

INVESTMENT FORECAST

Multifamily
Cleveland

IPA


INSTITUTIONAL
PROPERTY
ADVISORS


2020

Luxury Units Outside the Core Begin to Materialize; Dispositions Remain Limited

Luxury rental demand multiplies outside of urban core. Development continues in the central business district this year with three-fifths of Cleveland's 1,700 apartment supply being completed here in 2020. While there is demand for luxury units in the city, renters are also seeking high-end apartments slightly east of the city, where the average effective rent is lower than the central business district's rate. Developers are also enticing renters to these areas by advancing the retail and entertainment components within new apartment buildings. This year in the town of Richmond Heights, construction will begin on the first phase of the Belle Oaks multifamily neighborhood. The full development will be completed in 2022, featuring 790 apartments with approximately 315,000 square feet of retail, including Regal's 20-screen theater complex. Increased leasing activity in this area has already lowered the submarket's vacancy close to 3.0 percent in 2019. Starting in 2020, six out of 10 Cleveland submarkets will start with vacancy under 3.5 percent.

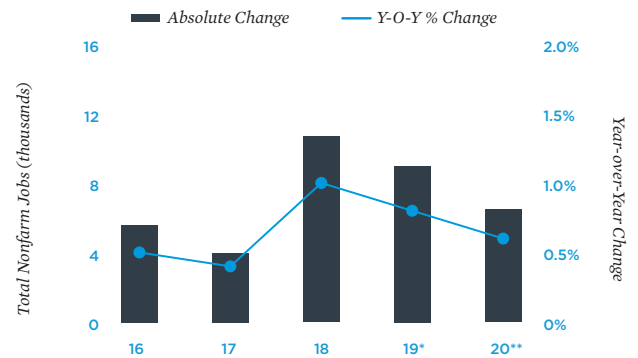
Development could be key to unlocking the disposition market. Limited assets available for acquisition have investors waiting in the wings for a chance to come onstage and close on a property in order to take advantage of the high-yielding assets within the Cleveland metro. Investors see the low vacancy rate and minimum supply additions as conditions that will remain in place for the short to medium term, which should lock in yearly revenue growth at similar levels to what is being produced today. The current pricing environment would appear to be an opportune time for owners to maximize their returns by listing properties for disposition. The average price per unit sits at its cycle high, cap rates have hit the cycle low, and investors are actively looking to place capital into the market. Recently completed developments offer a one of the best opportunities to break open the disposition market as the market has seen the most new units delivered in the last five years as the previous 15 years. As these projects stabilize, developers must decide whether to replace construction financing with a permanent loan. This decision point could cause some developers to decide to capitalize on current valuations and list the property for sale. In doing so, it could set a new pricing benchmark, which could persuade others to follow suit.

19.0%  2019 share of local population between 20 and 34 years old

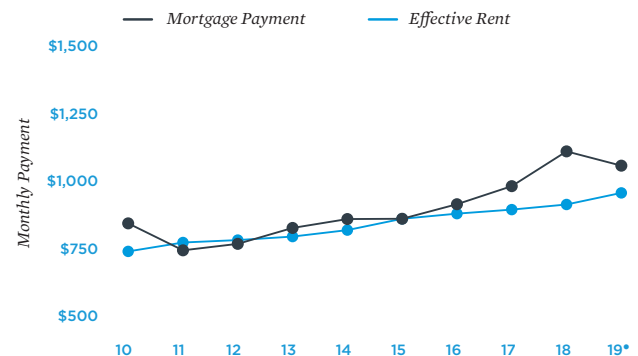
29.5%  of local population hold bachelor's degree or higher*

\$160,017  2019 median home price

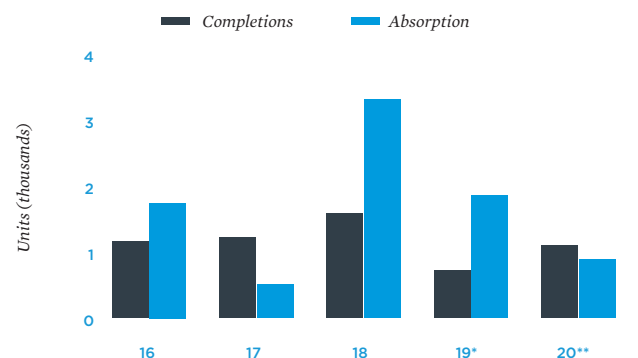
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast * Through 3Q
* 2019: 25+ years old

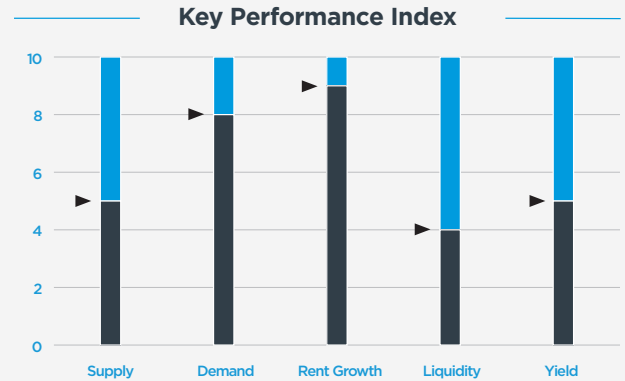
Sources: Marcus & Millichap Research Services; RealPage, Inc.

2020 Investment Outlook

Demand and rent growth both lost a point since the summer but remain at levels that will support rent growth above the national level. Supply held steady at 4. All together the Key Performance Index reflects balance and positive positioning going into 2020.

The lack of available properties for sale keeps Cleveland's liquidity the lowest of all markets covered in the index despite the second highest yield index at 5. Given investors search for yield, any properties coming up for disposition should see strong interest.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2020 Market Forecast

Employment
6,500 jobs



Metro **0.6%**
U.S. **1.0%**

Construction
as % of inventory*



Metro **0.7%**
U.S. **1.7%**

Class A Vacancy
Up 20 bps



Metro **5.0%**
U.S. **5.3%**

Class A Rent
\$1,369 per month

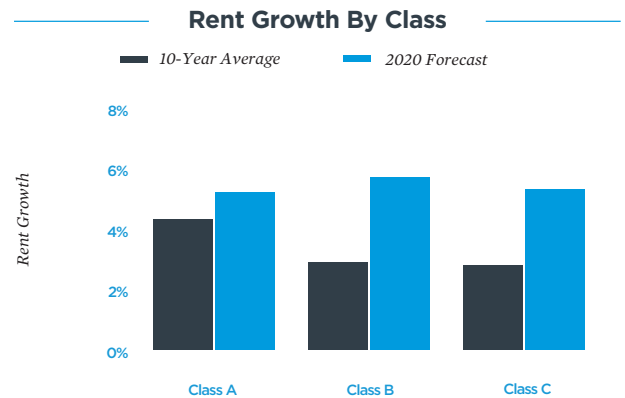
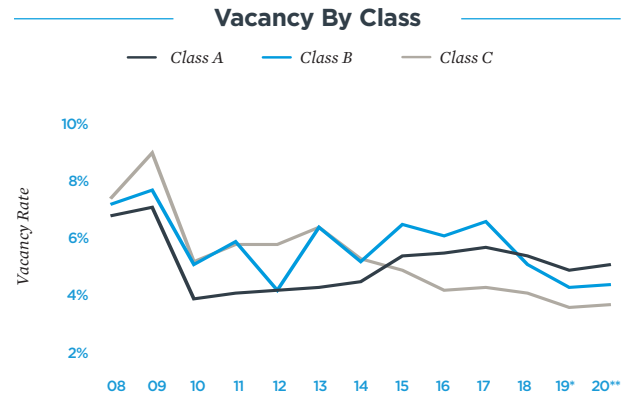


Metro **5.2%**
U.S. **3.3%**

Investment
3-yr. avg. activity
\$20+ million



Deals: **6**
Volume: **\$216 million**



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* Estimate ** Forecast
* Arrow reflects completions trend compared with 2019
Sources: Marcus & Millichap Research Services;
CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics