Multifamily Metro Outlook:

Overview:
- Cleveland’s economy was hit hard by the pandemic and is still shy of about 65,000 jobs compared to the number of jobs recorded at the start of 2020. Local manufacturers have been hit hard in 2021 by supply chain disruptions and by the lack of semiconductor chips for autos. It will take some time for Cleveland to recover all the jobs lost from the pandemic-related downturn. Nevertheless, the healthcare and professional services sectors continue to add jobs and more workers are rejoining the workforce.
- Despite slow economic recovery, the multifamily sector continues to strengthen. The average asking rent has grown by over +6% since the start of 2021 and the average vacancy rate has dropped to just 3.8%! Suburban markets continue to lead with extremely low vacancy rates and strong rent growth. In addition, workers returning to the office created demand for apartments downtown causing vacancy rates to decline in central Cleveland. However, rents in this submarket are only now returning to 2020 levels.

Market Strengths:
- At 3.3% higher than the national average, the relatively stable healthcare and education sector is the largest employment sector, accounting for 19.6% 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.
- 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:
- Cleveland’s manufacturing base still accounts for 11.4% of the metro’s job base compared to just 8.6% nationally. This sector will continue to be a drag on the economy until supply chain issues are resolved.
- 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 -0.25% of its population on average annually over the next five years, compared to growth of +0.5% 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 Q2 2021 was about $205,000, over $100,000 below the national median for the country while the per capita income was in line with the national average.

Development:
- Over the past 6 years, developers have only delivered about 6,500 apartments metro-wide. Development is slowing with fewer than 2,000 units underway representing just a +0.9% increase in inventory. About 40% of all new units continue to be delivered to central Cleveland and consist of expensive Class A rentals.

Outlook:
- Due to limited new supply combined with an upswing in demand as Cleveland slowly regains jobs lost in 2020, the apartment market is experiencing extremely low vacancy and above average rent growth. However, 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. Cleveland also has an inventory of obsolete and abandoned real estate. Any investment in housing, should be thoroughly reviewed.
- Prior to the pandemic, Cleveland had had a stagnant economy for over a decade. There are green shoots like Sherwin-Williams constructing new headquarters and a R&D center in Brecksville, a new hospital in Mentor, and expansion of the Ahuja Medical Center in Beachwood. 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

<table>
<thead>
<tr>
<th>Source: Moody’s</th>
<th>Q4 2020</th>
<th>Q4 2025</th>
<th>Cleveland-Elyria Metro (5-Year Annual Average Change)</th>
<th>National (5-Year Annual Average Change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (000s)</td>
<td>2,042</td>
<td>2,015</td>
<td>-0.26%</td>
<td>0.52%</td>
</tr>
<tr>
<td>Households (000s)</td>
<td>847</td>
<td>867</td>
<td>0.48%</td>
<td>1.41%</td>
</tr>
<tr>
<td>Renting Cohort (Ages 20-34) (000s)</td>
<td>387</td>
<td>369</td>
<td>-0.98%</td>
<td>-0.26%</td>
</tr>
<tr>
<td>Total Employment (000s)</td>
<td>987</td>
<td>1,064</td>
<td>1.53%</td>
<td>1.71%</td>
</tr>
<tr>
<td>Median Household Income</td>
<td>$59,996</td>
<td>$70,301</td>
<td>3.22%</td>
<td>2.83%</td>
</tr>
<tr>
<td>Median SF Home Price</td>
<td>$186,993</td>
<td>$235,019</td>
<td>4.68%</td>
<td>4.30%</td>
</tr>
<tr>
<td>Net Migration</td>
<td>-3.987</td>
<td>-5.789</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Vacancy & Rent Composite Estimates

Vacancy Rates

Asking Rent Growth

Q3 2021 Vacancy Rate: 3.80%

Q3 2021 Asking Rent: $1,040

Source: Multifamily Economics and Research
### Construction: Bidding & Underway

<table>
<thead>
<tr>
<th>Sub-Market</th>
<th>Projects</th>
<th>Units</th>
<th>Sq. Ft. (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Cleveland</td>
<td>6</td>
<td>849</td>
<td>0.84M</td>
</tr>
<tr>
<td>East Cleveland</td>
<td>4</td>
<td>433</td>
<td>0.57M</td>
</tr>
<tr>
<td>Strongsville/North Royalton/Medina</td>
<td>1</td>
<td>45</td>
<td>0.04M</td>
</tr>
<tr>
<td>West Cleveland</td>
<td>4</td>
<td>527</td>
<td>0.53M</td>
</tr>
<tr>
<td>Westlake/North Olmsted/Lorain County</td>
<td>1</td>
<td>62</td>
<td>0.04M</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>16</strong></td>
<td><strong>1,916</strong></td>
<td><strong>2.01M</strong></td>
</tr>
</tbody>
</table>
Multifamily Metro Outlook: Cleveland Q3 2021

Multifamily Economics and Market Research Team

Tanya Zahalak, Economic and Strategic Research - Economics – Advisor

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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