

Metro Housing Outlook:

Cleveland - Q1 2024

Overview:

- Although the labor market has been relatively lackluster recently, Cleveland's economy continues to make gradual progress. However, payroll growth still lags behind the Midwest average affecting consumer spending. While the healthcare and leisure/hospitality sectors have shown strength, job losses in other areas, particularly finance, have hampered overall growth.
- The slowing economic growth has had an impact on the multifamily market with the average vacancy rate gradually rising to 5.4% as of Q1 2024 from just 4.0% as of the end of Q4 2022. However, the average rent grew by 0.25% in Q1 2024, compared to just 0.1% in Q4 2023.

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 healthcare are expected to keep payrolls growing steadily in the healthcare 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 \$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 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:

- 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 international migration expected to stabilize, the trend of a declining population in Cleveland is unlikely to reverse near term. This ongoing contraction impacts consumer industries, the labor force, and the housing market.
- Leading companies like Progressive and KeyBank are headquartered in Cleveland, establishing the metro as a center for insurance and commercial banking. In response to the rapid tightening of monetary policy, banks have had to raise deposit rates. This, coupled with a slowdown in loan originations, has put pressure on profitability and led to layoffs in both companies. However, with the potential Federal Reserve interest rate cuts in the fall, job growth may pick up in the financial sector.
- 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.

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 SupplyTrack, approximately 3,600 units are underway as of Q1 2024, down slightly from the 3,800 units underway as of Q3 2023. However, this still represents a 1.7% increase in inventory. In addition, about half of all new units continue to be delivered in and around the Central Cleveland submarket.
- In addition, the pace of deliveries is decelerating, with fewer projects breaking ground. Per CoStar, in 2024, annual deliveries of apartments are expected to reach 1,900 units, reflecting a 23% decline from 2023, with an additional 28% reduction anticipated in 2025.

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. As a result, the multifamily market may continue to soften over the next few months. 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:

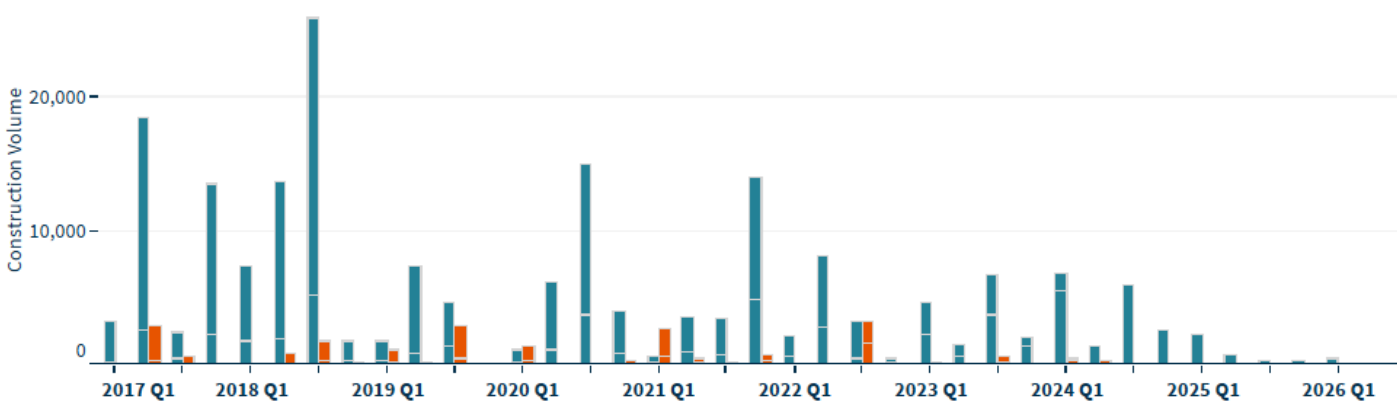
- Cleveland is expected to navigate through the remainder of 2024 with slow growth, reflecting the broader trend in Ohio. Healthcare will continue to support the local economy, despite a gradual slowdown, while sluggish performance in the finance sector will constrain overall progress. In the long term, Cleveland is likely to underperform due to ongoing population decline.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



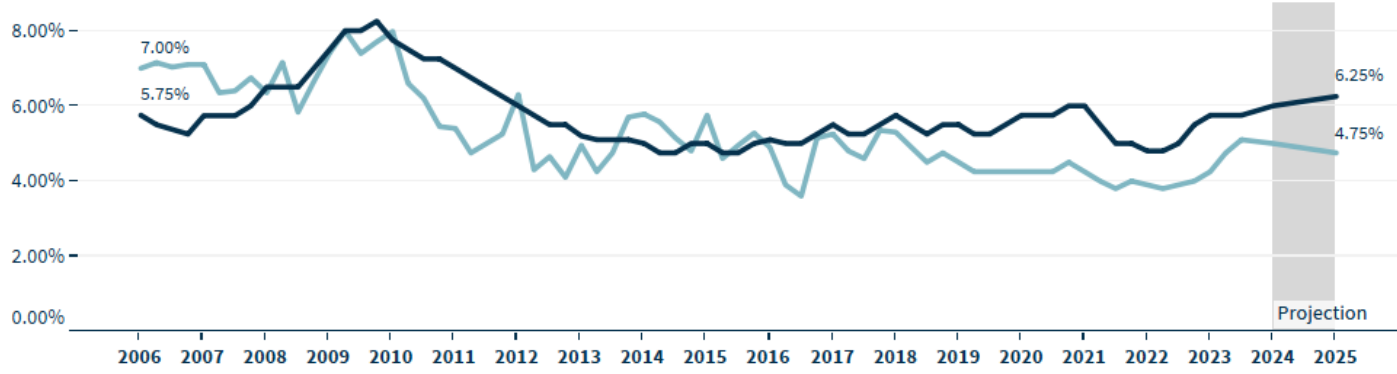
Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily Vacancy & Rent Estimates

Vacancy Rates

Cleveland | National

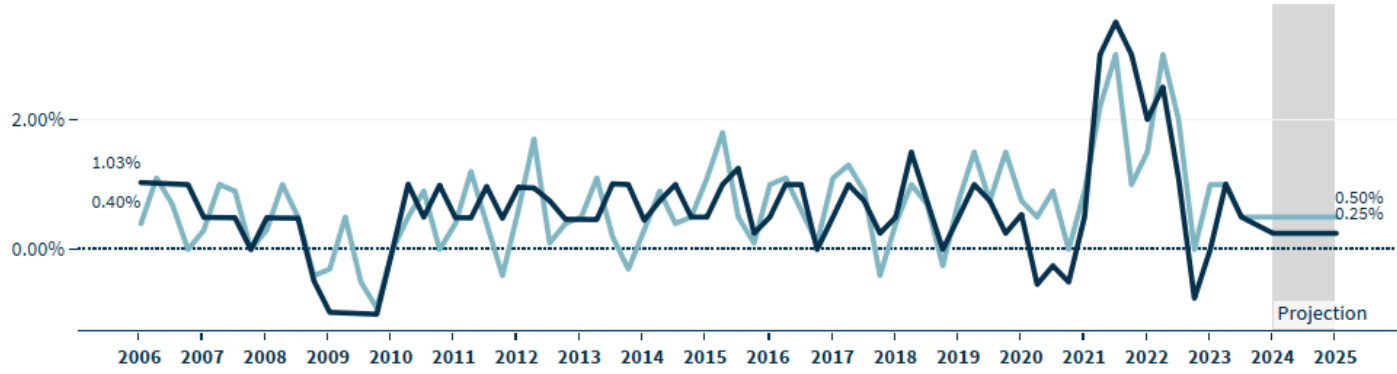
Q1 2024 Vacancy Rate:
5.00%



Asking Rent Growth

Cleveland | National

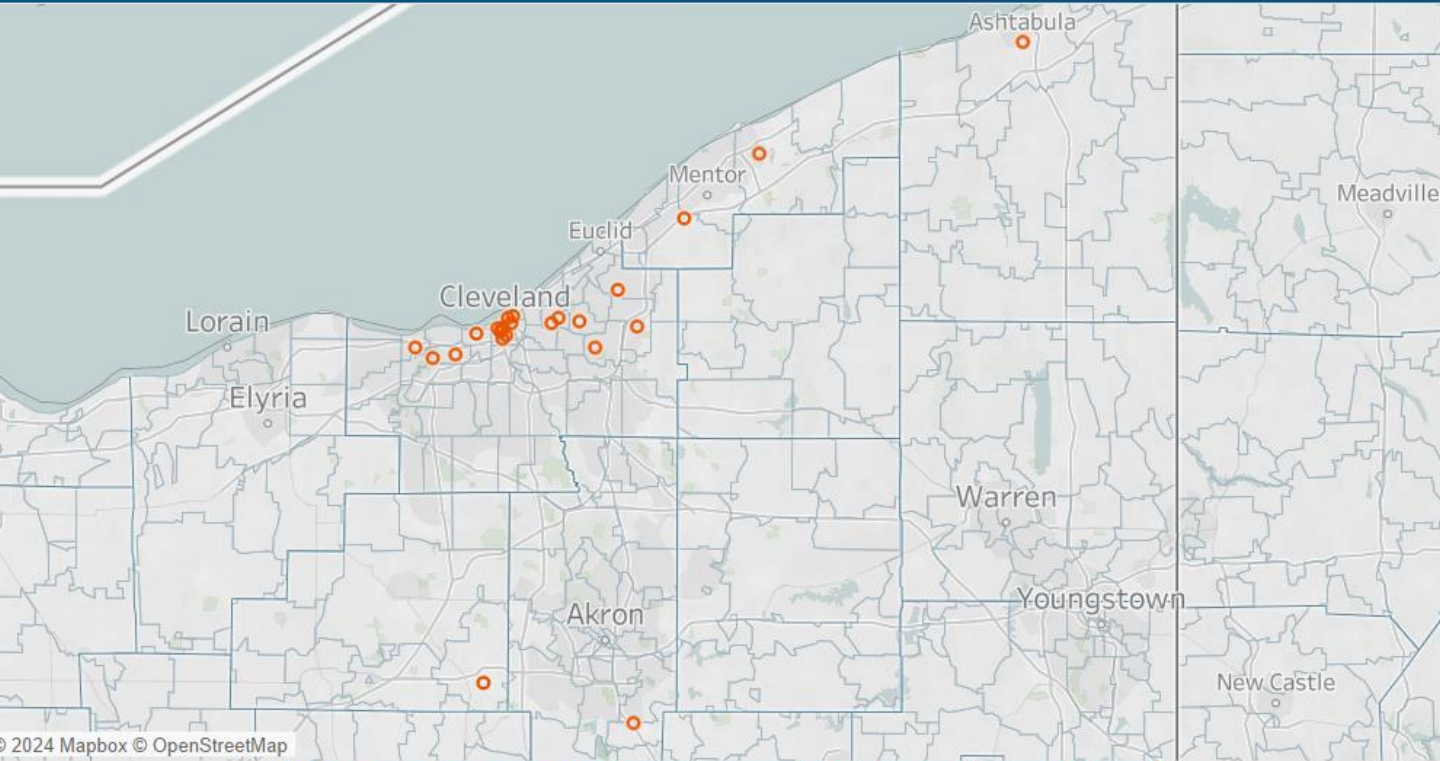
Q1 2024 Asking Rent:
\$1,150



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Beachwood/Mayfield	3	586
Central Cleveland	9	1,730
East Cleveland	3	487
Lake County	2	142
NA	1	13
South Summit County	1	250
Strongsville/North Royalton/Medina	1	36
West Cleveland	3	285
Westlake/North Olmsted/Lorain County	1	72
Grand Total	24	3,601

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily Metro Outlook: Cleveland Q1 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
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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