KNOWLEDGE REPORT

Ohio Multifamily Research Report Q4 2020
Colliers International | Cleveland

Colliers

Multifamily Markets Weather the COVID-19 Storm

U.S. Market Overview

The longest period of economic expansion in post-war history came to an abrupt halt when annualized GDP growth for Q1 2020 slipped into negative territory as the COVID-19 pandemic began to impact global markets. The ensuing government-mandated business restrictions and shelter-in-place orders contributed to a record plunge in GDP during Q2 of 31.4%. However, unlike many recessions, this shock to the economy was self-induced through a temporary, intentional suppression of economic activity.

As government-mandated restrictions were eased, the economy surged, recovering as quickly as it had tanked, posting record GDP growth of 33.4% in Q3 before normalizing to a 4% growth rate in Q4. Commercial property markets were negatively impacted as well, but not to the extent one would expect during a period of such severe economic distress.

The U.S. apartment market finished the year surprisingly well, in spite of the state of the economy, job losses and business closures experienced during the first half of the year. However, significant variances have developed in terms of both geographic location and property type.

Research by Yardi Matrix finds that the "largest contributor to rent gains and losses have been migration patterns." Data indicates a recognizable pattern of demand shifting from high-cost, densely populated metro areas to more affordable locations. Although overall rent growth slipped by only 0.2% during the year, lifestyle and urban high-rise assets' effective rents declined by 2%, while the renter-by-necessity category recorded rent gains averaging 1.3%.

Occupancy held up as well according to RealPage data, as the market finished the year with an occupancy rate of 95.6%, a loss of only 10 bps, year-over-year, well above the trough recorded during the Great Recession of 92% and above the 10-year average of 94.9%. The pandemic did, however, disrupt demand dynamics. During Q2, usually the busiest time of the year, virtually no absorption was recorded, while the typically quiet Q4 saw demand totaling 78,593 units. This brings annual absorption to 296,115 units, roughly in line with the five-year historical average. New supply totaled a record 344,380 units and forecasts call for an additional 403,600 units in 2021, creating headwinds to occupancy gains and rent growth.

$138.6 B

U.S. Sale Volume

-27.0%*

$11.9 B

Midwest Sale Volume

-18.0%*

$1.5 B

Ohio Sale Volume

-28.7%*

2020 YTD Transaction Volume

**Year-over-year Change in Transaction Volume*

Concessions increased during the year, with the highest percentage increase in Class A, high-rise assets in gateway markets, but began to decline during Q4 across all sectors. This suggests the market may be stabilizing, setting new rate levels for a post-pandemic world.

As the U.S economy continues on the road to recovery, apartment market performance is expected to be dependent on location and property type. Gateway markets will continue to experience the fallout from the pandemic that led to out-migration and will also be impacted by a surge in supply. On the other hand, secondary markets and garden-style assets should continue to perform well, balancing out the weaker sectors. Record new supply and decreasing occupancy will restrain rent growth during 2021 before a return to historical averages late in 2022.

Ohio Apartment Market Data | Q4 2020								
METRO AREA	INVENTORY (# OF UNITS)	VACANT UNITS	ANNUAL DEMAND (UNITS)	OCCUPANCY RATE (%)	ANNUAL NEW SUPPLY (UNITS)	UNITS UNDER CONSTRUCTION	AVG MONTHLY RENT	AVG RENT PER SF
Cleveland	168,090	5,866	1,750	96.5%	1,451	1,170	$980.00	$1.12
Cincinnati	162,761	5,827	1,563	96.4%	2,231	3,022	$1,022.00	$1.10
Columbus	184,364	7,633	3,519	95.9%	3,633	6,401	$1,026.00	$1.09
Dayton	55,719	2,251	351	96.0%	1,096	442	$862.00	$0.96
Akron	44,363	1,562	-91	96.5%	69	675	$917.00	$0.99
Grand Total	**615,297**	**23,138**	**7,092**	**96.2%**	**8,480**	**11,710**	**$961.40**	**$1.05**

Source: RealPage and Colliers Research

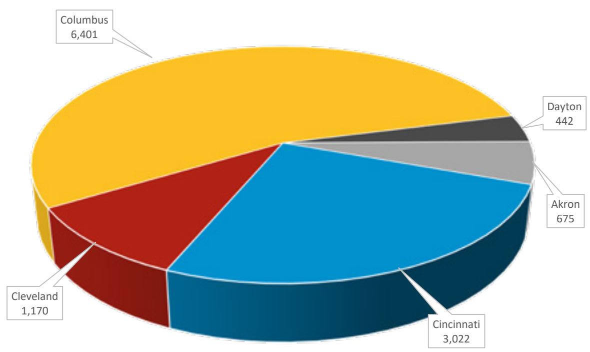
Ohio Investment Overview

Like the overall U.S. and Midwest region, investment sale activity in the Ohio markets recovered during the final quarter of the year, posting nearly $2 billion in sales volume for all property types. Apartments comprised $538.1 billion of this total during the quarter, exceeded only by the industrial sector's $793.1 billion in volume.

Volume for the entire year across the state totaled $6.2 billion, a decline of 34%, year-over-year. The industrial sector captured 40% of this deal volume with $2.5 billion in sales activity and multi-family followed with $1.5 billion, which is a decline in volume of 28.7%, year-over-year. The average price was up 8% to $68,718 per unit and cap rates averaged 6.1%.

The Columbus market maintained its number one position recording $822 million in sales volume, which is only a marginal decline from last year's volume of $881 million. Cincinnati slipped into the number two spot with $229 million, beating out Cleveland for the first time since 2017. Cleveland posted sales volume of $207 million, followed by Dayton with $119 million.

Current Construction Activity (Units)



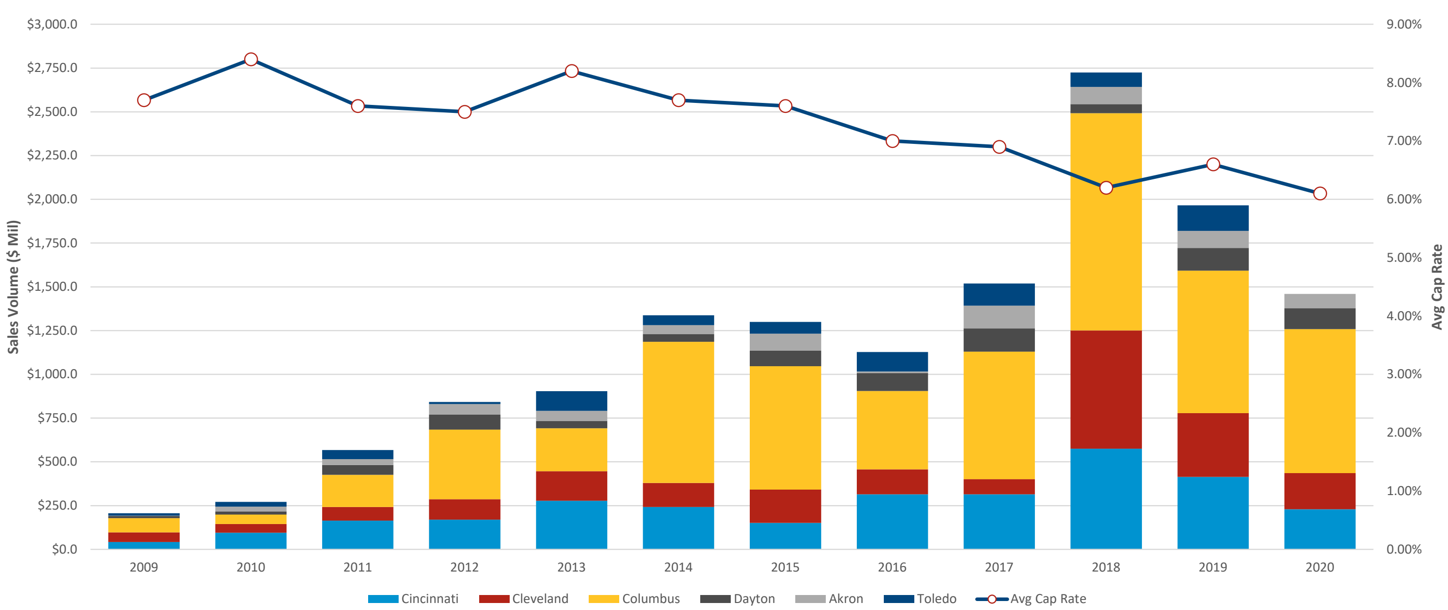
U.S. Investment Overview

According to Real Capital Analytics, total U.S. sales volume fell across all commercial property sectors for the year by 32%, year-over-year, to $405.5 billion, a level not seen since 2013. However, this total is still well above the yearly volumes recorded during the Great Recession of 2008 and 2009. Volume did plummet during Q2, the height of the shutdowns, by a record amount, 64%, but rebounded during the final two quarters.

Commercial property is still priced attractively in comparison to other asset types. Cap rates remain below historical averages and the spread between cap rates and the 10-year US Treasury is higher than the long-term trend. Although volume fell, pricing continued on its upward trajectory for all sectors, except retail and hotels, while cap rates were stable or compressed slightly. According to the Real Capital Analytics CPPI index, pricing for all sectors increased for the year by 7.3%.

Apartments remained a popular choice for investors. Deal volume did fall by 26% to $138.7 billion, but prices increased by 8.3%, year-over-year. However, pricing was bifurcated between the High/Mid-Rise and Garden sectors. Pricing for apartment towers located in densely populated, urban areas fell by 0.2% as out-migration increased due to pandemic fears, while garden apartments in suburban areas recorded an increase of 9% in pricing and experienced less of a drop in volume. The same held true in terms of geography as major metro areas recorded a decline in sales volume of 37%, year-over-year, in comparison to secondary and tertiary markets where the decrease in annual volume was 24%. Pricing in non-major markets grew 9% in contrast to the gateway markets' 1.9% increase.

Historical Sales Volume/Average Cap Rate



Recent Notable Sales | Q4 2020

Property Name	Sale Date	#of Units	Buyer	Seller	Market
Mariner's Watch	Dec-20	62	My Place Group	Koch, Brian	Cleveland - Akron
Fairway Park	Dec-20	308	Mizrahi, Moses	Fairfield Companies	Cleveland - Akron
On the Green at Royal Oak	Nov-20	118	Ogzewalla, K. Beau	Jacobson, Melba B.	Cincinnati
Northwoods	Oct-20	108	Ravipati, Krishnamohan	J.W. Management	Cincinnati
The Colony of Springdale	Nov-20	261	LUMA Property Group	Ilan Investments	Cincinnati
Waterstone Place	Dec-20	172	Monarch Investment and Management Group	PLK Communities	Cincinnati
MFA Communities at Autumn Chase	Nov-20	76	Alvarado, Alejandra	Rane Property Management	Columbus
The Voyageur	Nov-20	192	PRE/3	Dominium	Columbus
Winchester Park	Dec-20	276	Coastal Ridge Real Estate	Hamilton Point Investments	Columbus
National Road	Oct-20	85	Integrity Holdings Group	Smith, Ronald L.	Columbus
Fitzroy/Walford	Dec-20	96	Pastman, Nadeen B.	Kojo, James H.	Columbus
Fairway Lakes	Dec-20	340	Ackermann Group	Connor Group, The	Columbus
The Highlands	Dec-20	302	PLK Communities	Samaritan Companies	Dayton
Lake Shore Place	Nov-20	57	Zingenuity	Harlamert, Irvin H.	Dayton
Patterson House	Nov-20	67	Zingenuity	Harlamert, Irvin H.	Dayton
The Walbridge	Dec-20	130	Cornerstone Managed Properties	Whitehurst Company, The	Toledo
Secor Cedars	Dec-20	121	Kwapich Real Estate Companies	Wassef, Sameh L.	Toledo
Swissaire Village	Dec-20	76	Kwapich Real Estate Companies	Wassef, Sameh L.	Toledo

Market Takeaways

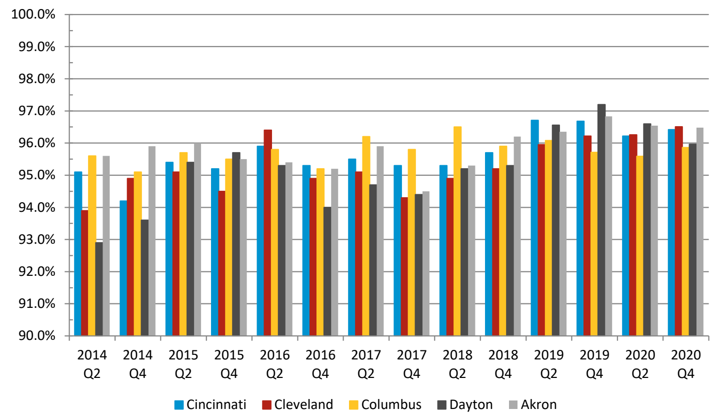
Cleveland – In Cleveland, the apartment market actually recorded improvement over the course of 2020, posting a gain in occupancy by 20 bps to 96.5%. This level is a full percentage point above the market's five-year historical average, and also above the Midwest region's average of 95.8% and the national average of 95.6%. Demand has generally kept pace with, or often exceeded, the modest level of supply over the past five years. However, occupancy is expected to slip over the next 12 months due to changing preferences and the delivery of additional new supply in the face of weakening demand.

The majority of new supply has been focused on the lifestyle sector and concentrated in the central city areas. The pandemic has negatively impacted demand by the demographic cohorts attracted to Class A mid and high-rise units in urban neighborhoods – empty nesters and young professionals. Additionally, Cleveland ranks as one of the most affordable single-family home markets in the country, along with an above average homeownership rate of 69.4%.

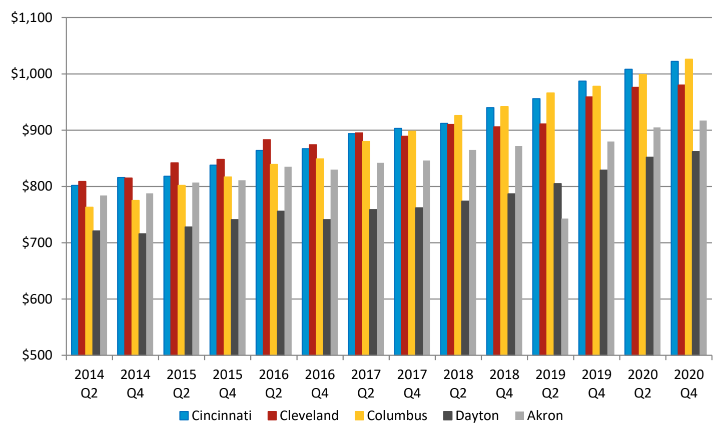
Led by the rent-by-necessity category, the Cleveland market led the U.S. in rent growth posting a year-over-year increase of 4.6% as of the end of Q3. While that growth rate moderated during the final quarter of the year, Cleveland's overall gain still outpaced both the Midwest region and U.S. as a whole for the year. A headwind to rent growth and occupancy gains includes the diminishing demand for Class A, luxury apartments in central Cleveland, the location of much of the new inventory over the past few years. This segment of the market has begun to experience growing concessions as well as some decline in asking rents.

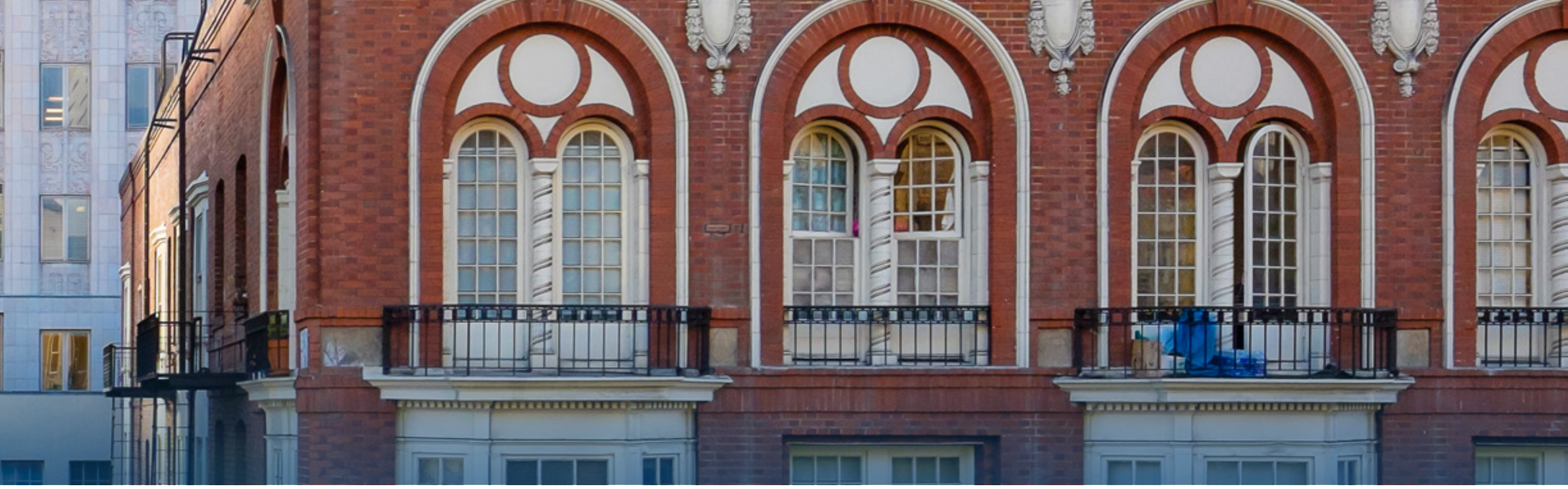
Due to additional new supply in the pipeline and softening demand, analysts forecast a decline in occupancy over the next 12 months of 120 bps to 95.3%, a little below the five-year average. Driven by the renter-by-necessity category, rent growth is expected to average 2.2%.

Historical Occupancy - Ohio Markets



Historical Average Monthly Rent - Ohio Markets





Cincinnati – The Cincinnati apartment market, despite the pandemic-related disruptions reported in many other markets, remains stable. Cincinnati's economy is recovering from the business closures and lockdowns in the spring at a quicker pace than forecasted earlier in the year, further improving the outlook for the local multifamily market. As a result, occupancy rates and rent growth continue to outperform both the Midwest region and the U.S.

New supply of 2,231 units did outpace demand by approximately 650 units resulting in a 30 bps increase in vacancy during the year. Overall market occupancy currently equals 96.4%, comfortably above the market's historical five-year average of 95.7%. Construction activity remains slightly elevated by historical standards. Forecasts call for 2,116 units to be added to the inventory in 2021, which coupled with expected below average demand, due to a very competitive and affordable for-sale housing market, will shave an additional 40 bps off of occupancy levels over the next 12 months.

Most new product has been focused on the lifestyle segment in downtown and the surrounding urban neighborhoods creating a supply glut amidst declining demand. As seen nationwide, there is a growing bifurcation between urban and suburban markets, as well as Class A and Class B and C properties. Occupancy has fallen to 94.8% for Class A product prompting owners to increase concessions. In the central core, Class A rents have contracted by 4.6%, year-over-year. On the other hand, Class B and C properties have performed well, posting occupancy rates of 96.6% and 97.2%, respectively, according to RealPage data. This sector's performance contributed largely to the annual rent gain of 2.7%, which is slightly below the five-year average growth rate of 3.1%.

Cincinnati is well positioned to grow its economy, quickly recovering the job losses from 2020, as the effects of the pandemic begin to subside. Analysts forecast a small decrease in occupancy, along with an annual increase in rents of 2.5%.

Columbus – The Columbus apartment market has been a consistent top performer in the state over the past decade. Columbus benefits from being the state capitol and is home to one of the nation's largest universities, The Ohio State University. Supply and demand have remained in balance with new product averaging 3,728 units over each of the past five years matched by demand averaging 3,753 units. Occupancy currently equals 95.9%, a 10 bps increase from last year, and 20 bps above the market's five-year historical average.

The construction pipeline, however, is currently elevated with 4,442 units scheduled for delivery in 2021. Coupled with softening demand, occupancy is projected to erode, falling by 70 bps to 95.2% by year-end. Weakness in the urban core is a factor but the market is somewhat balanced by a significant amount of new Class A, lifestyle product in suburban markets, which have proven to be a strong lure for renters during the pandemic. While Class A occupancy was slightly below 94%, this segment still recorded rent growth posting an increase of 1.2%, year-over-year.

Over the past five years, rent growth has averaged 3.1%. While that rate moderated throughout 2019 and into 2020, the market recorded accelerated growth through the second half of the year finishing with an increase of 3.3%, year-over-year.

Although the pandemic introduced some volatility to the market, Columbus will remain an attractive opportunity for apartments in the long-term due to many stabilizing factors. The recession-resistant government and education employment sectors, along with an above average share of the 20- to 34-year old cohort, provide the market with the ability to ride out the ups and downs of business cycles and other crises. In addition, a below average homeownership rate favors renting over owning.

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