MARKET REPORT

Multifamily

Cincinnati Metro Area

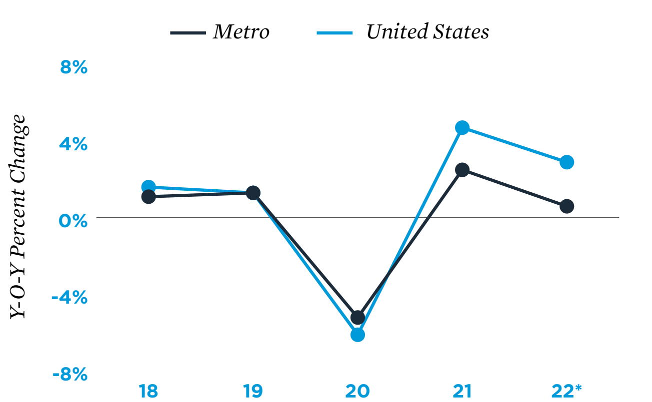
3Q/22

Households Increasingly Favor Renting; Elevated Construction Reflects Tightness

Home purchase barriers aid apartment demand. In 2020, Cincinnati was named by some publications as one of America's hottest housing markets. Now, rising mortgage rates and single-family home prices have many residents reconsidering the value proposition of homeownership. In the first half of this year, the affordability gap — the difference between a mean monthly rent payment and a mortgage obligation on a median priced home — nearly doubled to $785. This drastic difference in costs, paired with the flexibility and amenities that apartments provide, is driving demand for rentals. In the past 12 months ended in June, more than 3,900 units were absorbed, surpassing the total of the prior eight quarters. While apartment vacancy will end the year slightly higher than the 2021 year-end rate, it will still remain one of the tightest among major U.S. metros.

Demand mirrors construction, limiting vacancy movement. Among major Midwest markets, Cincinnati posted the lowest vacancy rate in the second quarter of 2022. Additionally, the metro's CBD is one of the tightest downtowns in the nation, with availability at 3.2 percent in June and only 250 units expected to finalize here in the second half. These conditions may encourage builders to pick up the pace, but as of July, only 750 additional units were underway with delivery dates in 2023 or 2024. Developers are instead concentrating on the market's suburban neighborhoods, primarily in Campbell and Kenton counties, as the vacancy rate there is the second lowest in the metro and new supply should be well received.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

6,500 JOBS *will be created*

EMPLOYMENT:

The metro's unemployment rate fell to 3.2 percent in June, a historically low level for Cincinnati. This potentially signals an upcoming slowdown in hiring velocity, due to a decline in local labor availability.

2,200 UNITS *will be completed*

CONSTRUCTION:

This year will record a 1.3 percent inventory increase, with Campbell and Kenton counties, along with Central Cincinnati, combining for more than half of all metro deliveries in 2022. Delivery dates in the current pipeline extend into 2024.

40 BASIS POINT *increase in vacancy*

VACANCY:

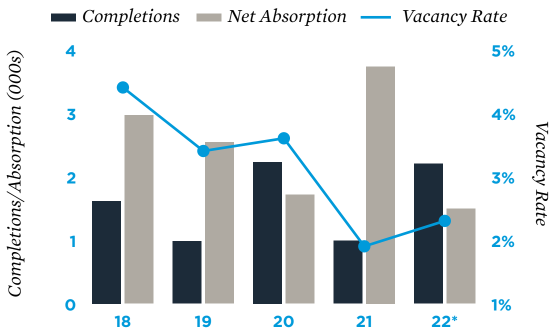
After reaching a record low in March, vacancy will slightly increase during the second half amid slower household creation. At 2.3 percent, year-end vacancy will remain well below the long-term average of 6.0 percent.

10.4% INCREASE *in effective rent*

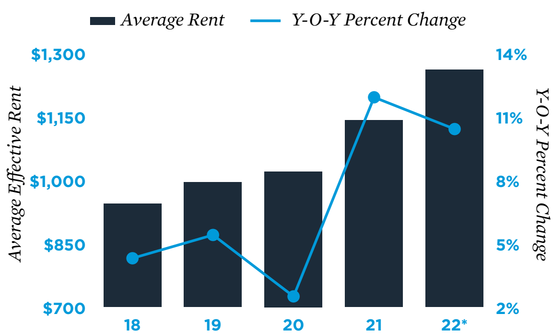
RENT:

Tight conditions enable Cincinnati to register double-digit rent growth for a second consecutive year, lifting the average effective rent to $1,260 per month by December. This measure is nearly 30 percent above the 2019 year-end average.

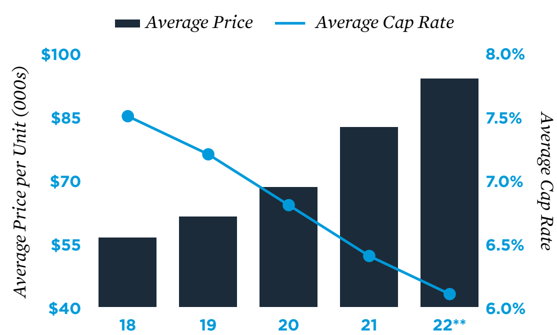
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

2,022 units completed

- Inventory increased by 1.1 percent during the 12-month span ended in June, with second quarter deliveries accounting for half of the units added.
- Completions in Central Cincinnati eclipsed the 900-unit mark during the yearlong span, the most new apartments among submarkets. An additional 1,000 rentals were underway here as of July.

VACANCY

130 basis point decrease in vacancy Y-O-Y

- Availability dropped 130 basis points from the previous yearlong span to just 2.2 percent in June 2022, ranking the metro as the nation's fourth-tightest major rental market.
- Suburban vacancy entered the second half at 2.0 percent, a rate 140 basis points below the pre-pandemic benchmark in 2019.

RENT

14.1% increase in the average effective rent Y-O-Y

- The average effective rent reached $1,215 per month in June, following the largest year-over-year increase in the metro since at least 2000.
- Class B properties fueled rent growth as the segment noted a 15 percent increase to $1,205 per month. North Central and Central Cincinnati saw the highest Class B rent rises at around 20 percent.

Investment Highlights

- Transaction velocity in the trailing 12 months ended in June landed roughly 30 percent above the previous span. Deal flow during this period was fueled by elevated trading in the fourth quarter of 2021. Private buyers drove the spike in trades, with a significant share in the $1 million to $10 million price tranche. However, more institutions could tune into Cincinnati in the coming years, as it boasts one of the tightest vacancy rates in the country.
- After recording double-digit gains in both 2020 and 2021, Cincinnati's average price per unit rose by over 20 percent in the trailing 12-month period ended in June. This growth compressed the average cap rate to the low-6 percent range, a return on par with most other major Midwest markets.
- Investors have continued to target submarkets with higher average effective rents since the onset of the health crisis, particularly in urban areas. Central Cincinnati saw an elevated number of trades in 2021, a trend that has continued into 2022, where the submarket reported one of the greatest number of overall transactions from January through June of this year. Investor preferences could possibly shift in the coming months to lower-cost submarkets amid a period of inflation, as some tenants could decline lease renewals and seek rentals in less costly areas.