

MARKET REPORT

Multifamily
Cincinnati Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

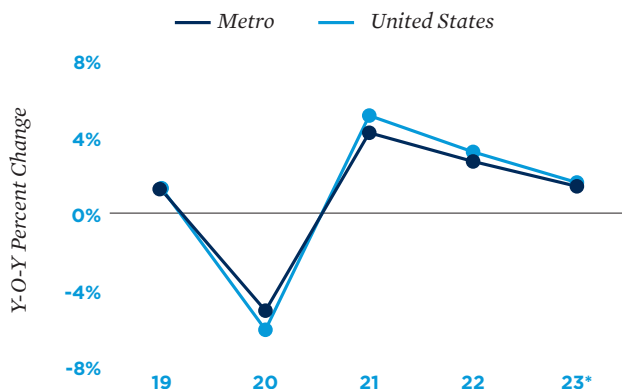
3Q/23

The Impact of Record-High Construction Will Be Mitigated by a Tight Local Housing Market

In-migration and home inventory backstop apartment demand. Since 2020, the estimated for-sale Cincinnati single-family housing stock has not surpassed 3,000 active listings in any given month. Limited home inventory, paired with high mortgage rates, has encouraged many metro residents to stay in the renter pool, and to wait for a more opportune time to purchase a home. For-sale inventory is likely to remain limited — at least near term — while at the same time, Cincinnati expects to add over 7,000 new residents through in-migration for the second consecutive year during 2023. The metro's ongoing population growth will supplement multifamily demand long term.

New construction will have a limited impact on vacancy. Despite vacancy rising from historic lows, Cincinnati will end 2023 tied for the fifth-lowest rate among major U.S. markets. Consistent in-migration will reduce the impact of new supply, allowing over 2,300 units to be absorbed on a net basis. The traditionally office-using employment sector is also expected to expand 1.8 percent this year, contributing to the growing median household income, which has recently outpaced inflation. Class A units, which make up the majority of new construction, could benefit from a growing well-paid workforce. Areas with elevated completion schedules, however, are still facing headwinds. North Central Cincinnati had the highest vacancy rate among metro submarkets in June, reflecting the area's robust construction pipeline as stock grows by 2.6 percent this year.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**16,000
JOBS**

will be created

EMPLOYMENT:

Cincinnati ended June 2023 with a multi-decade low unemployment rate of 3.0 percent. Employment gains will slow from the first half of the year, but total employment is expected to expand by 1.4 percent in 2023.



**3,500
UNITS**

will be completed

CONSTRUCTION:

This year, completions will climb to their highest level since at least 2000, expanding inventory by 2.1 percent. Deliveries are well-dispersed across the metro, but North Central Cincinnati expects the largest volume.



**60
BASIS POINT**

increase in vacancy

VACANCY:

The amount of available space continues to inch up in 2023, pushing vacancy to 4.5 percent by year-end. Despite this increase, Cincinnati will maintain the lowest rate among the three major Ohio markets.



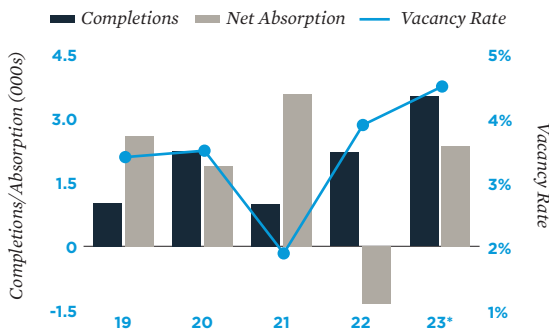
**3.3%
INCREASE**

in effective rent

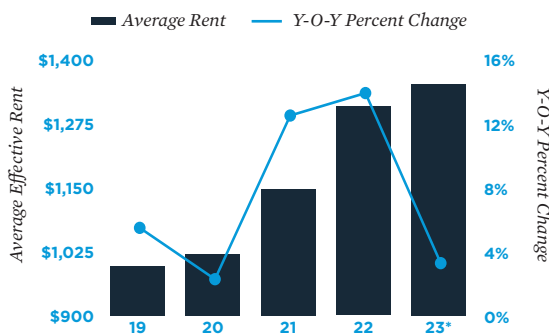
RENT:

In 2023, the mean effective rent will rise by a more moderate margin than the double-digit gains during the last two years, reaching \$1,350 per month. The average rent will be around 35 percent higher than the 2019 mark.

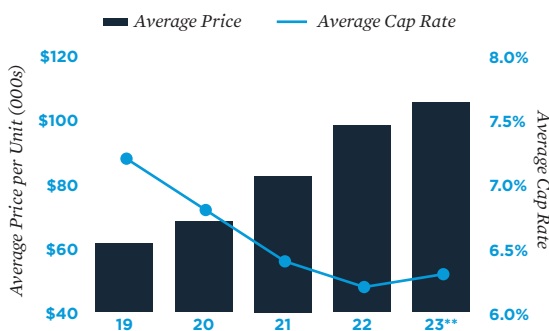
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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2Q 2023 - 12-Month Period

CONSTRUCTION

3,033 units completed

- In the trailing 12 months ended in June, inventory grew by 1.8 percent, the fastest pace of expansion in any 12-month period since at least 2000.
- Central and North Central Cincinnati, as well as Campbell-Kenton Counties, all received more than 700 units during the yearlong span, accounting for three-fourths of all additions.

VACANCY

200 basis point increase in vacancy Y-O-Y

- On net, approximately 370 units came back to the market during the year-long span ended in June, pushing vacancy up to 4.5 percent.
- In the second quarter, Cincinnati was tied for the third-lowest CBD vacancy rate among major U.S. markets. The rate did, however, increase by 120 basis points year-over-year as completions were elevated downtown.

RENT

9.5% increase in the average effective rent Y-O-Y

- The average effective rent rose to \$1,338 per month in June. This was the first period since 2021 where the metric did not grow by double digits.
- Rent gains were predominantly driven by suburban properties. In areas outside of downtown, the mean effective rent increased 9.3 percent during the 12-month interval, compared to a 5.5 percent ascent in the CBD.

Investment Highlights

- Following a strong first quarter, transactions in Cincinnati fell sharply in the second quarter of 2023. For the trailing 12 months ending in the same month, the metro recorded the lowest average cap rate among the three major Ohio markets, paired with a near-17 percent increase in the mean price per unit. Recent cost increases, paired with lower yields, may continue to present financing challenges in the high interest rate environment.
- In the first six months of the year, transactions were largely concentrated downtown and among close-in suburbs. Assets proximate to downtown in West Cincinnati, the metro's largest submarket by inventory, were coveted. The area noted vacancy 230 basis points below the local 16-year average in the second quarter at 3.8 percent, one of the tightest in the market. As of August 2023, the submarket had roughly 350 units in its construction pipeline, likely limiting supply pressure risks in the coming years.
- Properties in Northern Kentucky could garner additional interest going forward. DHL Express announced a \$192 million expansion at the Cincinnati/Northern Kentucky International Airport, following Amazon's 2021 Air Hub at CVG, growing the number of positions at the airport once again.

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.