

Metro Housing Outlook:

Cleveland - Q3 2024

Overview:

- Cleveland's economy continues to make gradual progress. However, according to Moody's Analytics, payroll growth still lags behind the Midwest average, affecting consumer spending. While the health care and wholesale trade sectors have shown strength, job losses in other areas, particularly finance and durable goods manufacturing, have hampered overall growth.
- Slowing economic growth has had an impact on the multifamily market, with the average vacancy rate gradually rising to 5.4% as of Q3 2024 from just 4.0% as of the end of Q4 2022. Small gains in population in 2023-2024 helped the housing market, including rentals. As a result, the average rent grew by a cumulative 2.8% in the first three quarters of 2024. However, projected job growth is not anticipated to be enough to support the elevated supply still underway over the next couple years.

Market Strengths:

- The Cleveland Clinic is Cleveland's largest employer, employing 36,000, and is the basis of Cleveland's strong medical tourism. This and the significant demand from the area's large senior population for health care are expected to keep payrolls growing steadily in the health care sector. The Cleveland Clinic is also constructing two new state-of-the-art research facilities, which will contribute to job growth in the near term. Looking ahead, the Cleveland Clinic is well-positioned for continued success, thanks to its outstanding reputation.
- The Ohio Tax Credit Authority has approved a 15-year job creation tax credit for the Cleveland Clinic, potentially leading to the creation of 1,000 research and development jobs by late 2028. This initiative is tied to the development of a new global center for pathogen research and human health, which is set to be the cornerstone of the Cleveland Innovation District. The planned innovation hub is supported by a \$565 million investment from the state of Ohio and the Cleveland Clinic.
- 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 stable education and health care sector now accounts for 19.2% of the job base, compared to 16.2% 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:

- Although Cleveland recorded a small gain of 18,000 residents in 2023-2024, which provided a boost to the housing market, in the long term, Cleveland is experiencing population decline, as residents are drawn to more appealing job opportunities in places like Columbus and to warmer climates with greater amenities in the South. With a reversal in domestic migration unlikely and uncertainty surrounding international migration, the trend of a declining population in Cleveland is unlikely to reverse in the near term. This ongoing contraction impacts consumer industries, the labor force, and the housing market.
- In response to the rapid tightening of monetary policy in 2022-2023, banks had to raise deposit rates, and loan originations slowed. The resulting decline in profitability led to layoffs in the financial sector. While there have been several interest rate cuts in 2024, stronger-than-expected job growth in the United States may delay the timing of additional interest rate cuts by the Federal Reserve. As a result, hiring in this sector will likely continue to be lackluster in 2025. In addition, ongoing elevated interest rates keep orders for steel and autos depressed, and potential tariffs may also limit job growth in manufacturing.
- Only 19% of the metro's population 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.

Multifamily Development:

- The number of units under construction in the Cleveland market appears to be slowing somewhat but remains significantly higher than pre-pandemic levels. According to Dodge Real Estate Analyzer, approximately 3,600 units are underway as of Q3 2024, down slightly from the 3,800 units underway as of Q3 2023. However, this still represents a 1.7% 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 had been doing well over the past few years, job growth is slowing and may not be able to easily absorb the new supply coming online. Cleveland is likely to need an estimated 2,800 units over the next two years, compared to the estimated 3,600 units underway. As a result, the multifamily market may continue to soften over the next few months if all units are delivered on schedule. In the longer term, Cleveland is a shrinking metro with some of the weakest demographic trends in the nation. The metro's ongoing population decline is expected to hinder the multifamily market in the long term.

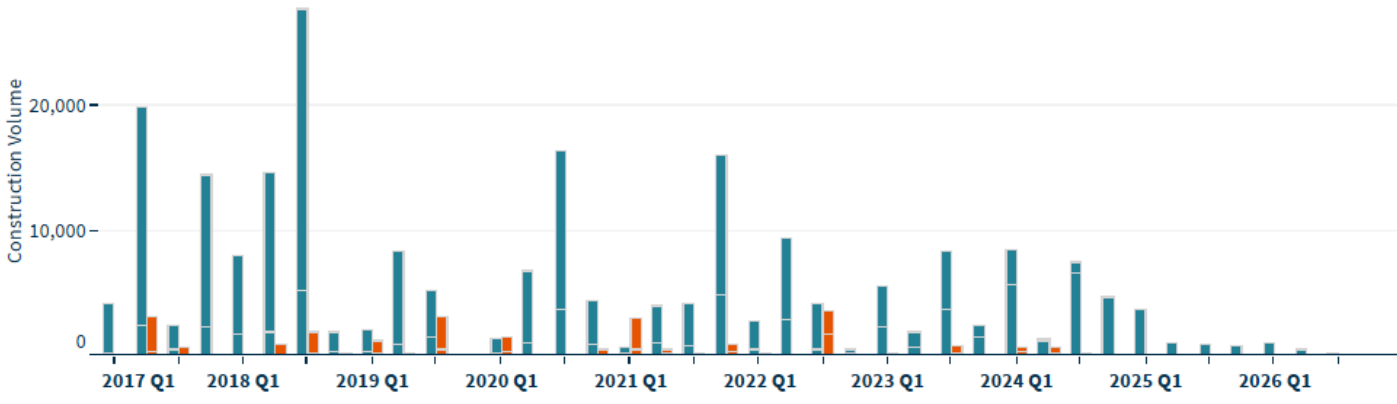
Economic Outlook:

- Cleveland is expected to navigate through 2025 with slow growth, reflecting the broader trend in Ohio. Health care will continue to support the local economy, despite a gradual slowdown, while sluggish performance in the finance sector will constrain overall progress. In the long term, Cleveland is likely to underperform due to ongoing population decline.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

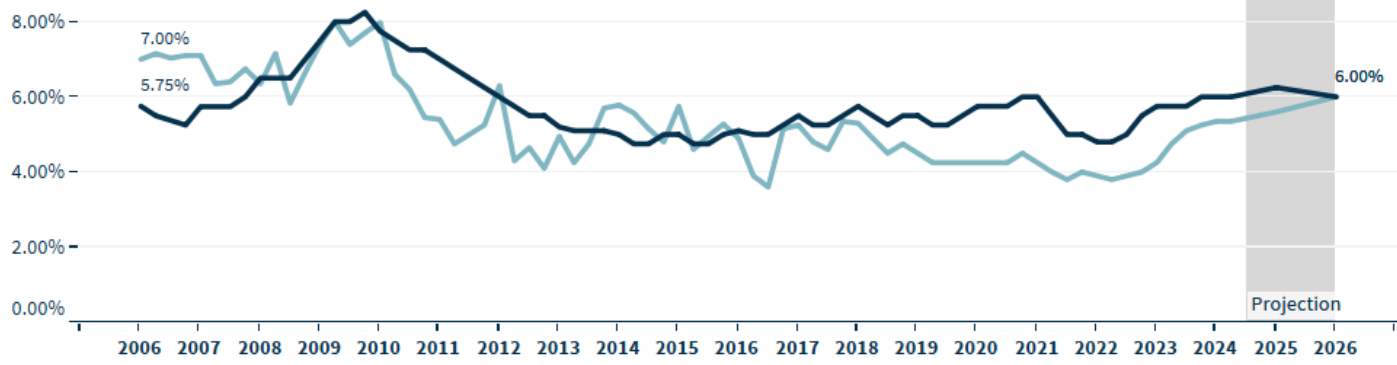
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Cleveland | National

Q3 2024 Vacancy Rate:

5.40%

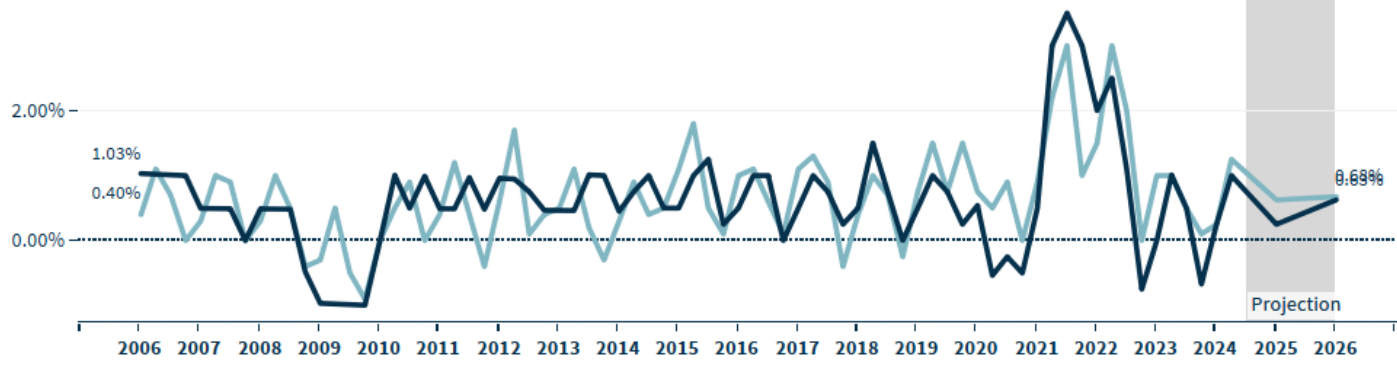


Asking Rent Growth

Cleveland | National

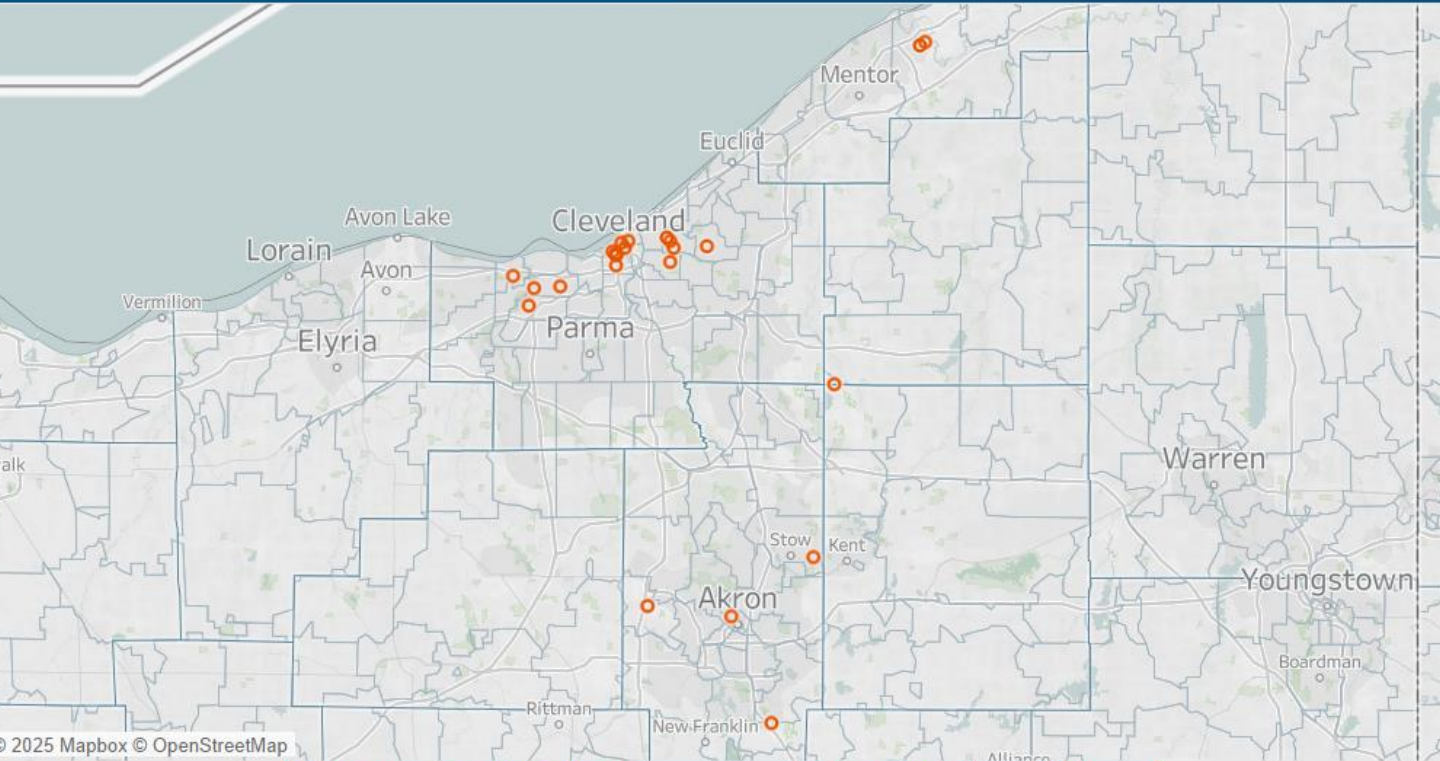
Q3 2024 Asking Rent:

\$1,190



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Central Cleveland	8	1,794
East Cleveland	5	583
Kent/Portage County	1	331
Lake County	2	200
North Summit County	2	189
South Summit County	2	293
West Cleveland	3	163
Westlake/North Olmsted/Lorain County	1	72
Grand Total	24	3,625

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily Metro Outlook: Cleveland Q3 2024

Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics Real Estate Analyzer
- CBRE-Econometric Advisors
- Yardi

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