



## Multifamily Metro Outlook: Cleveland Spring 2017

The temporary economic boost Cleveland received from hosting the 2016 Republican Presidential convention and having a team in the World Series seems to have moderated. However, Cleveland continues its efforts to transition from a manufacturing-led to service-based economy. According to Moody's Analytics, Cleveland will likely add an estimated 15,000 jobs in 2017, driven in part by a rapidly growing healthcare research and development cluster.

The rental market remains steady, aided by the revitalization of downtown Cleveland. However, new supply delivered over the past few years has started to outpace demand. Year over year as of Q1 2017, the vacancy rate rose by 1.0 percent to a still-healthy 5.0 percent. Concessions of -1.4 percent of asking rents slightly exceeded the national average of -1.1 percent, but rents still managed to grow an estimated 0.75 percent in Q1 2017.

The largest employment sector in the area is the relatively stable Healthcare and Education sector, accounting for 19 percent of the workforce. The largest employer is the Cleveland Clinic, which employs approximately 34,000 people, and is a key economic driver as a national leader in healthcare research and treatment. The city is trying to leverage this expertise by creating a Health-Tech Corridor connecting Mid-Town to the Campus District in order attract more jobs in bio-tech, healthcare, and technology, boosting the number of well-paying jobs in the professional services sector.

White collar services are replacing lost manufacturing jobs. For instance, jobs in property and casualty insurance have grown by twenty percent since 2012. The company Progressive Insurance is hiring information technologists, statisticians, and risk managers. Advertising firms, software companies, and technical services businesses are also poised to grow.

However, a few challenges remain. It is in a long-term structural transition away from its manufacturing base, which provides 12 percent of jobs in the area compared to just 8.8 percent nationally. Due to the rapid pace of automation, there is unlikely to be job growth in this sector. Steel manufacturing remains a soft spot for the metro due to excess global supply, and demand for new cars has been slowing as consumers have already replaced older cars they delayed replacing during the downturn.

Cleveland has been losing population for years. Cleveland is forecasted to lose 0.2 percent of its population on average annually over the next five years, compared with national growth of 0.8 percent. Only 18.6 percent of the population in the metro is in the prime renting cohort, age 20-34, compared with 20.7 percent nationally.

The cost of living in Cleveland is -10% lower than the national average largely due to inexpensive housing. While increasing in price, single family housing remains relatively inexpensive, placing a ceiling on rental demand.

### Development

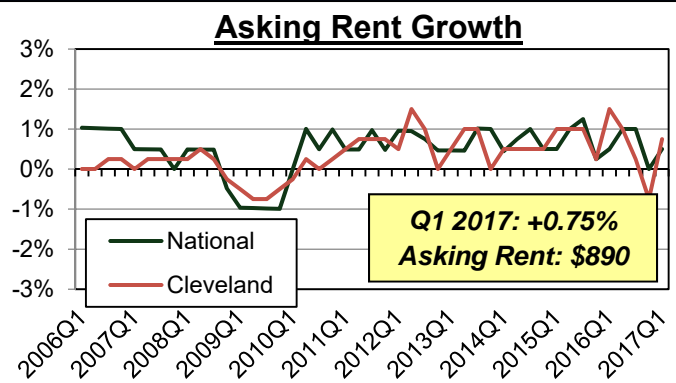
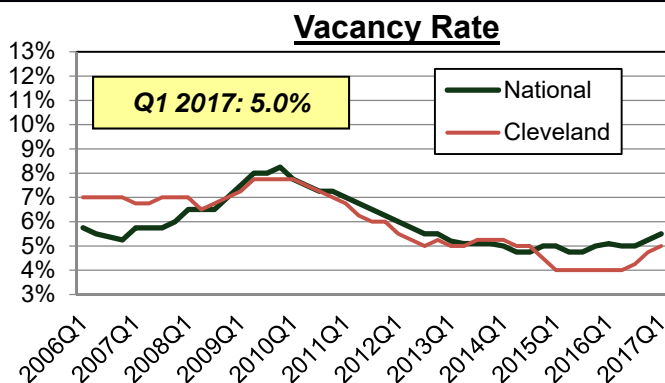
Developers have been busy lately delivering almost 4,500 units many of them in the Central business District to capitalize on the redevelopment of downtown. Another 1,700 units are underway which should soften the market.

### Outlook

Despite the addition of a significant amount of new supply over the past few years, Cleveland's apartment market remains in balance. However, with new supply continuing to come online, multifamily vacancies should increase by another 1.0 percent in 2017 but rents will likely grow about 2.5 percent.

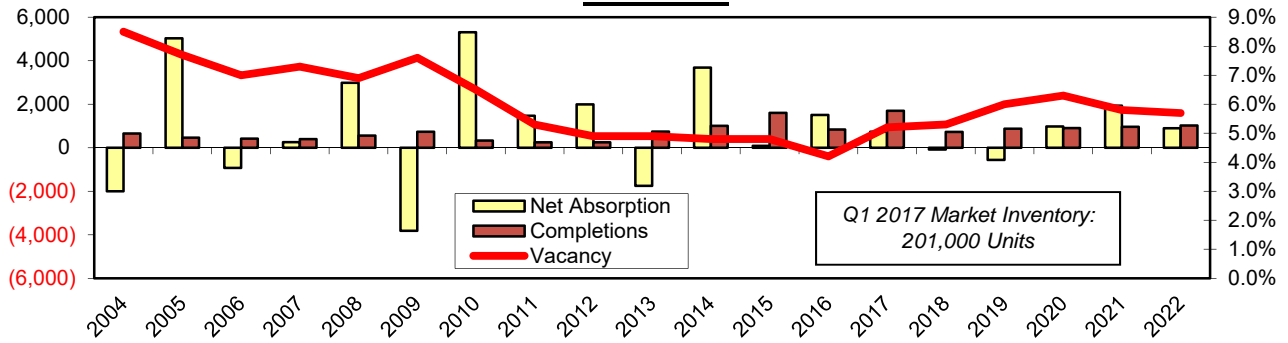
Cleveland's overall economy and demographics would need to see radical improvements in the underlying fundamentals for there to be any substantial growth long-term. With limited demand growth as well as an unfavorable demographic profile, there is little need for new development.

## Vacancy and Rent Composite Estimates

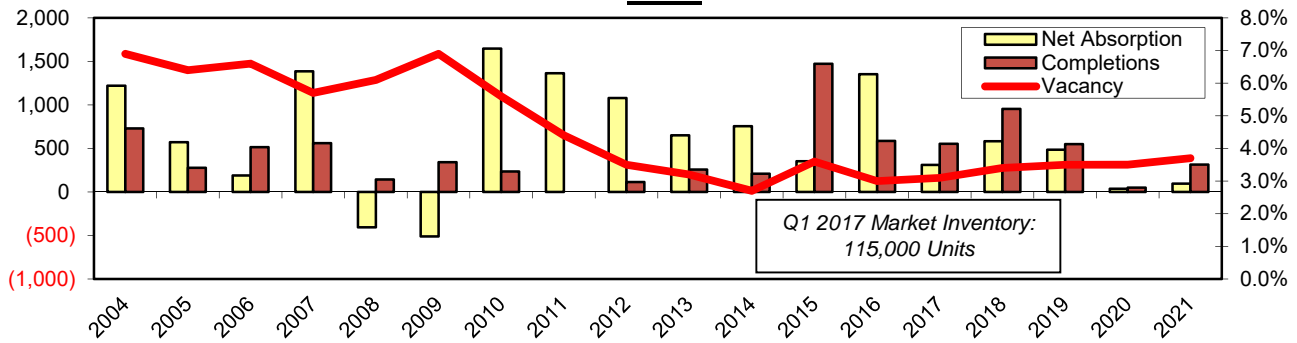


Source: Fannie Mae Multifamily and Economics Research

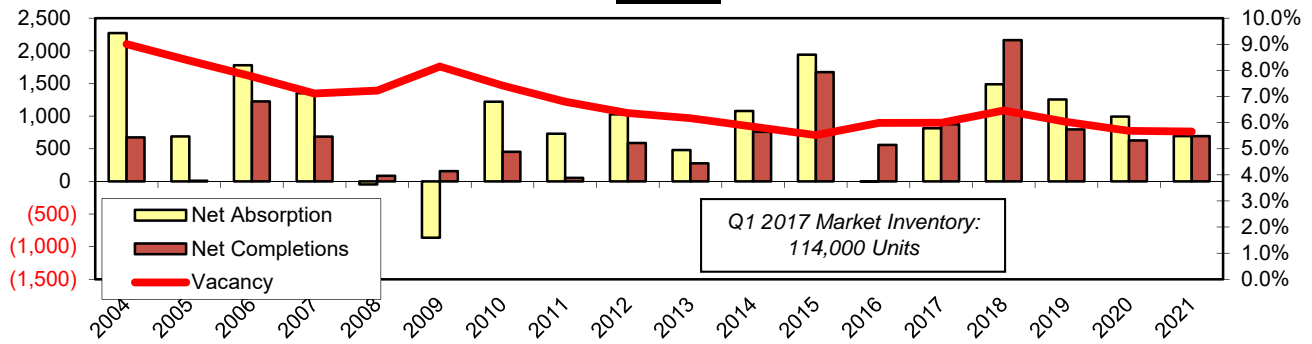
### CBRE-EA



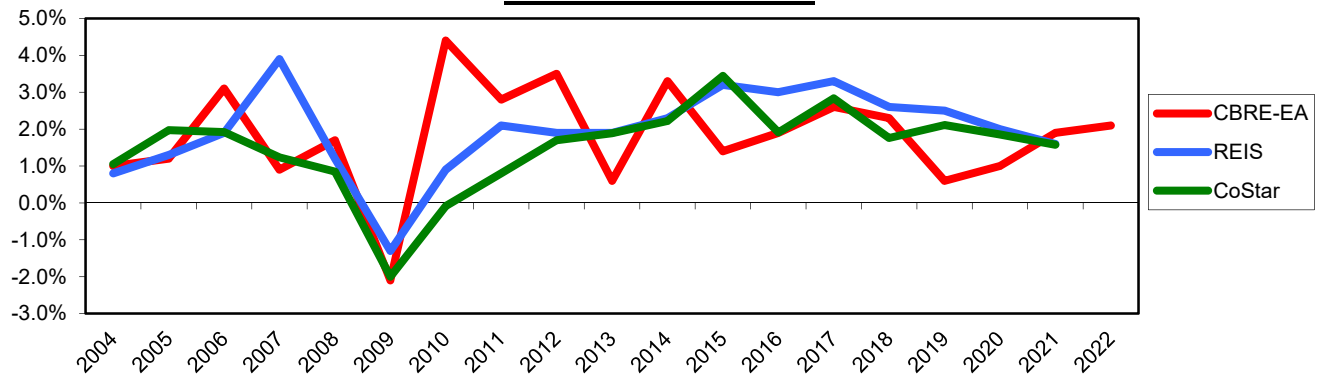
### REIS



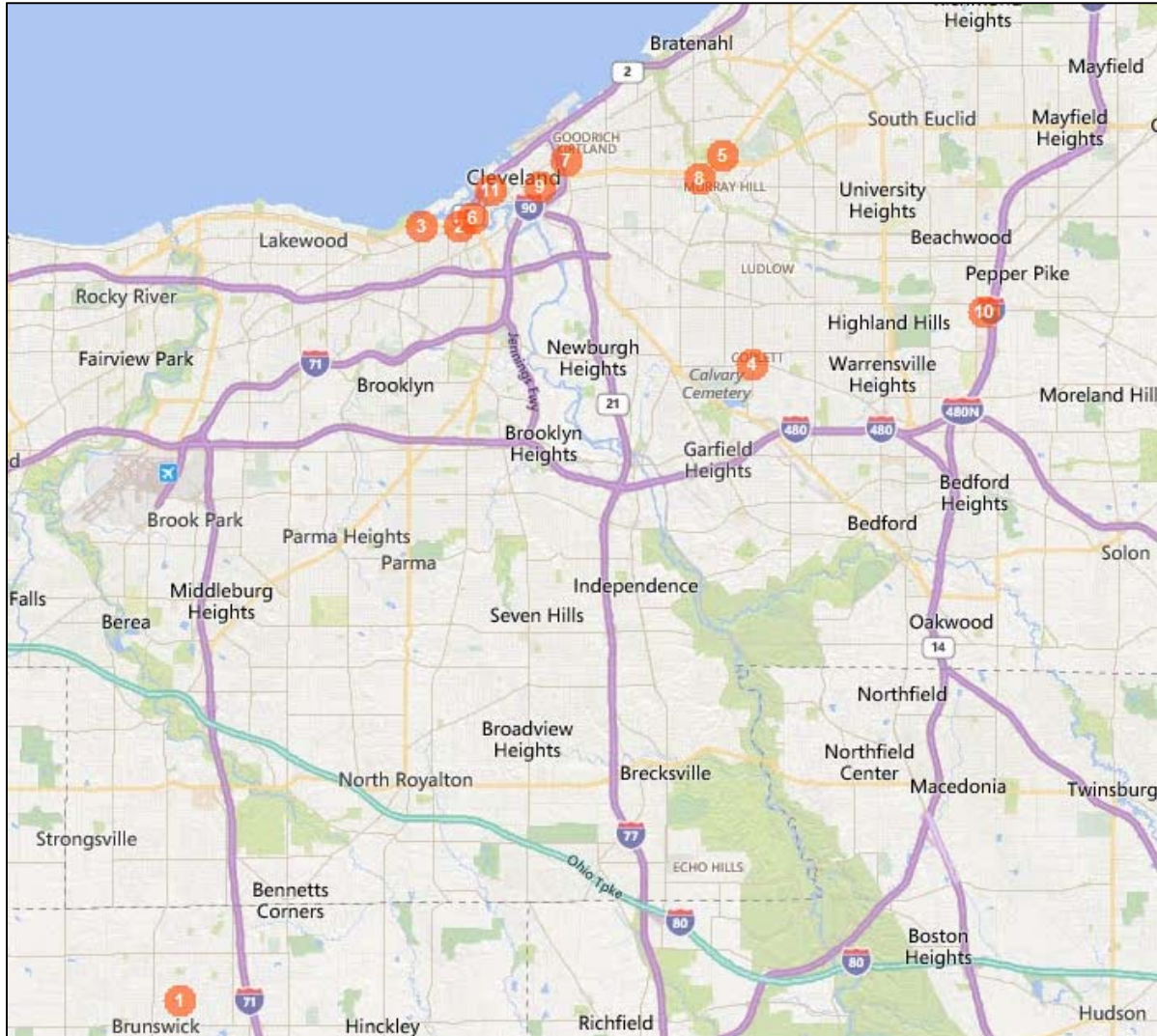
### CoStar



### Annual Rent Growth



**Construction Bidding/Underway**  
**(11 projects/ 1,700 Units/ 2.2 M Sq. Feet)**



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Downtown/The Flats/Warehouse District	4	824	692
East Cleveland/Cleveland Heights	4	696	431
Lakewood/Linndale/Brooklyn	1	360	306
Beachwood	1	250	206
Medina County	1	102	102



Fannie Mae™

## Multifamily Metro Outlook: Cleveland Spring 2017

### Fannie Mae Multifamily Economics and Market Research

Tanya Zahalak, Economist

#### Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

*Opinions, analyses, estimates, forecasts, and other views of Fannie Mae's Multifamily Economics and Market Research (EMR) group included in this commentary should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the EMR group bases its opinions, analyses, estimates, forecasts, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current, or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, and other views published by the EMR group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.*