

# Multifamily Metro Outlook:

## Cleveland - Q1 2021

### Overview:

- Cleveland’s economy was hit hard by the pandemic and the number of jobs remains about 5.4% below the number of jobs recorded in April 2020. Even so, Cleveland’s is over halfway along the long road to recovery. According to Moody’s Analytics, local auto and steel manufacturers have benefited as national auto demand has recovered strongly due to low financing costs.
- With recovery, the multifamily market strengthened. Year over year as of Q1 2021, rents grew by over +0.9% and the average vacancy rate remains below the historic average at 4.25%. Interestingly, the Class A segment which consists of the most expensive apartments, recorded the strongest year over year rent growth at 4%, despite offering almost one month of concessions, according to Real Page. However, while most suburban locations recorded healthy rent growth, urban submarkets such as Downtown/Central Cleveland continue to record double digit vacancies and declining rent growth year over year.

### Market Strengths:

- At 3.1% higher than the national average, the relatively stable healthcare and education sector is the largest employment sector, accounting for 19% of the workforce. Three out of the top ten employers are in healthcare which bodes well for Cleveland given the pandemic and the metro’s graying population. Case Western Reserve University near University Circle is also a major employer.
- 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.
- White collar services are replacing lost manufacturing jobs. The professional and business services sector now accounts for 14.8% of the job base compared to 14.1% 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:

- Cleveland’s manufacturing base still accounts for 11.4% of the metro’s job base compared to just 8.5% nationally. Going forward, job growth in this sector will be limited due to investments in robotics.
- Cleveland has been losing population for years due to the decline in manufacturing which had bolstered the local economy. However, the out-migration trend has slowed somewhat in recent years as the metro has been adding well-paying professional jobs.
- Cleveland is forecasted to lose -0.2% of its population on average annually over the next five years, compared to growth of +0.6% nationally. Only 19% of the population in the metro is in the prime renting cohort, age 20-34 which is 2% below the national average.
- While increasing in price, single family homes remain relatively cheap, placing a ceiling on asking rents. The median home price as of Q4 2020 was about \$187,00, over \$100,000 below the national median for the country.

### Development:

- One saving grace is that apartment development has been limited. Over the past 6 years, developers have only delivered about 6,400 apartments to the metro as a whole. However, 35% of these were delivered in the Downtown/The Flats/Warehouse districts alone to capitalize on Cleveland’s urban revitalization. While fewer than 2,100 units are underway representing just a +1.0% increase in inventory, about half of all new units continue to be delivered downtown and consist of expensive Class A rentals.

### Outlook:

- The pandemic has not changed the cautious outlook for the Cleveland apartment market where there were concerns even prior to the pandemic. Cleveland is a shrinking metro with some of the weakest demographic trends in the nation. It also has an inventory of obsolete and abandoned real estate. Any investment in housing, should be thoroughly reviewed. However, due to limited new supply, the apartment market remains steady as of Q1 2021.
- The factory sector and white-collar services will be key drivers of economic growth in the latter half of 2021 and Sherman-Williams still plans on building its massive global headquarters in downtown Cleveland. However, Moody’s Analytics currently projects that Cleveland won’t recover all the jobs it lost due to the pandemic until mid-2023. Prior to the pandemic, Cleveland had had a stagnant economy for over a decade. Although there were signs of improvement in certain parts of the metro area, the improvement was uneven. The pandemic has not changed this. 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.

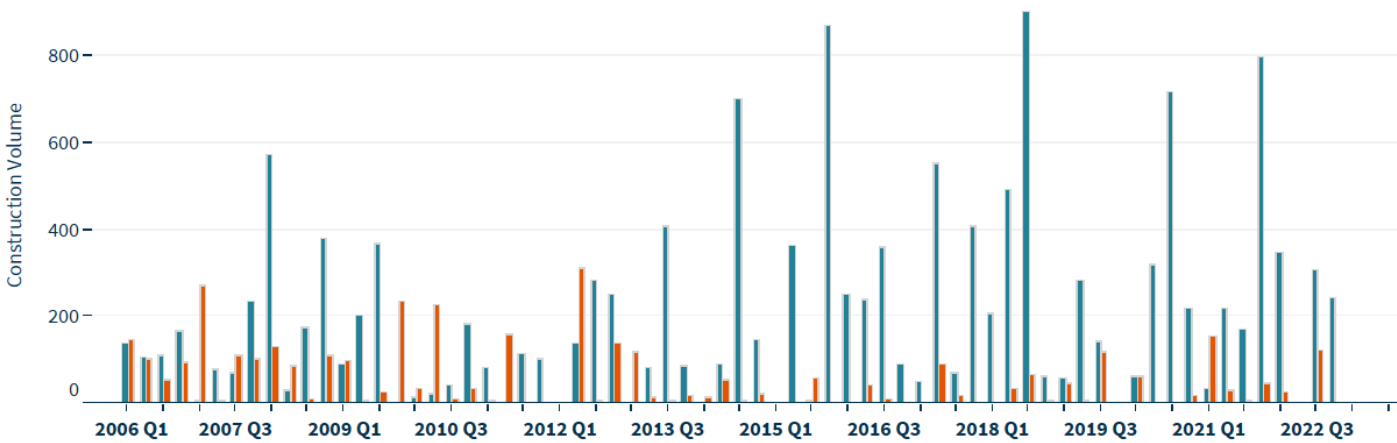
### Five Year Metro Area Growth Forecast

Source: Moody’s	Q4 2020	Q4 2025	Cleveland-Elyria Metro (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	2,042	2,015	-0.26%	0.52%
Households (000s)	847	867	0.48%	1.41%
Renting Cohort (Ages 20-34) (000s)	387	369	-0.98%	-0.26%
Total Employment (000s)	987	1,064	1.53%	1.71%
Median Household Income	\$59,996	\$70,301	3.22%	2.83%
Median SF Home Price	\$186,993	\$235,019	4.68%	4.30%
Net Migration	-3,987	-5,789		

## SupplyTrack Pipeline

### Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



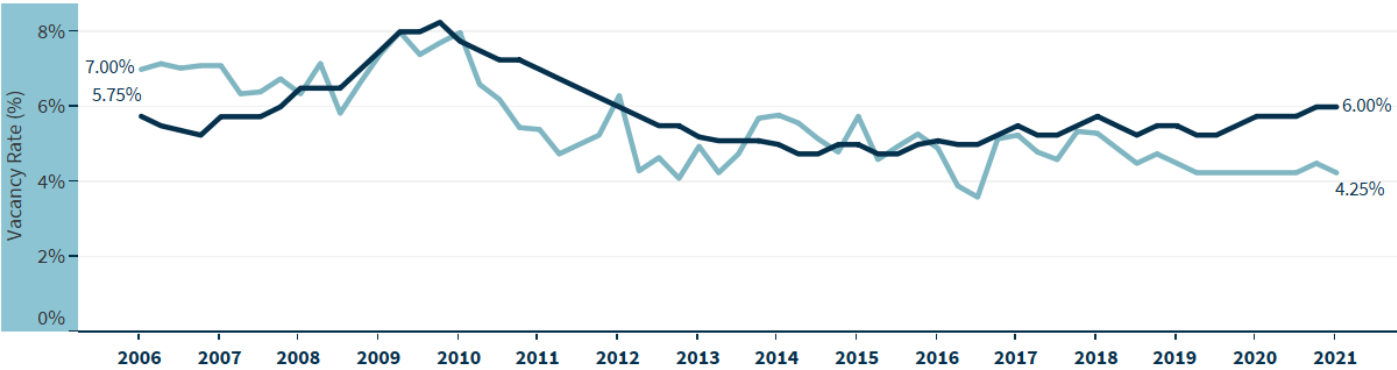
## Vacancy & Rent Composite Estimates

### Vacancy Rates

Cleveland | National

Q1 2021 Vacancy Rate:

4.25%

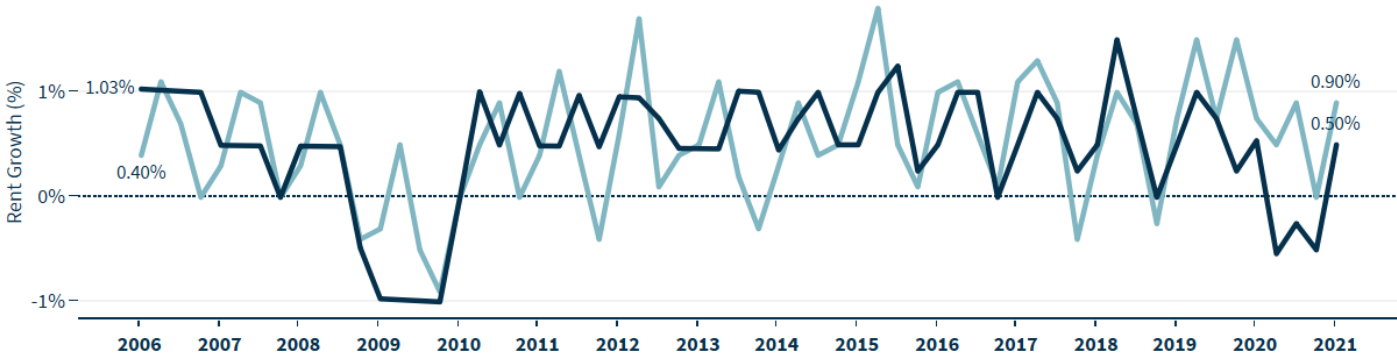


### Asking Rent Growth

Cleveland | National

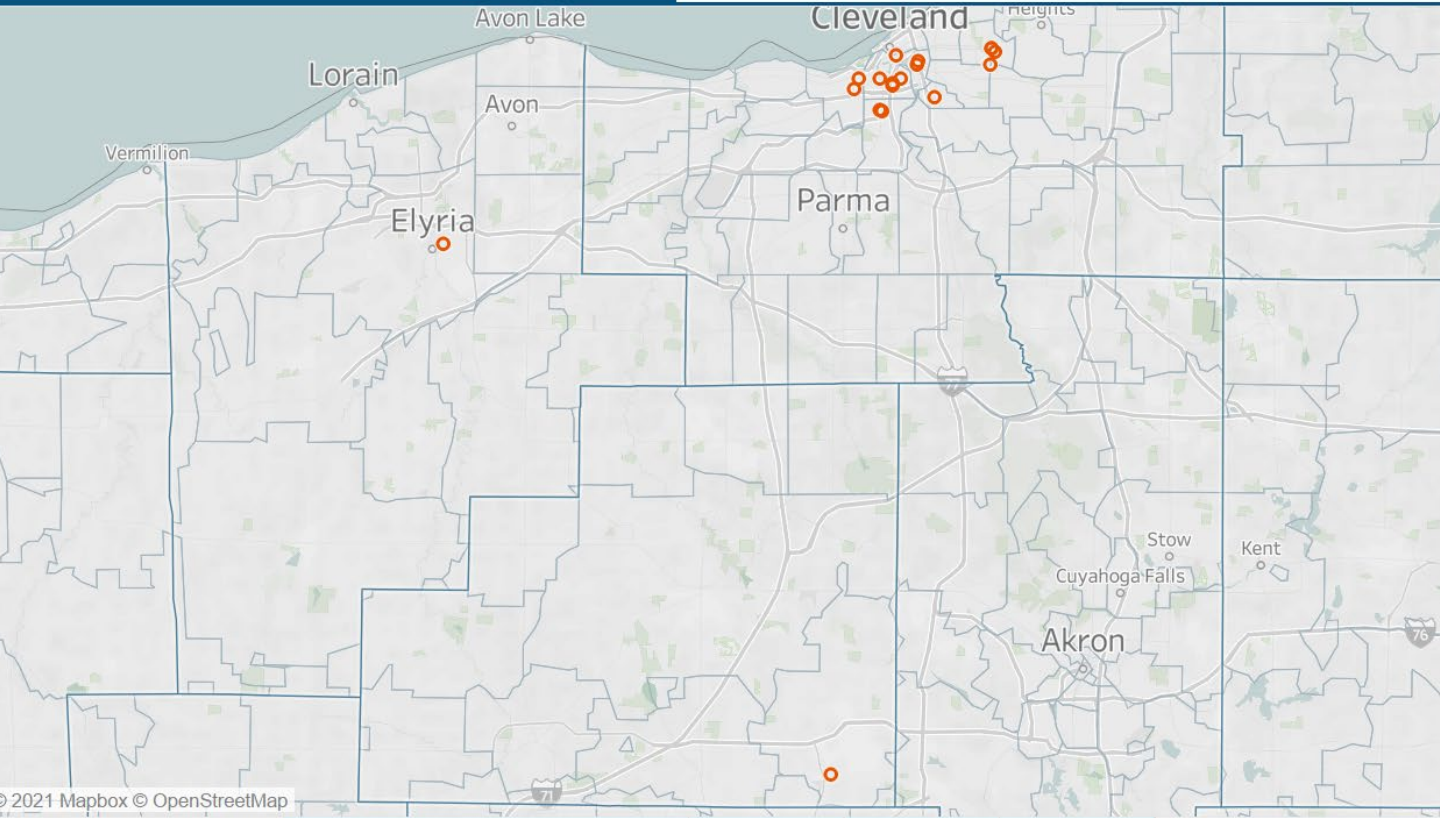
Q1 2021 Asking Rent:

\$980



Source: Multifamily Economics and Research

# Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Central Cleveland	7	971	0.96M
East Cleveland	5	469	0.63M
Strongsville/North Royalton/Medina	1	45	0.04M
West Cleveland	4	527	0.53M
Westlake/North Olmsted/Lorain County	1	62	0.04M
<b>Grand Total</b>	<b>18</b>	<b>2,074</b>	<b>2.19M</b>

## 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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