

Multifamily Metro Outlook:

Cleveland - Q1 2022

Overview:

- Cleveland’s economy picking up steam, but the unemployment rate is still nearly a full percentage point above its pre-pandemic low as of Q1 2022. Cleveland lost 7% of its job base during the height of the pandemic in 2020 and is not expected to regain all the jobs lost until after 2026 according to Moody’s Analytics.
- While Cleveland continues to transition to a more “white-collar” economy, manufacturing jobs still account for 11.4% of the job base compared to just 8.6% nationally with steel and auto manufacturing playing a large role. Manufacturing was plagued by supply chain disruptions and a lack of semi-conductor chips last year. Going forward, Russia’s ongoing invasion of Ukraine will likely keep gas prices high which could decrease demand for new cars, particularly for SUVs and trucks, curbing steel and auto production.
- Despite slow economic recovery, multifamily fundamentals are showing signs of strength. The average asking rent in Q1 2022 grew by an estimated 1.5% following a 7.1% increase in 2021. In addition, the average vacancy rate as of Q1 2022 was just 3.9%. However, while suburban markets remain tight, CoStar has recorded vacancies in excess of 10% in the Central and East Cleveland submarkets, showing variability in multifamily fundamentals among submarkets.

Market Strengths:

- The relatively stable healthcare and education sector is the largest employment sector, accounting for 19.6% of the workforce, 3.3% higher than the national average. Three out of the top ten employers are in healthcare which bodes well for Cleveland given the aging population. Case Western Reserve near University Circle is also a major employer and registered record enrollment in 2022.
- The largest employer is the Cleveland Clinic, with approximately 36,000 people. The clinic is a key economic driver as a national leader in healthcare research and treatment. The city is leveraging this expertise through the Health-Tech Corridor which connects Mid-Town to the Campus District attracting more jobs in bio-tech, healthcare and technology.
- Thirty-two percent of Cleveland’s population now has a bachelor’s degree or higher – in line with the nation as a whole and white-collar services are replacing lost manufacturing jobs. The professional and business services sector now accounts for 15.1% of the job base compared to 14.2% nationally. The third largest employer in Cleveland is now the U.S. Office of Personnel Management with 13,000 employees. Cleveland is also a financial center with Progressive Insurance and Key Bank as major employers.

Market Weaknesses:

- Jobs in the well-paying technology sector represent only 3.8% of the job base compared to 5.4% nationally.
- Despite slowing somewhat in recent years, Cleveland has been losing population for more than a decade. Cleveland is forecasted to lose -0.4% of its population on average annually over the next five years, compared to growth of +0.5% on average annually nationally.
- Only 19% of the population in the metro is in the prime renting cohort, age 20-34 which is 1.5% below the national average and the prime renting cohort is projected to decline by 1.2% on average annually over the next five years.
- While increasing in price, single family homes remain relatively cheap, placing a ceiling on asking rents. The median home price as of Q4 2021 was about \$208,000, over \$150,000 below the national median.
- Blight and condemned buildings continue to be an ongoing issue in certain neighborhoods. According to a June 2022 article, online news magazine Cleveland.Com, indicated that there are about 3,900 blighted buildings with an estimated demolition cost of \$78M.

Development:

- Over the past 5 years, developers have only delivered about 5,500 apartments metro-wide. Development is slowing with just over 1,000 units underway representing just a +0.5% increase in inventory. About half of all new units continue to be delivered in and around the Downtown and East Cleveland submarkets and consist of expensive Class A rentals.

Outlook:

- While the apartment market is currently doing well, this is most likely due to the lack of new supply. Cleveland is a shrinking metro with some of the weakest demographic trends in the nation. Although there have been signs of improvement in certain parts of the metro area, the improvement has been uneven, and blight remains and issue in some places.
- Prior to the pandemic, Cleveland had had a stagnant economy for over a decade. There are green shoots like Sherwin-Williams starting construction on its new headquarters and a R&D center in Brecksville, increased enrollment at Case Western Reserve and ongoing growth at insurance giant Progressive. However, Cleveland’s overall economy and demographics would need to see radical improvement in underlying fundamentals for there to be any substantial growth metro-wide long-term.

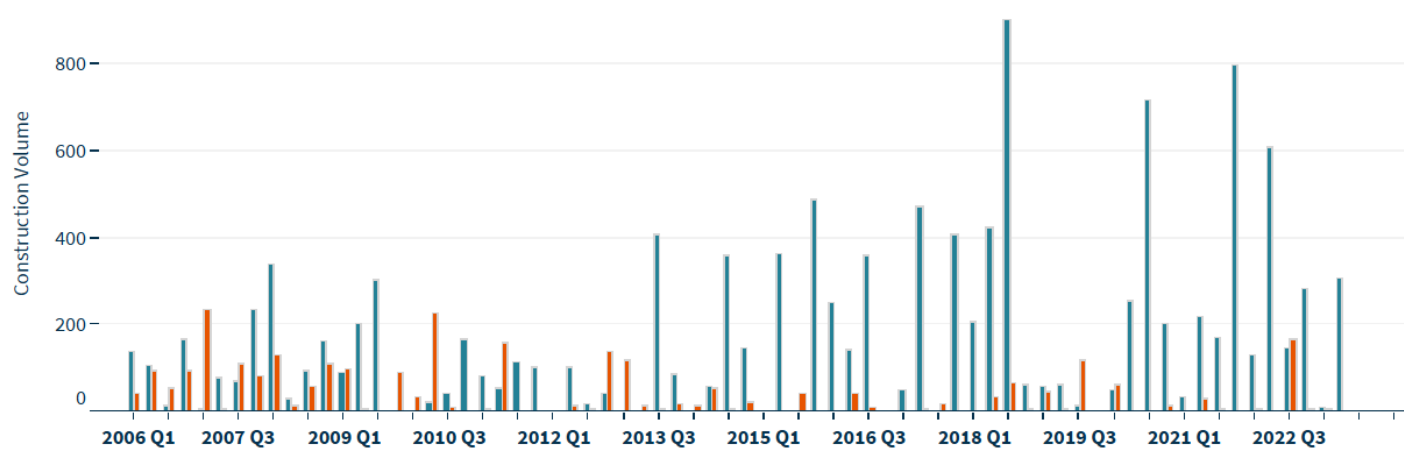
Five Year Metro Area Growth Forecast

Source: Moody’s	Q4 2021	Q4 2026	Cleveland-Elyria Metro (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	2,030	1,993	-0.37%	0.47%
Households (000s)	855	852	-0.06%	0.90%
Renting Cohort (Ages 20-34) (000s)	383	361	-1.21%	-0.30%
Total Employment (000s)	1,022	1,064	0.80%	1.08%
Median Household Income	\$53,544	\$63,591	3.50%	3.30%
Median SF Home Price	\$207,544	\$235,009	2.52%	1.93%
Net Migration	-4,480	-6,205		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



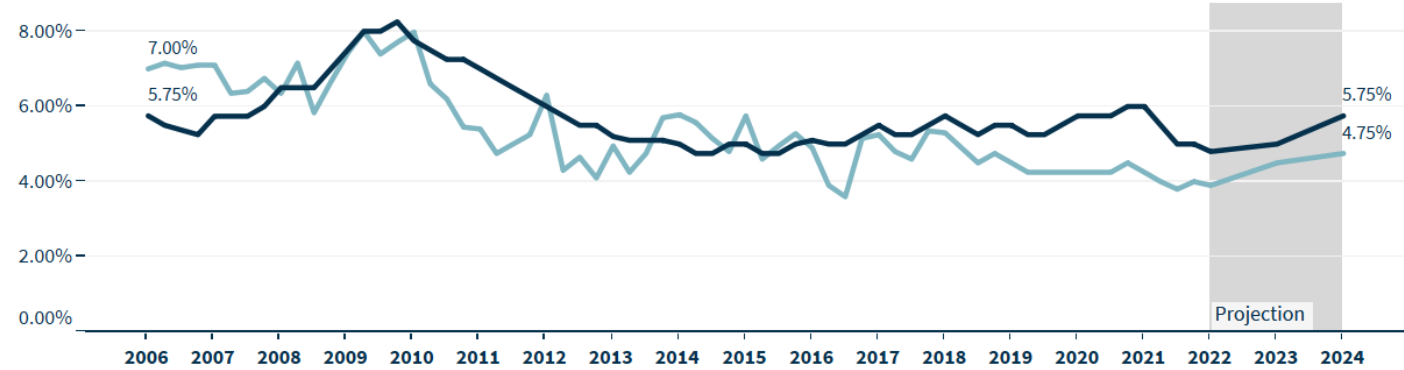
Vacancy & Rent Composite Estimates

Vacancy Rates

Cleveland | National

Q1 2022 Vacancy Rate:

3.90%

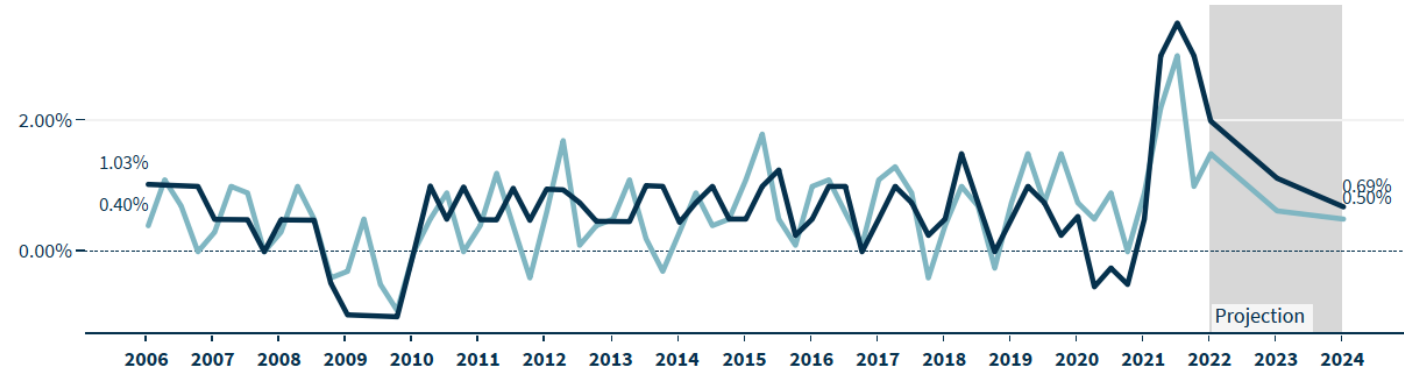


Asking Rent Growth

Cleveland | National

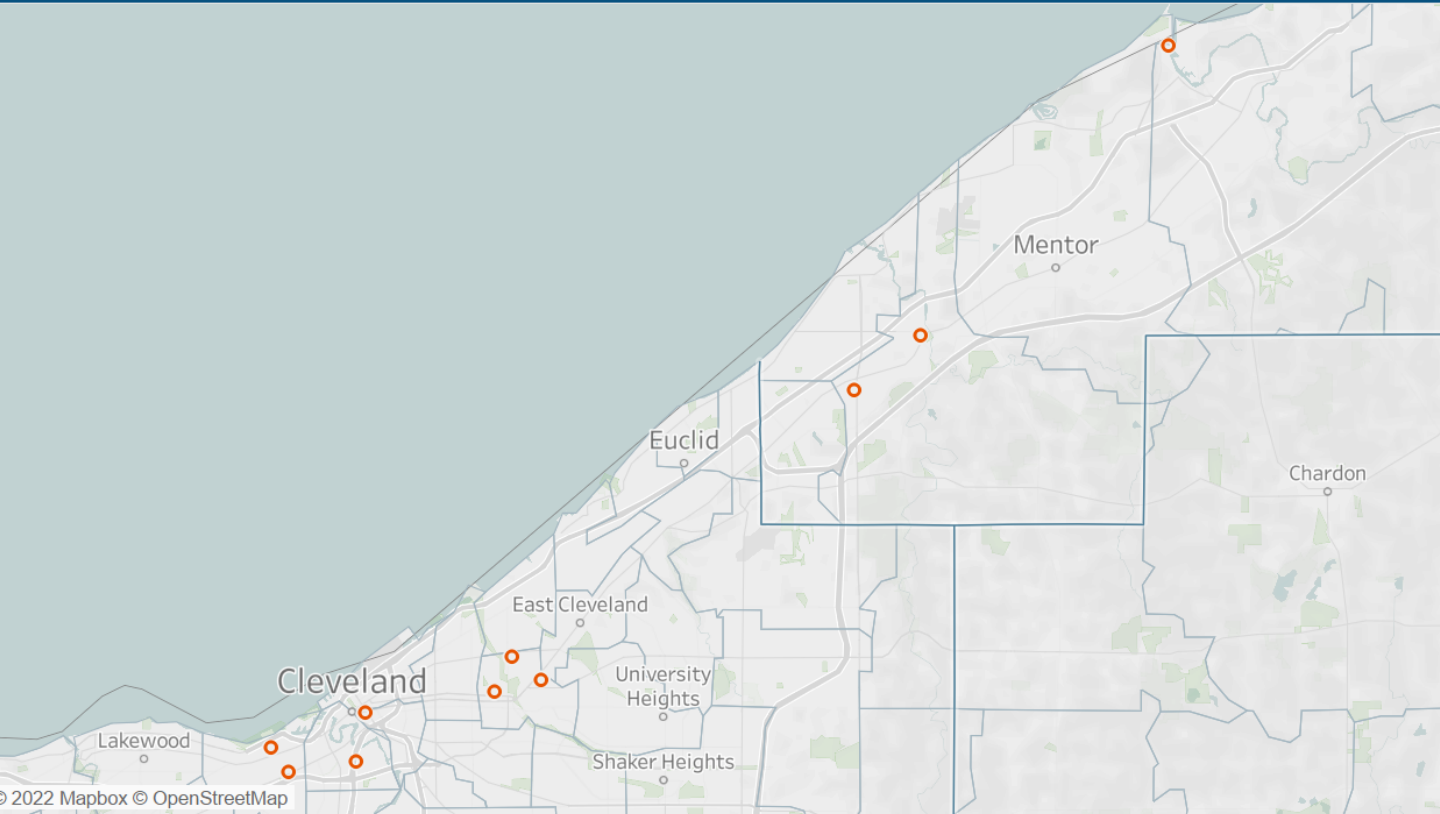
Q1 2022 Asking Rent:

\$1,060



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Central Cleveland	2	312	0.26M
East Cleveland	3	191	0.20M
Lake County	3	45	0.05M
West Cleveland	2	499	0.38M
Grand Total	10	1,047	0.89M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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