

Employees' Return to Office a Catalyst for Near-Term Vacancy Compression and High Rent Growth

Net absorption surpasses deliveries for a fifth straight year. Almost 2,000 households will form in Cleveland this year – the highest increase since 2013. This growth, paired with elevated home prices, will expand the local renter pool and allow net absorption during 2022 to surpass completions volume by around 400 units. Recently, renter demand has substantially improved in Central Cleveland and adjacent East Cleveland, with each submarket recording vacancy compression of at least 400 basis points over the past year ended in March. This trend shows signs of carrying into this year, with strong renter demand potentially compressing local vacancy rates to record lows.

Return to work fuels renter demand in CBD. In 2021, only around 30 percent of completions came online in suburban areas. This tendency toward urban development is expected to continue into 2022, as around 70 percent of deliveries are in Central Cleveland. These new units will be available as the downtown submarket begins to see renewed renter interest. After high vacancy rates in the first half of 2021, Central Cleveland experienced a sharp tightening to 3.3 percent in the first quarter of 2022 – an even lower rate than what was recorded pre-pandemic. Although the submarket still has the highest vacancy in the metro, renter demand for housing near reopening offices and businesses downtown makes Central Cleveland's location increasingly convenient.

Employment Trends



Multifamily 2022 Outlook



18,000

JOBS
will be created

EMPLOYMENT:

The number of jobs in Cleveland will increase by 1.7 percent this year, below the national rate. Still, recovery in key sectors like trade, transportation and utilities will continue to compress the unemployment rate from February's 5.3 percent recording.



1,200

UNITS
will be completed

CONSTRUCTION:

Completions for 2022 will remain above the trailing five-year average. Central and East Cleveland will see the most construction, accounting for nearly 80 percent of new inventory. Projects slated for delivery this year average 150 units.



30

BASIS POINT
decrease in vacancy

VACANCY:

Vacancy will reach a record low this year, as the net absorption of about 1,700 units compresses the rate to 2.0 percent. While net absorption will be down from last year, the total noted in 2022 remains above the trailing 10-year average of 1,500 rentals.



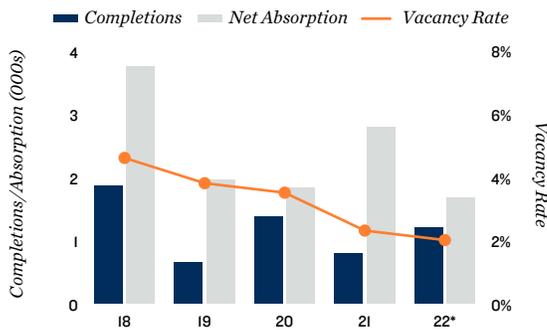
7.9%

INCREASE
in effective rent

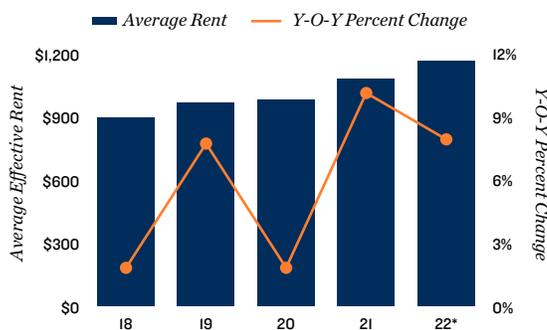
RENT:

The average effective rent reaches \$1,166 per month at the end of 2022. Last year, rents rose 10.1 percent, and while the pace of increase moderates this year, rates will rise faster than during the 2011-2019 span, when annual gains averaged 3.0 percent.

Supply and Demand



Rent Trends



Sales Trends



* Forecast

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

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1Q 2022 - 12-Month Period

CONSTRUCTION

1,157 units completed

- Supply additions during the 12-month period ended in March trailed the previous five-year average. Still, developers completed 470 units in the first quarter, almost 40 percent of 2022's delivery total.
- Central Cleveland welcomed 70 percent of the new inventory last year, with East Cleveland accounting for 20 percent of completions.

VACANCY

180 basis point decrease in vacancy Y-O-Y

- Vacancy reached a new multidecade low at the end of 2021, and the first quarter saw the rate fall to an even tighter 1.9 percent.
- The submarkets of Parma-Middleburg Heights and Euclid reported the lowest vacancy rates in the metro, with the latter registering an estimated 110-basis-point drop during the first quarter of 2022.

RENT

11.2% increase in the average effective rent Y-O-Y

- Elevated renter demand continued to push up the average effective rent from the end of 2021 into the first quarter to \$1,119 per month.
- Class A properties saw the largest rent change at the end of 2021, with a 20.8 percent annual increase. This is the largest year-over-year rise for upper-tier rates since at least 2000.

Investment Highlights

- Last year noted nearly double the number of recorded deals than in 2020, with the highest volume of trades occurring in the second quarter. Closer-in suburbs, particularly East Cleveland and Lakewood, recorded the highest volumes of transaction velocity, due to their proximity to downtown and average rents that notably trail Central Cleveland. In both locales, smaller properties priced below the metro's average price point are coveted.
- Class B/C sales activity almost doubled on a year-over-year basis during 2021, as historically low vacancy in the segment fueled demand for available listings. Vacancy in the low-2 percent range and recently strong rent growth in the Class B sector is positioned to maintain investors' confidence in the rental tier moving forward.
- Despite the nearly 11 percent increase in average pricing last year, the metro has some of the lowest entry costs among major U.S. markets, at approximately \$76,800 per unit. Even after years of steady compression, market-wide cap rates average in the mid 7-percent range, attracting out-of-market investors focused on high-yielding assets.