

# MARKET REPORT

Multifamily  
Cleveland Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

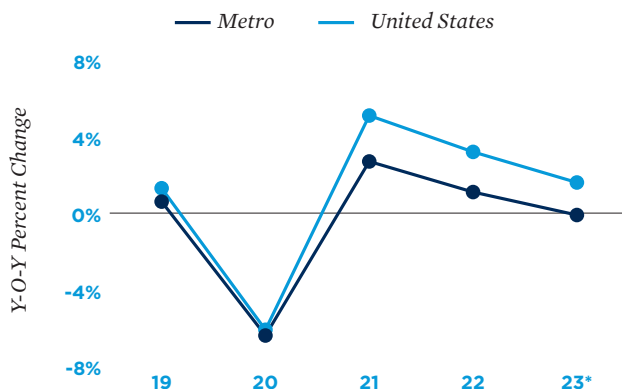
3Q/23

## Urban Upper-Tier Units Face Challenges as Suburban and Mid-Tier Buildings Remain Steady

**Class A units encounter some housing market competition.** Unlike many other major U.S. metros, most submarkets in Cleveland do not face substantial pressure from incoming supply. However, the typical monthly mortgage payment on a median priced house in Cleveland continues to remain below the mean effective Class A rent, creating headwinds for top-tier apartments. As some renters transition into homeownership, additional upward pressure may be placed specifically on downtown Class A vacancy, but low for-sale home inventory in the metro will likely mitigate this effect. Even though homes are relatively affordable in Cleveland, the majority of houses on the lower end of the price spectrum are often located outside the city, while many Class A rentals offer proximity to urban amenities.

**Lower suburban rents draw residents.** In the second quarter, suburban assets recorded a 4.3 percent vacancy rate, the second lowest among major Midwest markets. Westlake-North Olmsted-Lorain County was the tightest, which was reflected in the area's substantial rent growth. Here, the average effective rent rose 11.6 percent year-over-year in June to reach \$1,274 per month. Conversely, vacancy in the CBD has been more erratic, noting a 450-basis-point surge between July 2022 and June 2023. Despite the ongoing climb in vacancy, rent growth here has remained above the local long-term average at 7.5 percent over the year ended in June. However, renters' recent preference for lower-cost suburban submarkets could taper this rate further through this year as tenants look for budget options.

### Employment Trends



\* Forecast

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

## Multifamily 2023 Outlook



**1,000  
JOBS**  
*will be lost*

### EMPLOYMENT:

Hiring in Cleveland was steady during the first two months of 2023, but turned negative entering the second quarter. Additional losses are expected going forward, causing total employment to dip by 0.1 percent annually.



**1,300  
UNITS**  
*will be completed*

### CONSTRUCTION:

Among the three major Ohio markets, Cleveland is home to the smallest delivery slate this year. The metro's inventory will expand by less than 1 percent, and the CBD will receive nearly half of the new units slated for completion in 2023.



**100  
BASIS POINT**  
*increase in vacancy*

### VACANCY:

Despite the moderate construction pipeline, vacancy in Cleveland will lift to 5.0 percent in 2023 as net absorption holds negative for a second straight year. Still, the rate will be 120 basis points below the 23-year average.

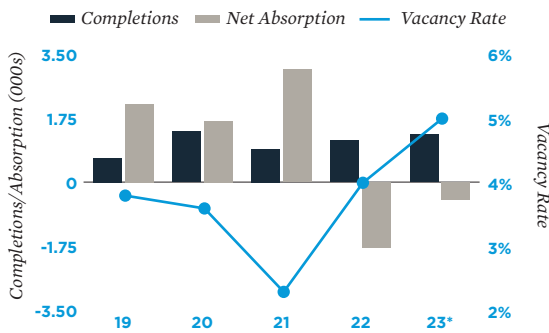


**3.9%  
INCREASE**  
*in effective rent*

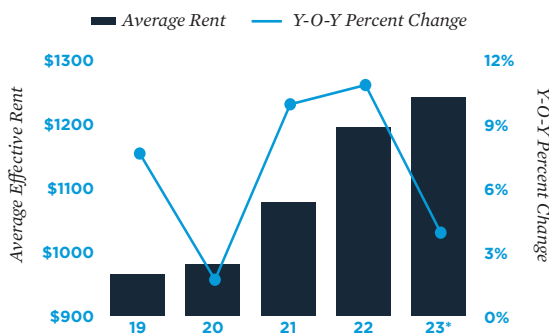
### RENT:

Landing nearly 30 percent higher than the year-end 2019 mark, the average effective rent will rise to \$1,240 per month in 2023. Gains have predominantly been driven by suburban properties.

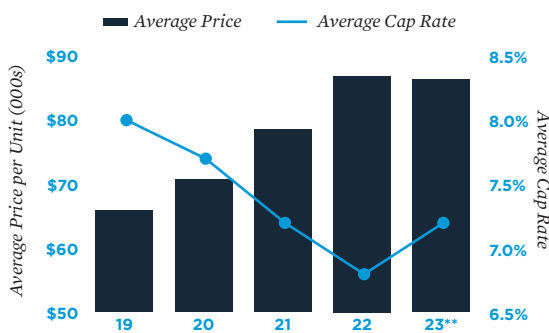
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

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

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Price: \$250

## 2Q 2023 - 12-Month Period

### CONSTRUCTION

**1,506 units completed**

- Overall metro stock rose by 0.9 percent in the trailing 12 months ended in June, a tick above the trailing five-year average of 0.7 percent.
- Central Cleveland and areas proximate to Case Western Reserve University received most of the new supply during the trailing yearlong period. Inventory downtown grew by nearly 5 percent.

### VACANCY

**220 basis point increase in vacancy Y-O-Y**

- With the addition of over 400 units in the second quarter of 2023, vacancy ticked up to 4.7 percent at midyear.
- Eight of Cleveland's 10 submarkets recorded vacancy increases of at least 130 basis points in June. Westlake-North Olmsted-Lorain County maintained the lowest rate at 3.0 percent.

### RENT

**7.2% increase in the average effective rent Y-O-Y**

- Year-over-year rent gains slowed in the second quarter. Still, the average effective rent rose to \$1,226 per month during the span.
- Class B units posted the greatest rent increase among class cuts. In these properties, the average effective rent climbed 15.4 percent to \$1,257 per unit. Class A and C means rose just 4.5 and 4.6 percent, respectively.

### Investment Highlights

- Similar to most major markets, transactions in Cleveland slowed in the first half of 2023. Compared to the metro's average quarterly deal flow since 2000, the first half of this year has been closer to historical norms, following a surge in trades during 2021 and 2022. Deals in the \$15 million-plus price tranche were scarce, however, as many institutional investors opt to delay transactions until lending conditions are more favorable.
- Over the year ended in June, entry costs for assets in Cleveland were 30 percent higher than in 2019, which was the third-largest price gain among major Midwestern metros during the span. After recently facing rises in vacancy and more normalized rent growth, owners may list their assets in the short-term to capture recent value appreciation. Cleveland was one of the only major metros to keep the sale price below an average of \$100,000 per unit over the last year, generally enabling buyers operating in lower price brackets to limit borrowing.
- In the first six months of the year, assets in downtown and adjacent suburbs traded frequently. Investors here were willing to pay a premium for properties along the lake shore, particularly in Lakewood.