Ohio

# Multifamily

# 21Q1

The Ohio apartment markets withstood the COVID-19-induced recession, recording only minimal losses in occupancy, while rent growth outpaced both the Midwest region and U.S. performance.

Accelerating success.

# Multifamily Markets Weather the COVID-19 Storm

## U.S. Market Overview



**$ 37.2B**

**U.S. Sale Volume**

-5.7%*



**$ 3.2B**

**Midwest Sale Volume**

-2.1%*



**$ 295.1M**

**Ohio Sale Volume**

-28.8%*

*2021 YTD Transaction Volume*

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

Employment growth through the first quarter of 2021 drove increased demand for apartments across much of the United States, although a recent slowdown in job growth may impact the market going forward. Quarterly demand totaled 52,661 units according to RealPage data, while annual demand of 315,789 units outpaced the five-year historical average by approximately 25,000 units.

However, new supply remains elevated by historical standards with many projects that commenced prior to the COVID-19 pandemic-induced recession now coming online. Quarterly supply totaled nearly 85,000 units, while the 12-month period ending Q1 2021 recorded new supply of 353,453 units – a 30-year high. Further, an additional 406,000 units are forecast for completion over the next 12 months, which will continue to create significant headwinds, especially in the Class A sector and in urban core markets.

Although supply outpaced demand, the overall market recorded a loss in occupancy of only 20 basis points (bps) during the quarter, and -10 bps, year-over-year. Currently, occupancy for the U.S. apartment market equals 95.5%, roughly in line with the five-year average occupancy rate. Due to the volume of completions expected, forecasts call for a further decline in occupancy over the next 12 months of approximately 40 bps.

With much of the new supply focused in urban cores and the luxury/lifestyle segment, overall rent growth has been negatively impacted. Deep discounts in rents for luxury, high-rise properties located in densely populated gateway markets resulted in the average overall rent declining 0.9%, year-over-year, although most individual markets recorded rent growth. An increase in overall effective rents during the first quarter of 0.8%, however, may be a hopeful signal going forward.

As noted above, rent growth was dragged down by one segment of the market, and the losses were primarily focused in the pricey, gateway cities. Overall, Class A properties recorded a loss of 2.9%. High-rise properties took a significant hit, falling 9.7% since the onset of the pandemic in March of last year. Also of note, efficiency apartments, which are more commonly found in the urban cores of major cities and favored by the Gen-Z and Millennial cohorts , posted a decline in average rents of 8.2%.

On the other hand, Class B and C properties located in suburban areas and more affordable markets recorded gains as demand shifted away from expensive urban centers. Low-rise properties on average recorded an increase of 2% and properties constructed between 1970 and 2000 posted gains ranging from 0.5% to 1.5%. It is also important to note that of the 150 largest U.S. cities, 124 markets recorded year-over-year rent gains with losses concentrated in just a few of the largest markets. San Francisco led the losses posting -20%, year-over-year, followed by San Jose (-16.5%), New York (-14.6%), Boston (-7.9%) and Seattle (-7.7%).

As a larger share of the U.S. population is vaccinated and more people return to work, especially in the hard hit restaurant and hospitality sectors, the outlook for apartments should improve. Headwinds include the record amount of pending new supply, recent declines in job creation and a very uncertain economic policy environment. Suburban locations and low-rise garden style properties should continue to perform well, even improve. An accelerating return to work movement in gateway markets will increase demand levels, however, rent growth will remain sub-par due to excess supply and the yet to be seen impact of remote work policies.

| Ohio Apartment Market Data \| Q1 2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 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 | 168,331 | 6,279 | 1,699 | 96.3% | 1,469 | 1,279 | $996.00 | $1.12 |
| Cincinnati | 162,917 | 6,598 | 1,206 | 96.0% | 1,888 | 3,951 | $1,037.00 | $1.14 |
| Columbus | 187,295 | 8,466 | 4,143 | 95.5% | 4,735 | 6,632 | $1,035.00 | $1.10 |
| Dayton | 55,814 | 2,054 | 655 | 96.3% | 995 | 412 | $877.00 | $0.98 |
| Akron | 44,362 | 1,384 | 114 | 96.9% | 144 | 597 | $924.00 | $0.99 |
| **Grand Total** | **618,719** | **24,781** | **7,817** | **96.2%** | **9,231** | **12,871** | **$973.80** | **$1.07** |

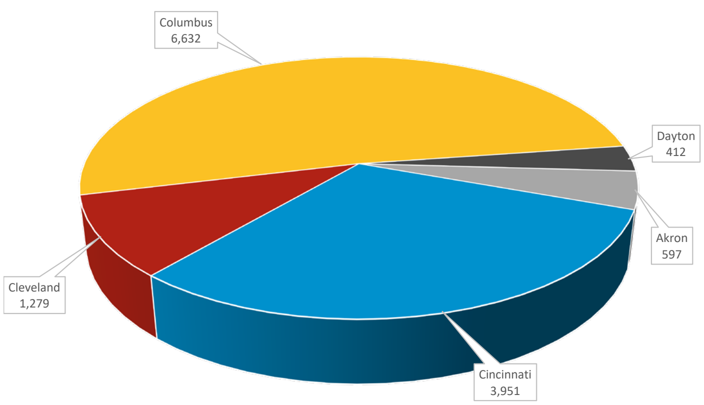
Source: RealPage and Colliers Research

## Ohio Investment Overview

While the Midwest Region as a whole recorded a drop in volume of only 11%, the Ohio markets have gotten off to slow start in 2021. Of the total $3 billion in apartment sales in the Midwest, Ohio accounted for only $295.1 million of that activity. Even within the state's boundaries, transactions were skewed heavily to Columbus and Cincinnati recording $101.3 million and $96.6 million, respectively, in total quarterly volume. At this current pace, annual volume would hit a low not seen since 2013.

Of note in particular is a surge of interest in Ohio's multifamily market from institutional and foreign buyers. Whereas historically the buyer pool has been comprised nearly entirely of private equity (85%+), so far in 2021, institutional investors account for 35% of the closed transactions and cross-border capital has accounted for an additional 26%.

## Current Construction Activity (Units)




## U.S. Investment Overview

According to Real Capital Analytics, total U.S. sales volume during Q1 2021 fell across all commercial property sectors by 37.2%, year-over-year, recording a total of $96.7 billion. This marks the fourth consecutive quarter of volume declines. However, it is important to note that the year-over-year comparisons over this timeframe have been benchmarked against the quarters prior to the COVID-19 pandemic. Going forward, changes in volume will reflect a more accurate view of the recovery of the commercial real estate capital markets.

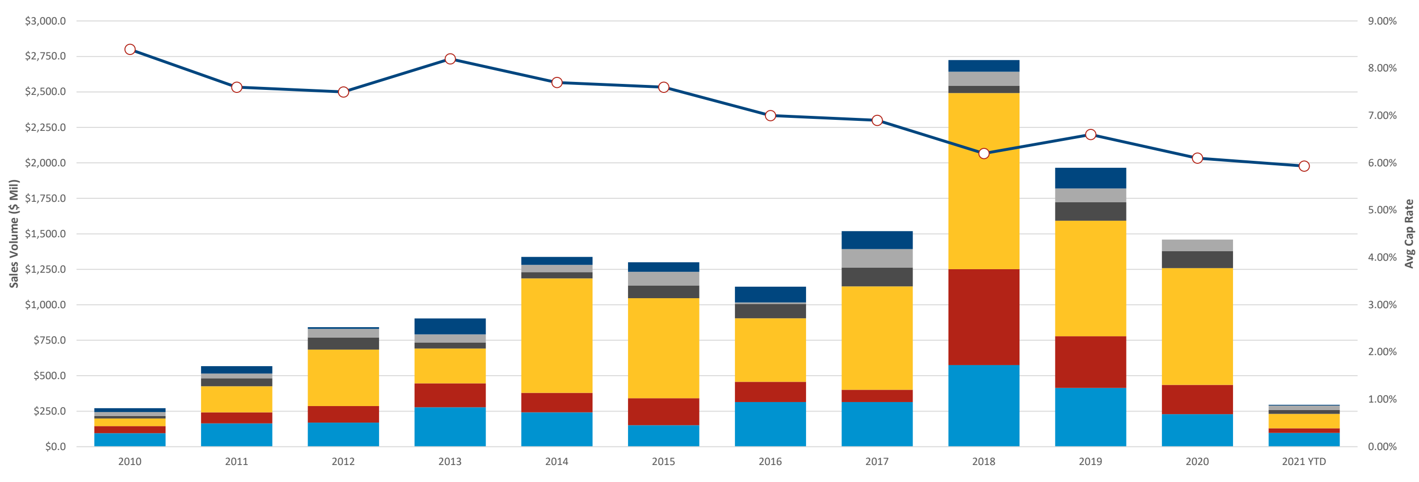
While sales volume has been negatively impacted by the pandemic and the subsequent economic slowdown, price growth has remained strong across nearly all sectors. According to the Real Capital Analytics CPPI index, pricing for all sectors increased 7.8%, year-over-year. Cap rates were flat-to-declining for the year. Pricing increased the most for industrial assets, which recorded a 9.1% increase, year-over-year. Apartments were the other big winner, recording price growth of 7.1% over the past 12 months. The average cap rate for apartments compressed further, falling 30 bps to 4.9%.

Multifamily investment transactions totaled $37.2 billion during the first quarter, a 5.7% year-over-year decline, and, as noted above, pricing increased. However, activity remains bifurcated in terms of both volume and pricing. RCA's six-major metro areas posted 31% decline in volume, while secondary and tertiary markets recorded a decrease of only 5%. The same can be seen in pricing. The six-major metros actually recorded a pricing decrease of 0.8%, year-over-year, while non-major metros saw pricing surge by 8.4%.

Mid/Highrise properties also fell out of favor accounting for less than a third of total volume and price growth remained virtually flat. The garden segment recorded pricing gains of 8.2%, year-over-year, as well as capturing the majority of investor interest.

Regionally, the Southwest and Southeast combined to capture 60% of the total sales volume for the quarter reflecting the belief that current migration, population growth and job growth trends, accelerated by the pandemic, will continue into the future.

## Historical Sales Volume/Average Cap Rate



# Recent Notable Sales | Q1 2021

| Property Address | Property Name | Sale Date | Number of Units | Price Per Unit | Sale Price | Price Per SF | Buyer (True) Contact | Seller (True) Company | Market |
|---|---|---|---|---|---|---|---|---|---|
| 26151 Lakeshore Blvd | The Vista | Jan-21 | 952 | $31,617.65 | $30,100,000 | $38.76 | AMG Realty Group | Northpointe Towers LTD | Cleveland - Akron |
| 1494 East Stratford Drive | Whitehall Terrace | Jan-21 | 188 | $63,829.79 | $12,000,000 | $53.25 | Alpha Capital Partners | Summit Management Services | Cleveland - Akron |
| 1380 Dahlgren Drive | Hillwood II | Mar-21 | 240 | $44,791.67 | $10,750,000 | $45.13 | Redwood Housing Partners | LHP Capital | Cleveland - Akron |
| 4060 Sara Drive | Villas at Prestwick | Jan-21 | 76 | $103,859.64 | $7,890,000 | $111.30 | Jerina, David P. | Iemma, Joseph T. | Cleveland - Akron |
| 1400 Herbert Drive | The Oaks | Feb-21 | 96 | $31,145.83 | $2,990,000 | $43.90 | Partner Properties | Watermark Partners | Cleveland - Akron |
| 1832 Forest Hills Blvd | Parkview Estates | Mar-21 | 70 | $33,333.33 | $2,330,000 | $34.11 | Zagelbaum, Shalom Y. | Mayan, Amanda | Cleveland - Akron |
| 601 Moses Drive | Colonial Village | Jan-21 | 110 | $38,787.88 | $4,270,000 | $86.54 | Birge & Held Asset Management | BRG Apartments | Cincinnati |
| 1112 Millston Road | Millston | Jan-21 | 93 | $20,430.11 | $1,900,000 | $35.38 | Nobbs, Brian R. | Angus, Bonnie Jo | Cincinnati |
| 113 Concord Square | Concord Square | Jan-21 | 54 | $32,592.59 | $1,760,000 | $58.61 | Gottula, Ross | Khambatta, Godrej | Cincinnati |
| 1361 Presidential Drive | Heritage | Mar-21 | 602 | $117,386.49 | $70,670,000 | $186.04 | Schenk Realty Group | GEM Realty Capital | Columbus |
| 1755 South 20th Street | Skyview Townhomes | Jan-21 | 312 | $56,730.77 | $17,700,000 | $62.41 | Link Real Estate Group | Asia Capital Real Estate | Columbus |
| 2877 East Broad Street | Bexley House | Feb-21 | 64 | $160,156.25 | $10,250,000 | $141.54 | Blackstone Group | JRK Property Holdings | Columbus |
| 3950 Karl Road | Stonegate Square | Mar-21 | 76 | $35,236.84 | $2,680,000 | $46.01 | Picazo, Alex | Capezzuto, Matthew A. | Columbus |
| 5541 Bengie Court | Pine Run Townhomes | Jan-21 | 144 | $77,592.59 | $11,170,000 | $77.59 | Monarch Investment and Management Group | Barrett & Stokely | Dayton |
| 1926 Sweetbriar Lane | Sweetbriar | Jan-21 | 58 | $38,793.10 | $2,250,000 | $51.56 | Nobbs, Brian R. | Horizons Asset Management | Dayton |
| 743 Old Harshman Road | East Pointe | Mar-21 | 60 | $33,333.33 | $2,000,000 | $57.80 | Vision & Beyond Group | Tschannen, Ernest E. | Dayton |
| 1101 Sandusky Place | Green Meadows | Feb-21 | 74 | $81,405.41 | $6,020,000 | $91.98 | Louisville Title Agency | Koch, James E. | Toledo |

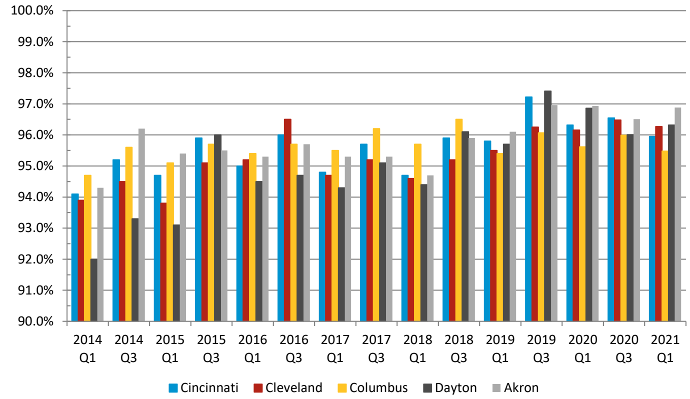
# Market Takeaways

**Cleveland** - Despite being hit harder by the pandemic related economic slowdown than many other metro areas, the Cleveland apartment market has proven resilient. Currently, occupancy equals 96.3%, a 20 bps increase, year-over-year. This remains above the Midwest average occupancy of 95.6% and the U.S. at 95.5%. Modest levels of new construction over the past five years has, in general, lagged demand. As of the end of the first quarter of 2021, annual supply totaled 1,469 units in contrast to annual demand of 1,699 units, resulting in the increase in occupancy.

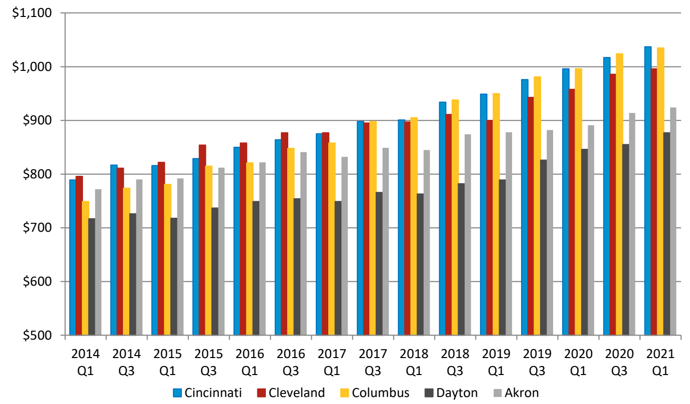
Due to constrained supply, rent growth has outpaced the market's five-year average of 2%. Average monthly rents increased by 2.9%, year-over-year, to $996 per month, a high point over the past five years. Class A properties have experienced volatility in rents over the past few years, especially in the Central Cleveland submarkets, including downtown, which has received the largest amount of new supply. The pandemic and related work-from-home initiatives limited the number of new renters to these areas and, subsequently, Class A monthly rents in Central Cleveland fell by 4.3%. The majority of other submarkets recorded rent declines for the Class A sector as well. The overall market's annual rent growth was supported by demand for Class B and C product. The market posted a gain of 3.7% in the Class B sector.

It is forecasted that a below average amount of new inventory will be delivered over the next 12 months, but at the same time, the metro's economic recovery will be slow leading to a decrease in demand. Occupancy is expected to fall below the five-year historical average of 95.6%. Driven by the renter-by-necessity category, rents are expected to continue on their current growth trajectory averaging about 2.7% over the next year. Although Cleveland remains one of the more affordable single-family housing markets in the country, rapidly increasing appreciation in the housing market has lowered the region's homeownership rate to 65.7%, roughly equal to the national average.

## Historical Occupancy - Ohio Markets




## Historical Average Monthly Rent - Ohio Markets



**Cincinnati** - The Cincinnati region has begun to emerge from the economic shock of the COVID-19 pandemic and has weathered the slowdown better than many other regions. Job losses were lower and economic output fell less than the national averages. The local apartment market remained stable throughout the crisis but many metrics are beginning to trend lower.

One area of concern is an elevated construction pipeline in comparison to historical norms. For the 12 month period ending in Q1 2021, new supply totaled 1,888 units, while demand lagged its historical average by nearly 700 units, absorbing only 1,206 units. Occupancy fell by 40 bps, year-over-year, to 96%, just 10 bps above the five-year market average, and an additional 2,400 units scheduled for delivery over the next year are forecast to drive occupancy lower still. However, a projected better-than-average local economic recovery should mitigate the negative impact of new supply as demand levels increase.

Annual rent growth of 2.5%, as of Q1 2021, outpaced both the Midwest region and national performance in this category, but falls below the market's historical average of 3.1% annually. As is the case in many markets, rent growth is not consistent across property sectors and geographies. Class A properties recorded a decline in rents of 0.5%, year-over-year. This decrease is most notable in the downtown Cincinnati and other urban submarkets, where much of the new luxury lifestyle supply has been focused. For the year, rents have fallen 6.6% across these areas. On the other hand, as demand for affordability remained robust, the Class B sector has seen average monthly rents increase 4.7% over the past year.

Forecasts call for continued improvement in the Cincinnati market due to a fast rebound from the pandemic-induced recession, a favorable share of demographic cohorts that comprise the primary renter profile and a return to more balanced supply/demand dynamic.

**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. In addition to these major employers, private sector employment in the insurance and healthcare sectors shielded the region from much of the pandemic related job losses experienced elsewhere.

For that reason, the local apartment market was a steady performer over the past year. Occupancy fell by only 10 bps, year-over-year, and currently equals 95.5%, slightly below the market's five-year historical average. Supply, although above historical norms, continues to be met by near equal demand, keeping the market in balance. As is the case in many cities, the downtown Columbus/University District submarkets have been stressed by the effects of the pandemic. Occupancy fell by 2.2 points to 93% in these urban core submarkets, but these impacts are likely to be short lived as the recovery process continues.

Rent growth remained strong as the Columbus market posted a gain in average monthly rents of 3%, year-over-year, to $1,035. This is in line with the market's five-year average annual growth rate of 3.1%. The Class A sector, notably in the urban core, has suffered in terms of rent growth, recording an increase of only 0.5% over the past 12 months. Rents fell 4.3% in the Downtown/University District submarket for the year. Much of the rent growth has been driven by strong demand for Class B and C product, up over the year by 3.1% and 7.1%, respectively.

After a record amount of new supply in 2020 totaling 4,735 units, this year's forecast for 4,168 units should not significantly outpace demand, which has historically averaged 3,783 units. With a home ownership rate well below the national average, Columbus is a renter's market. Any negative impacts from the recent downturn should be quickly overcome, returning the market to normal. Analysts expect occupancy levels to remain stable and rent growth steady in the 3.1% -3.5% range for the long term.

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