MARKET REPORT

MULTIFAMILY

Cleveland Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

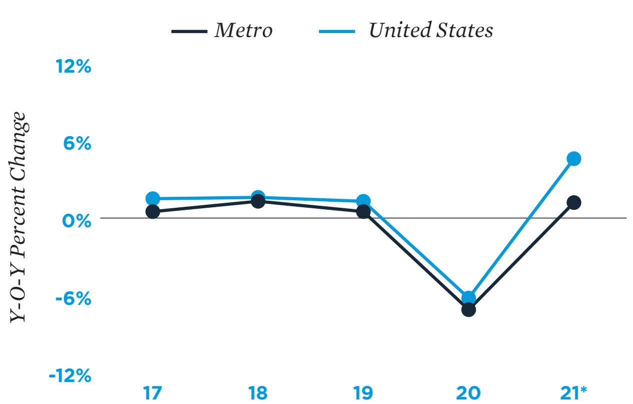
3Q/21

Relocations Contribute to Record-Low Vacancy, Lifting Investor Confidence

Vacancy hovers below similar-size markets. Attracted to the metro's discounted housing costs, a collection of individuals and households relocated to Cleveland during the health crisis, bolstering local demand for available apartments. According to a LinkedIn study, the market ranked fifth nationally for net resident arrivals during the 11-month period ending in February 2021. This growth reflected positively on multifamily performance as the metro entered the second half of this year with its lowest vacancy rate in more than two decades. Demand has been strongest in the suburbs, where more than 1,700 units were absorbed over the past 12 months ended in June. This is in stark contrast to the negative absorption recorded during the prior yearlong span.

Additions minimal during peak leasing season. Similar to the suburbs, Central Cleveland recorded positive absorption during the past four quarters. Still, vacancy rose sharply in the urban core, driven by apartment deliveries. Supply-side pressure, however, will abate during the second half as three-fourths of the 560 rentals slated for 2021 completion metrowide were finalized prior to July. The lack of near-term deliveries will reduce competition for properties in lease up and other Class A complexes that may have noted a rise in vacant units during the health crisis. The lull in new rentals, though, will be short lived as at least 1,300 units are expected next year.

Employment Trends



* Forecast

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

Multifamily 2021 Outlook

12,500 JOBS
will be created

EMPLOYMENT:

Fueled by a sizable health sector and a growing professional services segment, Cleveland will recoup nearly 20 percent of the positions lost last year. Still, the metro's 1.2 percent annual rate of employment growth in 2021 will notably trail the national increase.

560 UNITS
will be completed

CONSTRUCTION:

Delivery volume will fall below last year's 1,400 units as inventory increases by just 0.3 percent in 2021. Central Cleveland will receive the majority of rentals, highlighted by the 240-unit Euclid Grand and the Dexter, a property featuring 116 rentals.

20 BASIS POINT
decrease in vacancy

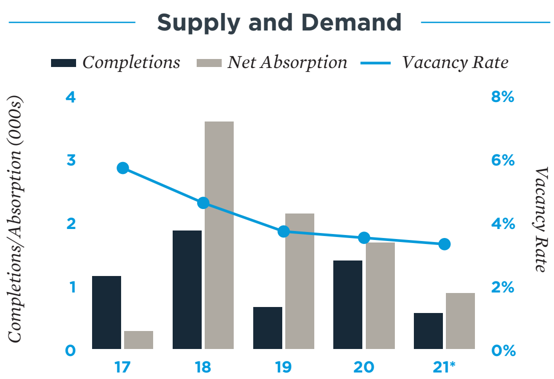
VACANCY:

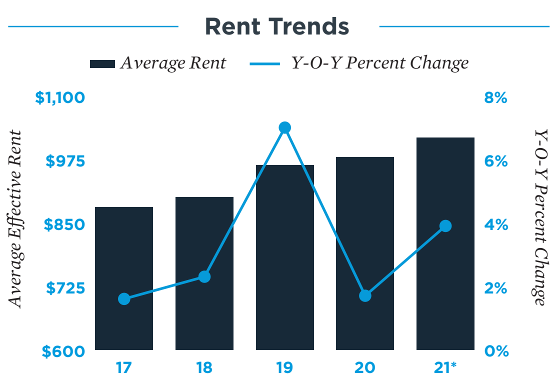
Renter demand for suburban apartments and a dearth of new construction outside urban Cleveland will allow for a fourth consecutive year of compression, lowering vacancy to 3.3 percent.

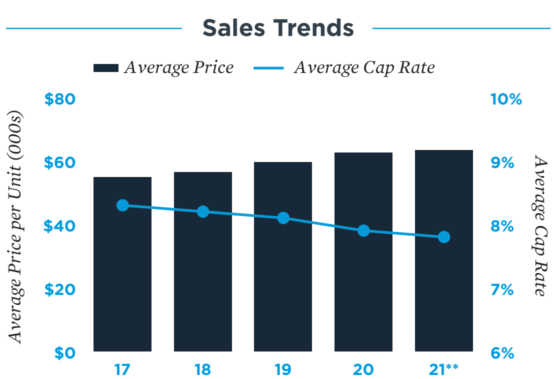
3.9% INCREASE
in effective rent

RENT:

Historically low vacancy will prolong a stretch of positive annual rent growth that extends back to 2002. The metro's average effective rate will reach $1,018 per month, highlighting the relative affordability of the market.







** Forecast ** Through 2Q*

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

IPA Multifamily

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Price: $250

2Q21 — 12-Month Period

CONSTRUCTION

1,523 units completed

- Apartment inventory grew 0.9 percent over the yearlong span ended in June, nearly doubling the prior 12-month period's pace. Central Cleveland received the bulk of new units as 1,270 rentals were completed.
- Entering the second half, construction was underway on at least 1,420 units with deliveries extending into the fourth quarter of 2022.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- Renters absorbed 2,300 units over the past four quarters, lowering Cleveland's vacancy rate to 3.3 percent. The East Cleveland and Euclid submarkets each recorded compression of at least 200 basis points.
- Heightened demand for lower-priced rentals reduced unit availability in the Class B and C segments by 90 and 70 basis points, respectively.

RENT

4.2% increase in the average effective rent Y-O-Y

- The metro's average effective rate reached $1,015 per month in June as historically low vacancy over the past 12 months supported a rate of rent growth nearly on par with the national average.
- Among apartment tiers, average Class B rent rose 4.5 percent to $972 per month, while the monthly Class C rate held around $830.

Investment Highlights

- Transaction activity declined by approximately 20 percent on a year-over-year basis during the four-quarter period ended in June. Nevertheless, investor demand is showing signs of improvement as deal flow during the second quarter of 2021 accounted for more than 40 percent of the sales executed over the past 12 months.
- The metro continues to offer apartment investors some of the lowest entry costs nationally despite a recent 4 percent increase in pricing that lifted its average to $63,400 per unit. Additionally, Cleveland's 7.8 percent average cap rate recorded over the past 12 months ranked highest among major U.S. markets.
- Buyers are focusing on older Class B/C suburban properties often available at a discount to the market's average price point. These transactions have been most frequent in East Cleveland, a submarket that led the metro in net absorption over the past 12 months. Here, and in other suburbs recording vacancy compression, sub-$5 million properties should continue to account for the bulk of listings, maintaining a buyer pool largely comprised of private investors.