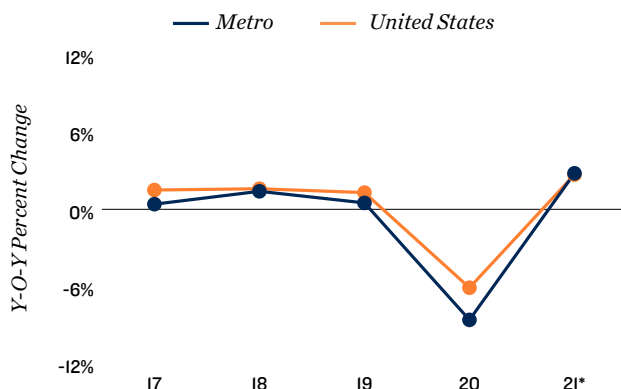


Sharp Drop in Deliveries, Employment Growth Brighten Outlook for Cleveland Apartments

Suburban rentals outperform as preferences shift. Tenants moving out of apartments in dense urban neighborhoods for more spacious and lower-cost units farther from the city center during the pandemic benefited suburban rentals. At the end of 2020, suburban vacancy rested at 3.6 percent, less than half of the rate reached in the urban core. In addition, five of the metro's nine suburban submarkets posted vacancy below 3 percent at year end. Low availability allowed for a suburban rent gain of 1.9 percent last year, compared with a slight decline in the urban core. During 2021, a third year of minimal deliveries in the suburbs amid an expanding employment base metrowide is expected to hold vacancy tight.

New inventory in the city core will keep vacancy elevated. Nearly all of the units due for completion in 2021 are located in Cleveland's downtown. These additions will likely place upward pressure on Class A vacancy this year. Many of the new units are the product of redeveloped and repurposed former office towers that are being converted into apartments. The previous home to the Electric Illuminating Company and the John Harness Brown building are two examples. Combined, these projects will add more than 350 rentals as the 75 Public Square and Euclid Grand apartments. Although the coronavirus has impeded demand for higher-priced rentals in the city core, the need should improve as vaccines become widespread and more workers return to offices.

Employment Trends



* Forecast
Sources: BLS; RealPage, Inc.; CoStar Group, Inc.

Multifamily 2021 Outlook



27,300 JOBS
will be created

EMPLOYMENT:

A portion of the 92,600 positions lost from closures due to the pandemic last year will return as widespread vaccinations allow more businesses to fully open. As a result, employment will increase 2.8 percent in 2021.



490 UNITS
will be completed

CONSTRUCTION:

Deliveries will fall sharply from last year's 1,451 units as inventory increases just 0.3 percent in 2021. Central Cleveland will receive the majority of rentals, the largest being Euclid Grand with 240 apartments.



40 BASIS POINT
decrease in vacancy

VACANCY:

The decline in deliveries this year coupled with renter demand picking up as more people return to work will boost net absorption above completions. As a result, the vacancy rate will set a new low of 3.1 percent at year end.

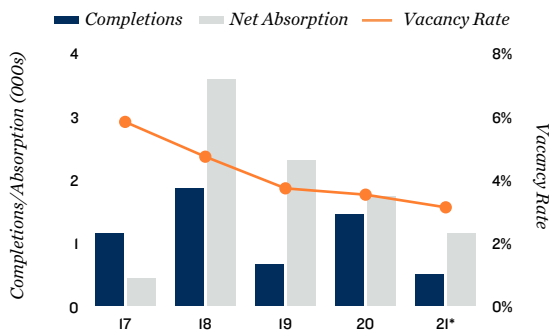


3.5% INCREASE
in effective rent

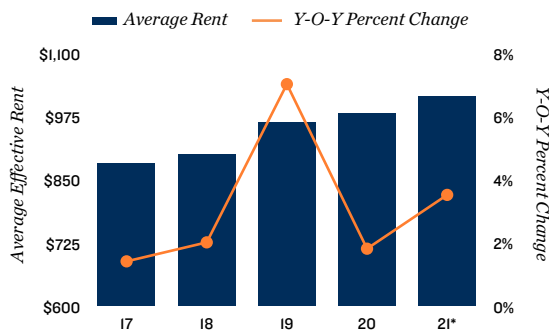
RENT:

A tighter supply of available units and fewer apartments offering concessions support rent growth this year. The average effective rent climbs above \$1,000 for the first time, ending 2021 at \$1,014 per month.

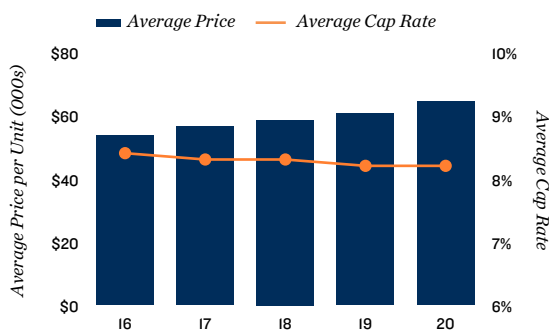
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: RealPage, Inc.; CoStar Group, Inc.; Real Capital Analytics

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc. © Marcus & Millichap 2021 | www.MarcusMillichap.com

2020

CONSTRUCTION

1,451 units completed

- Apartment inventory expanded 0.9 percent during 2020, more than doubling the prior year's pace.
- Central Cleveland received the majority of new units as 1,270 rentals were completed. The only other submarket to add inventory was East Cleveland with 181 apartments.

VACANCY

20 basis point decrease in vacancy Y-O-Y

- Despite the surge in inventory during the pandemic, marketwide vacancy declined 20 basis points in 2020 to a tight 3.5 percent.
- Renters seeking to lower housing costs cut Class C vacancy 90 basis points to 1.9 percent. In contrast, Class A vacancy jumped 200 basis points year over year to 6.7 percent.

RENT

1.8% increase in the average effective rent Y-O-Y

- Competition for available units contributed to rent rising to \$980 per month in 2020, down from a 7.0 percent vault one year earlier.
- Among apartment tiers, the largest rent increase was posted in Class B units, climbing 4.2 percent to \$953 per month. The Class A rate decreased 2.5 percent to \$1,386 per month.

Investment Highlights

- Transaction activity was slow in the first three quarters of 2020 as winter and then the coronavirus sent a number of investors to the sidelines, cautious of the pandemic's impact on the rental market. Some local buyers returned in the final quarter of 2020, targeting suburban Class B/C assets for less than \$10 million. For the year, trading volume declined roughly 40 percent.
- Investors focusing on assets in good locations contributed to the average price rising 6.2 percent to nearly \$64,400 per unit in 2020, the largest gain in six years. Class A properties less than 10 years old can change hands for more than \$200,000 per door. The average cap rate, meanwhile, held steady in the low-8 percent range for the fourth consecutive year.
- Buyers searching for value-add opportunities may find buildings in higher-vacancy submarkets including East, Central and Southeast Cleveland. Meanwhile, investors seeking a steady cash flow may opt instead to look farther from the metro core in areas where tight vacancy is boosting rent gains, such as in Euclid or Lake County.