 500 basis points, pushing the mean rent up 21.9 percent.

Investment Highlights

- Transaction velocity in the metro returned to pre-pandemic levels in 2021 as deal flow matched 2019's volume. The most common submarkets to see trades were Norwood and West Wood, with Clifton and West Price Hill also high on the list. Norwood and Clifton are notably close to the metro's two major universities: the University of Cincinnati and Xavier University. Additionally, all four submarkets hover on the edge of downtown, within a commutable distance of the CBD.
- Although Cincinnati has seen a strong year-over-year change in the average price per unit, it remains a modestly priced market, compared to the national average. The metro's average sale price was around $76,700 per unit in 2021, while the national mean was about $183,400. Within the state, Cincinnati reported the lowest average sale price among major markets, falling just below Cleveland's average sale price of about $76,800.
- The average cap rate contracted once again in 2021, marking 11 years of downward movement. Despite the prolonged period of compression, average first-year returns remain approximately 200-plus basis points above the national average cap rate, attracting more yield-focused investors.