

# Multifamily Metro Outlook:

## Cleveland - Q3 2023

### Overview:

- Cleveland's economy continues to underperform national trends. It lost 7% of its job base during the height of the pandemic in 2020 and employment as of Q3 2023 was still more than 2.0% below its pre-pandemic level. Cleveland's job performance trails that of Ohio and the Midwest. Given ongoing elevated interest rates and a possible recession in 2024, Moody's Analytics forecasts jobs are projected to grow between an anemic 0.1% and 0.4% on an annual basis through 2025.
- While Cleveland continues to transition to a more "white-collar" economy, manufacturing jobs still account for 11.2% of jobs compared to 8.4% nationally with steel and auto manufacturing dominating. Many manufacturing subsectors are encountering considerable headwinds as higher interest rates weigh on demand for new durable goods.
- Despite slowing economic growth, multifamily fundamentals are mixed. The average asking rent grew by 250 basis points since the start of 2023 but the average vacancy rate rose by 85 basis points. Nevertheless, the average vacancy rate still remains below the historic average at 5.1% as of Q3 2023, indicating the market is still relatively balanced.

### Market Strengths:

- The relatively stable healthcare and education sector is the largest employment sector, accounting for 19% of the workforce, 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 a major employer and registered record enrollment in 2023
- 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.
- 34% of Cleveland's population now has a bachelor's degree or higher – just under the national average - and white-collar jobs are replacing lost manufacturing jobs. The professional and business services sector now accounts for 14.7% of the job base compared to 14.8% nationally. The third largest employer in Cleveland is 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:

- While jobs in the well-paying technology sector grew to 4.1% of the job base in 2023 from 3.8% in 2022, this level remains below the 5.5% national share.
- Cleveland has weak demographics. It has been losing population for more than a decade and is likely to continue to do so with Moody's Analytics forecasting another 31,000 residents lost through 2027.
- 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.
- While increasing in price, single family homes remain relatively inexpensive, placing a ceiling on asking rents.
- Blight continues 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.

### Multifamily Development:

- Over the past 6 years, developers have only delivered just 10,200 apartments metro-wide, with only 12% classified as subsidized. The pace of development is rising slightly with about 3,800 units underway as of Q3 2023, compared to 3,300 as of Q1. While new supply underway only represents a 1.8% increase in inventory, about half of all new units continue to be delivered in and around the Central Cleveland submarket.

### Multifamily Outlook:

- While the apartment market is currently doing well, this is most likely due to limited 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, it has been uneven, and blight remains an issue in some places.

### Economic Outlook:

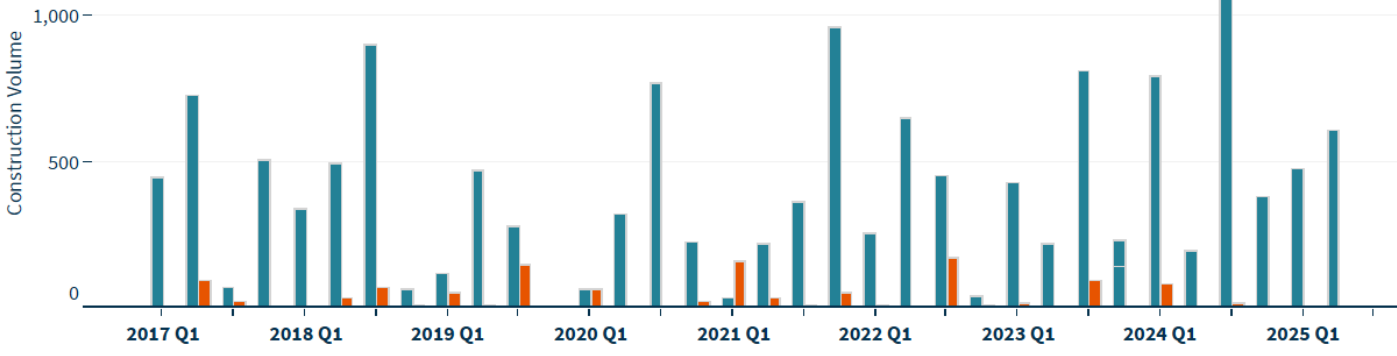
- Cleveland's economy will likely continue to underperform national trends. There are green shoots like increased enrollment at Case Western Reserve, ongoing growth at insurance giant Progressive and Ford creating 1,800 jobs by switching autos over to electric. However, Cleveland's overall economy and demographics would need to see radical improvement in underlying fundamentals for there to be any substantial growth metro-wide long-term.



# Multifamily Apartment Pipeline

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

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

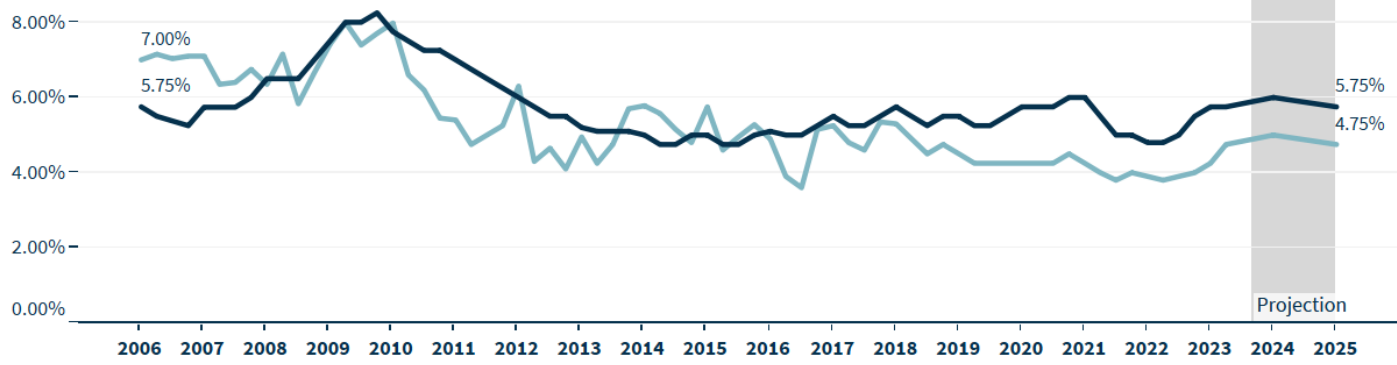
# Multifamily Vacancy & Rent Estimates

## Vacancy Rates

Cleveland | National

Q3 2023 Vacancy Rate:

5.10%

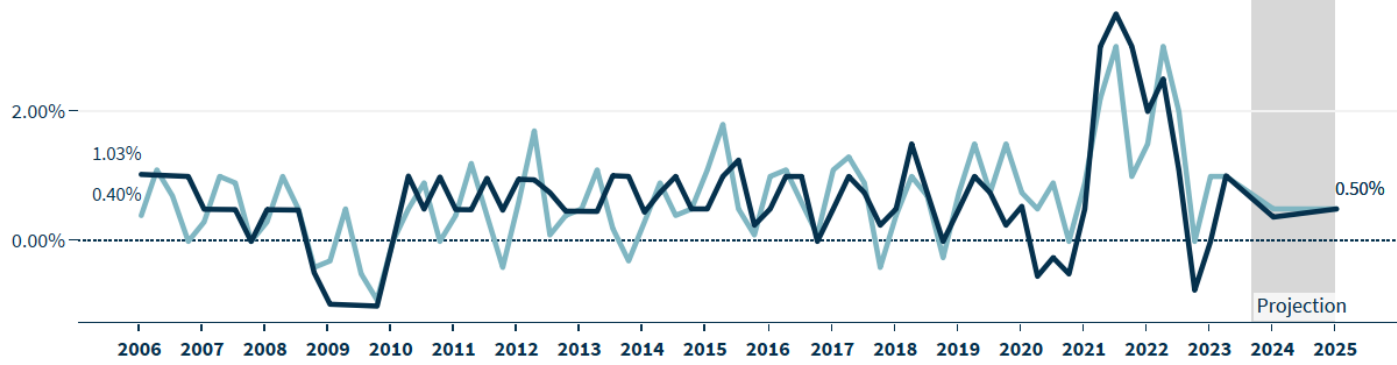


## Asking Rent Growth

Cleveland | National

Q3 2023 Asking Rent:

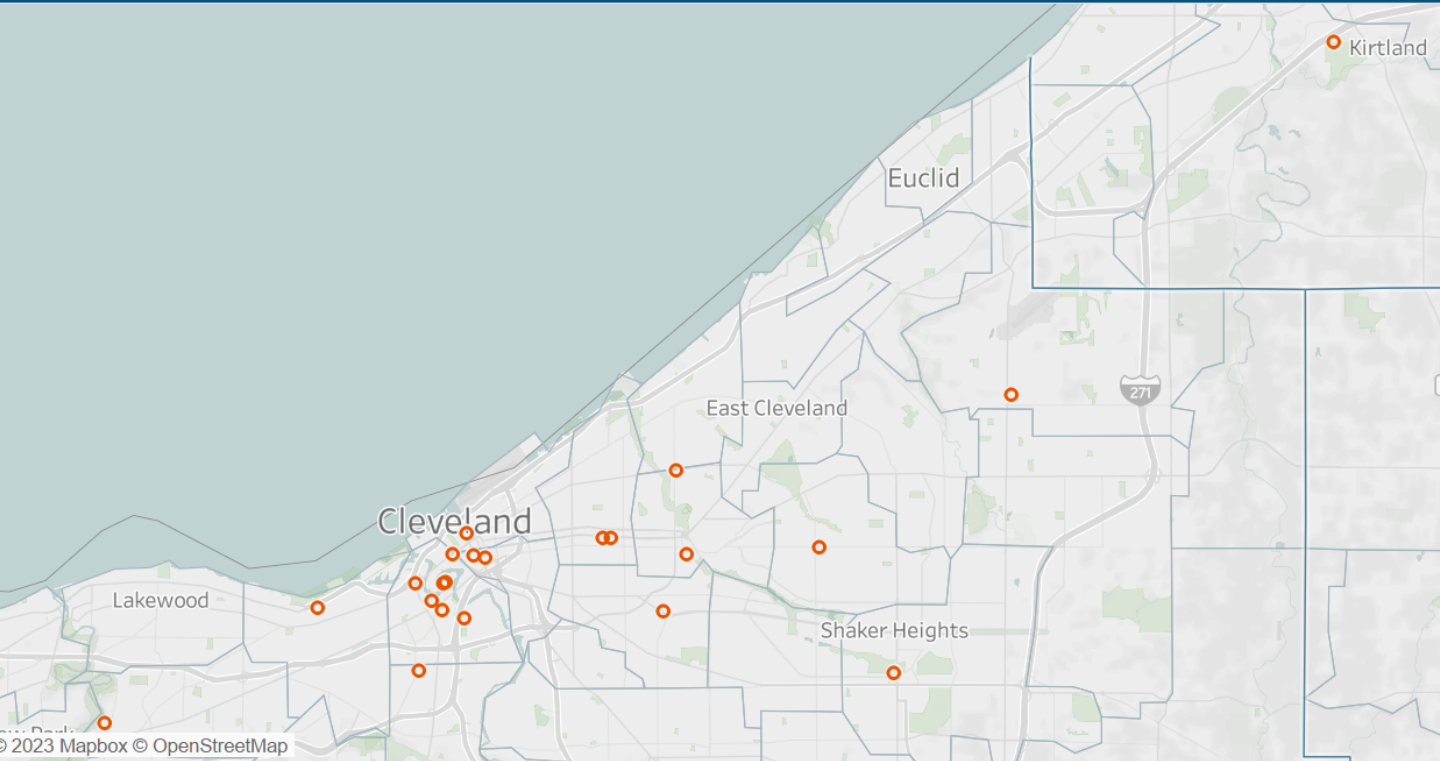
\$1,150



Source: Fannie Mae Multifamily Economics and Research



# Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Beachwood/Mayfield	2	561
Central Cleveland	10	2,079
East Cleveland	6	810
Lake County	1	
West Cleveland	3	308
<b>Grand Total</b>	<b>22</b>	<b>3,758</b>

Source: Dodge Data & Analytics SupplyTrack Pipeline



## 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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