

MARKET REPORT

Multifamily
Cleveland Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

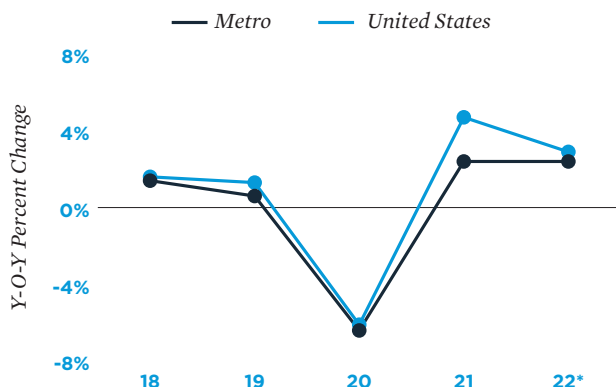
3Q/22

Regionally Low Rents and Few Deliveries Preserve Limited Suburban Vacancy

Availability stays nationally tight. Cleveland ended the second quarter with the least costly mean effective rent of any major Midwest market, and the second lowest in the nation. Additionally, the second quarter vacancy rate of 2.5 percent landed 370 basis points below the metro's long-term average, and is expected to remain one of the tightest in the nation at year-end. This signals a meaningful tailwind for rentals as local residents face rising barriers to homeownership. The mean monthly mortgage payment is growing faster than the average effective rent, a trend that is likely to continue as growing concerns surrounding inflation place upward pressure on mortgage rates.

Mild construction pairs with suburban demand. The metro's suburbs have lacked housing development and only account for around 13 percent of the current pipeline. The modest number of recent deliveries has kept vacancy below 3.0 percent in all but one of Cleveland's nine suburban submarkets. The second-largest locale by inventory, Westlake-North Olmsted-Lorain County, posted the metro's lowest vacancy rate in June at 1.7 percent. The area has registered limited construction over the last six years, which has heightened competition for available units. Although overall market vacancy will inch up by year-end, this submarket offers an example of how Cleveland's modest pipeline will impact availability going forward. Expectations for suburban vacancy to remain limited has the potential to aid leasing activity at new builds in the CBD.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook



**24,500
JOBS**

will be created

EMPLOYMENT:

Total employment will grow 2.4 percent annually for the second straight year, following initial pandemic losses. Even though 2,600 positions were added in the second quarter, unemployment rose slightly to 5.5 percent, indicating a growing labor pool.



**800
UNITS**

will be completed

CONSTRUCTION:

Deliveries hold below the 1,000-unit mark for a second consecutive year. Of the 2,000 units under construction as of July, around 60 percent are slated for 2023 completion in Central and East Cleveland.



**10
BASIS POINT**

increase in vacancy

VACANCY:

The moderate volume of supply additions during 2022 will slightly outpace demand, lifting year-end vacancy to 2.4 percent. Still, Cleveland records positive net absorption for the fifth straight year.



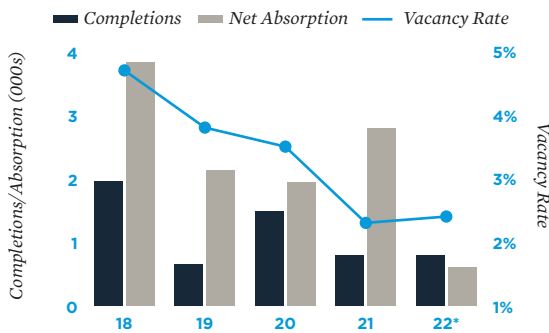
**9.3%
INCREASE**

in effective rent

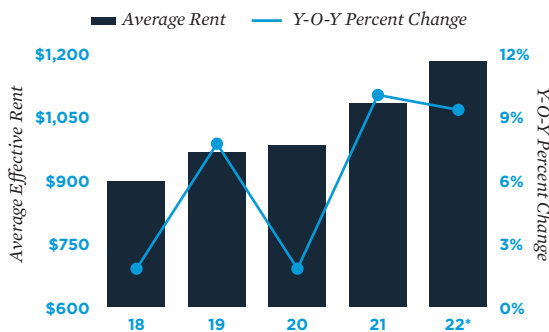
RENT:

The metro's effective rent will maintain its upward momentum, nearly matching last year's 10 percent increase. Cleveland's average rate will reach \$1,180 per month by year-end, the second-lowest mean among major U.S. apartment markets.

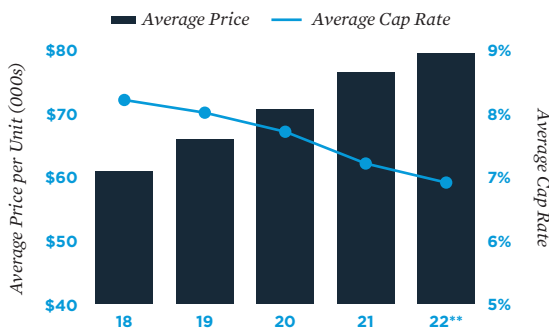
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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Price: \$250

2Q 2022 - 12-Month Period

CONSTRUCTION 815 units completed

- Inventory increased by 0.5 percent in the trailing 12-month period ended in June, down from the 1.0 percent rise noted in the prior yearlong span.
- Central Cleveland received nearly all of the new arrivals, enlarging the sub-market's inventory by 4.7 percent. East Cleveland is expected to receive the bulk of the units slated for completion in the second half of 2022.

VACANCY 90 basis point decrease in vacancy Y-O-Y

- The metro registered a vacancy rate of 2.5 percent in June. Negative net absorption of around 500 units in the second quarter of 2022 equated to a 50-basis-point increase in availability during the three-month stretch.
- Of the metro's 10 major submarkets, seven recorded annual vacancy compression, highlighted by Central Cleveland's 440-basis-point decline.

RENT 12.5% increase in the average effective rent Y-O-Y

- The mean effective rent rose to \$1,147 per month in June. The pace of rate growth over the span was the largest noted in the metro since at least 2000.
- Class A rentals led the metro advance as the segment's average rate reached around \$1,800 per month, 16.5 percent above the second quarter of 2021. Central Cleveland logged an 18.1 percent gain in this property tier.

Investment Highlights

- In the trailing 12 months ended in June, Cleveland noted not only the lowest average sale price among Midwest markets at around \$80,000 per unit, but also the highest mean cap rate in the region. The average first-year yield decreased to 6.9 percent, which is still the highest among major U.S. markets. Additionally, Cleveland's mean price point is the lowest in the nation by more than \$10,000 per unit.
- Sales activity during the trailing 12 months ended in June surpassed the previous yearlong tally by around 45 percent. Private buyers are the driving force in the investment market, as properties in the \$1 million to \$10 million price tranche accounted for nearly all trading activity during the first half of 2022. However, institutions looking for low entry costs and high first-year returns may find attractive upside opportunities in Cleveland as well.
- East and West Cleveland saw the highest number of trades in the first six months of 2022. Transaction velocity in these areas highlights a trend toward downtown-adjacent submarkets. These two locales have Class A vacancy rates near 2 percent, and Class B availability close to 3 percent. Tight rates support their claim on the second and third-highest upper-tier rents in the market, behind only Beachwood-Mayfield.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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