Colliers

COOPER | MULTIFAMILY TEAM

# Cooper Multifamily Team

# Ohio 23Q1

"Transaction volume is down through the first quarter of 2023 as an unclear outlook on economic fundamentals. However, occupancy and rent growth trends, although not at the historical highs seen during 2021 are still excellent and multifamily investment continues to be an wise choice between investment alternatives. Operationally, multifamily fundamentals are sound and have a positive runway except in very select sub-markets where overbuilding (or excess supply) exists."

Gary R. Cooper, CCIM, J.D.
Cooper Multifamily Team

Accelerating success.

# U.S. Market Overview

The U.S. apartment market year started with a significant reduction in transaction volume. On an annual basis, the U.S. Market saw a net-move out of 177,218 units.  As pent-up demand sky rocketed absorption after a pandemic induced fallout, the softening has been seen over the prior quarters. The first quarter demand of this year was the weakest first quarter demand in the last 10 years. This was also the first time the 150 core U.S. Markets experienced back-to-back negative net move-outs on an annual basis. The continued decline in annual demand has resulted in both a decline annually and quarterly for occupancy.  Occupancy for the first quarter registered at 94.8%, down 0.at 94.8%, down 0.4% quarterly and 0.3%, year-over-year. Economic headwinds persist for the consumer which could still impact a decline in occupancy in the near term. Rent growth followed similarly with occupancy recording a drop in rent by 0.4% nationwide, but still up 4.5%, annually.  Rent growth has been beginning to slow down after a surge during 2021 and majority of 2022. Rent growth is forecasted to be around 3.0% over the next 12 months, which is roughly 2% lower than the five-year average. The U.S. had 95,237 units delivered in the first quarter bringing the total supply to 358,088 units. Over the next 12 months, there are 611,000 units set to deliver, which would be a record high for the U.S. Market.

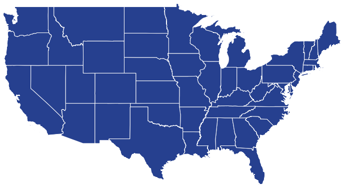
The U.S. economy has been a murky and somewhat unpredictable. Continued challenges dealing with inflation, interest rate hikes, rising costs of living, supply chain disruptions, and more. Gross Domestic Product (GDP), expanded at an annual rate of 1.1% for the first quarter, which was down from the 2.6% growth in the fourth quarter of 2022, but was still improved on an annual basis in which GDP contracted 1.6%.  In February 2023, the labor force expanded 2.9%, year-over-year, with a total addition of 4.4 million jobs, per the Bureau of Labor Statistics.

Continued low consumer confidence, modest GDP expansion and weakening demand has forecasted a softening of fundamentals for 2023 and the first half of 2024. Rent growth and occupancy will continue to look to normalize as the economy shakes out and begins to be able to see some clarity down the road.

**$25.5B**

**U.S. Sale Volume**

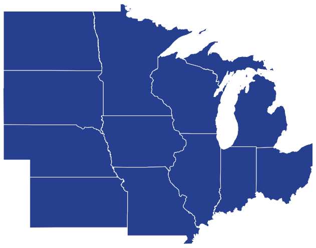
-62% YOY Change



**$2.9B**

**Midwest Sale Volume**

-56% YOY Change

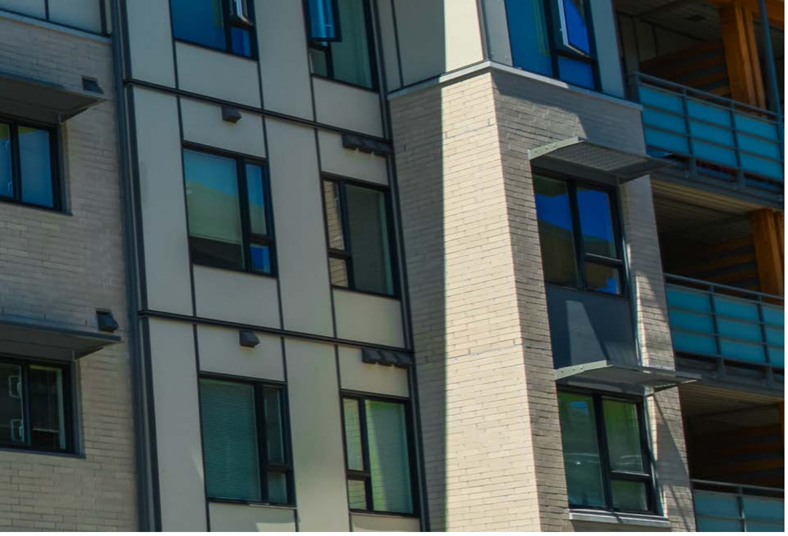


**$218.1M**

**Ohio Sale Volume**

-65% YOY Change

*2023 YTD Transaction Volume in Billions*



# U.S. Investment Overview

The first quarter of 2022 was historically high after a period of high liquidity. Deal volume for apartments in the first quarter of 2023 was $25.4b, down 64% from the year prior of a volume that stood at $71.3b. It is important to note that from 2005-2019 the average deal volume or the first quarter was $23.3b, so yes there was dramatic decline, but there were a lot of factors that influence the historic highs seen in the end of 2021 and most of 2022. This first quarter was in line when comparing a historic average.  Garden apartments accounted for $16b of the transaction, while mid/high rise buildings represented $9b. Individual assets accounted for $20b and portfolio transactions made up the remainder totaling $5.4b.

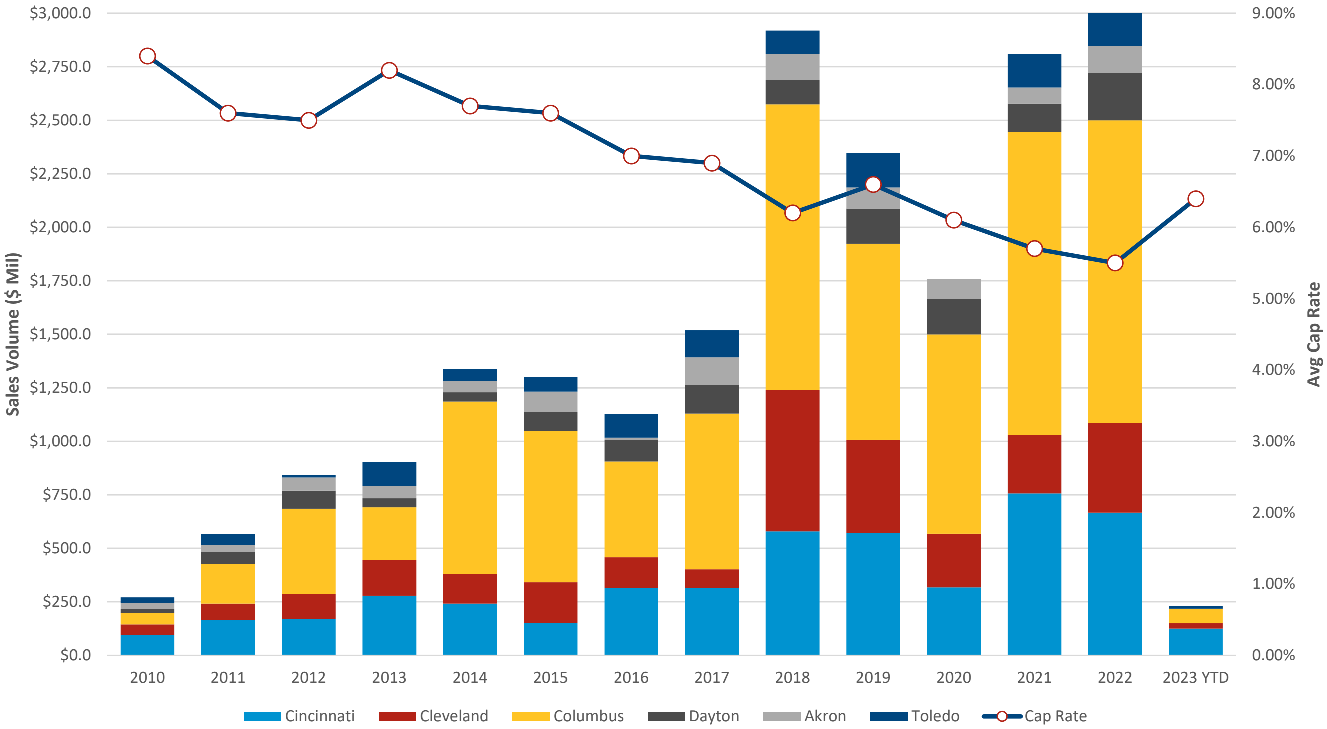
Apartment and industrial transaction volume were once again the leading assets classes for transaction volume in the U.S. market. Apartments represented $25.4b of all deal activity while and industrial represented $18.5b for the first quarter. While apartments and industrial properties led the asset types in activity, both were down 64% and 54% year-over-year, respectively. Retail was the third leading asset class in transaction volume register $16.9b in transaction volume resulting in being down 27% year-over-year. Not one single asset class had growth in annual comparison in transaction volume.

According to the Real Capital Analytics CPPI index, pricing for apartments down 10.3%, year over-year, and down 6.3% on a quarterly basis. The average cap rate is at 5.0%, a 60bps increase annual. The average price per unit registering at $202,504. Going forward in 2023, the activity level that the first quarter represented, could maintain and be the story of how the rest of the year goes with the potential of some slight decline across fundamentals.

# Ohio Investment Overview

Transaction volume in Ohio for the first quarter equaled just over $218.2m, compared to $621.5m, in the first quarter of 2022. The state of the economy is the main reason for the lagging transaction volume and the total transaction volume for 2023 can be expected to be down somewhat significantly. Slight rises in cap rates, tougher financing and overall market conditions are contributing factors as well. The cap rate for the first quarter in Ohio registered at 5.73% and may continue to increase slightly in the near term.

## Historical Sales Volume/Avg Cap Rate



## Ohio Apartment Market Data | Q1 2023

| Metro Area | Inventory (# of Units) | Sample Set (%) | Vacant Units | Annual Demand (Units) | Occupancy Rate (%) | Annual New Supply (Units) | Units Under Construction | Avg Monthly Rent | Avg Rent per SF |
|---|---|---|---|---|---|---|---|---|---|
| Cleveland | 170,501 | 37.2% | 7,638 | -2,965 | 95.5% | 1,207 | 2,709 | $1,205.00 | $1.42 |
| Cincinnati | 165,909 | 39.0% | 7,151 | -1,577 | 95.7% | 2,596 | 6,625 | $1,315.00 | $1.37 |
| Columbus | 198,588 | 65.7% | 9,473 | -912 | 95.2% | 4,051 | 11,029 | $1,278.00 | $1.35 |
| Dayton | 56,841 | 47.0% | 2,410 | -638 | 95.8% | 650 | 1,310 | $1,078.00 | $1.18 |
| Akron | 44,845 | 38.5% | 1,677 | -477 | 96.3% | 555 | 449 | $1,134.00 | $1.22 |
| **Grand Total** | **636,684** | 45.5% | **28,349** | **-6,569** | **95.7%** | **9,059** | **22,122** | **$1,202.00** | **$1.31** |

## Recent Notable Sales | Q1 2023

| Property Address | Property Name | Sale Date | # of Units | Sale Price | Price Per SF | Price Per Unit | Buyer (True) Contact | Seller (True) Company | Market |
|---|---|---|---|---|---|---|---|---|---|
| 44 West Freedom Way | Radius at the Banks | 01/25/2023 | 292 | $86,700,000.00 | $322.22 | $296,917.81 | Crawford Hoying | Nicol Investment Company | Cincinnati |
| 3583 Alaska Avenue | Dwell Avondale | 01/11/2023 | 60 | $5,764,000.00 | $146.00 | $96,066.67 | Steiner, Mendel | R Investments | Cincinnati |
| 113 Concord Square | Concord Square | 03/30/2023 | 54 | $3,618,133.00 | $120.48 | $67,002.46 | Riverside Realty Capital | Gottula, Ross | Cincinnati |
| 25450 Euclid Avenue | Lakeland Commons | 02/28/2023 | 198 | $5,500,000.00 | $42.58 | $27,777.78 | Pintus, Agostino | Greystone Development | Cleveland - Akron |
| 2029 East 40th Street | Cornerstone | 02/23/2023 | 67 | $2,000,000.00 | $46.48 | $29,850.75 | Frank Sinito | American Community Developers | Cleveland - Akron |
| 6700 Sycamore Ridge Blvd | Sycamore Ridge | 03/29/2023 | 270 | $63,826,667.00 | $194.00 | $236,395.06 | Connor Group, The | Harbor Group International | Columbus |
| 2514 Mallard's Landing Drive | Mallard's Landing | 01/11/2023 | 188 | $21,217,333.00 | $132.31 | $112,858.15 | Mizrahi, Moses | Birge & Held Asset Management | Columbus |
| 626 Bantry Bay Court | Bantry Bay Village | 01/12/2023 | 56 | $5,600,000.00 | $130.72 | $100,000.00 | Soundview Equities | Mitchell, Alice A. | Columbus |
| 3264 Green Meadows Street | Timbercreek Village | 01/12/2023 | 140 | $16,100,000.00 | $139.66 | $115,000.00 | Preserve Partners | Birge & Held Asset Management | Columbus |
| 6851 Wayne Estates Blvd | Brandt at 6851, The | 01/18/2023 | 158 | $12,504,100.00 | $89.15 | $79,139.87 | Asden Properties | Capital 8 Group, The | Dayton |

# Market Takeaways

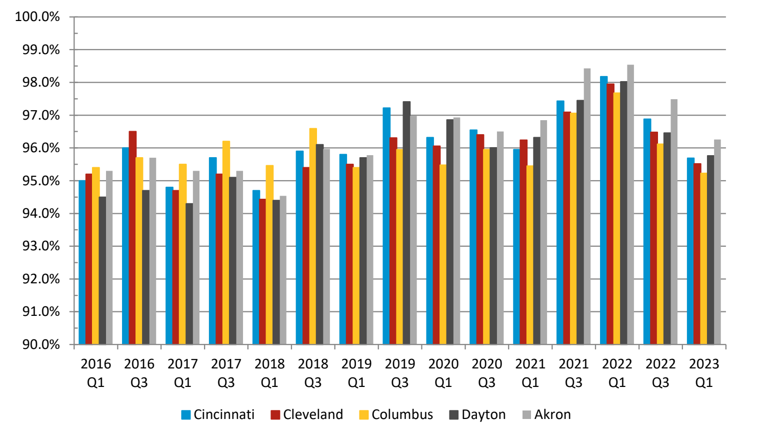
**Cleveland** - Cleveland has experienced a softening in demand and occupancy but rent growth has been positive. The gradual decline in the latter half of 2022 carried over into the first quarter of 2023. Quarterly demand saw net-move outs of 648 units bringing the annual demand to a net move out of 3,436 units. The metropolitan area inflation adjusted economic output contracted 0.2%. As of February, the unemployment rate declined 1.1 points to 4.9% which stands above the national average of 3.9%.

Averaging 96.4% over the past five years in occupancy, the rate for the first quarter of 2023 registered at 95.5%, a 0.5-point decrease, quarter-over-quarter. This ranked as the 19th out of 29 key Midwest markets and rank 59th out of the top 150 markets nationally. Occupancy in class B and C units remained the strongest equaling 95.1% and 96.7%, respectively. Class A continued to see a decline in occupancy registering 94.1%, 0.5-point decrease, quarter-over-quarter. Conversion and new builds have still been actively happening in the market which will be bringing some a mix of luxury and market rate supply to the Cleveland area. In the near-term occupancy could see some gains due to the busier spring and summer leasing season.

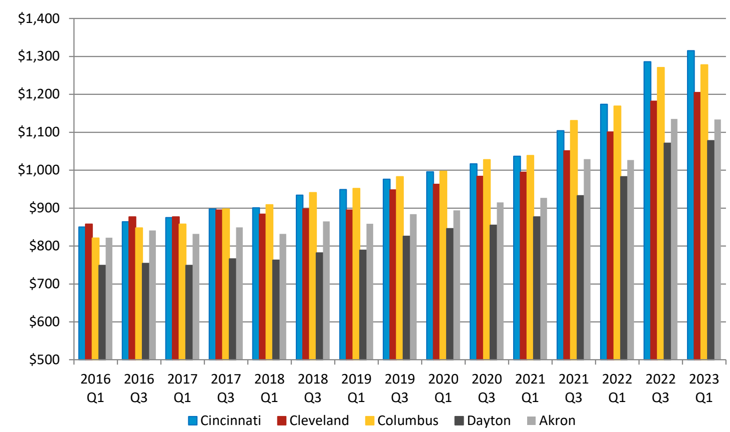
New apartment completions saw a completion of 1,207 units in the year ending in the first quarter. Quarter supply welcomed the addition of 206 units. With these deliveries, inventory grew 0.7% to a total of 170,501 units. Currently there are 2,709 units under construction with 1,614 of those units are expected to be delivered over the course of the next 12 months. The main concentration areas of these new developments are mainly located in Central and Univeristy Circle. Over the past five years, these areas have accounted for 87% of the new completions. The outside neighborhoods in central Cleveland (Ohio City, Edgewater, Tremont) have seen a spur of development and gentrification and continued and planned developments are still very much in motion creating a new social buzz for the area.

Cleveland had a slight uptick in rent to end the year. The market's annual average asking rent increased 5.5%, year-over-year, to $1,205 per month. The annual increase is still elevated compared to the market's growth average over the last five years of 3.9%. These rent growth changes ranked the Cleveland market 19th in the Midwest and 71st nationally. Class A properties saw the largest annual rent growth at an 5.8% increase equaling $1,870 per month. For reference, the average Class A rent in the first quarter of 2021 $1,449. The rent growth rate is expected to be 2.4% in the next 12 months which would signal the market is heading towards a more equilibrium growth.

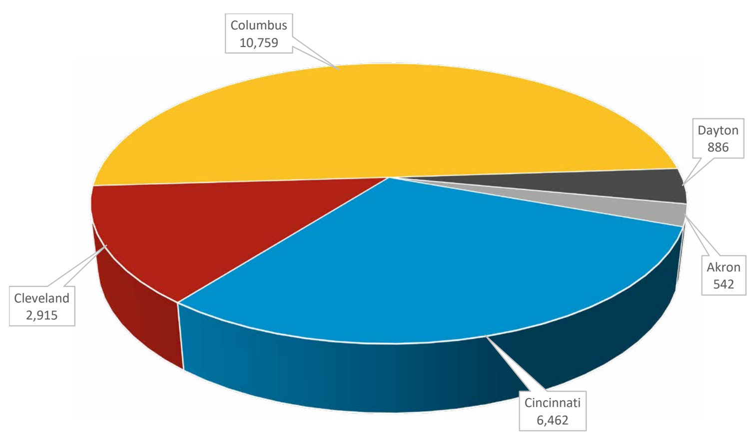
## Historical Occupancy - Ohio Markets




## Historical Average Monthly Rent - Ohio Markets



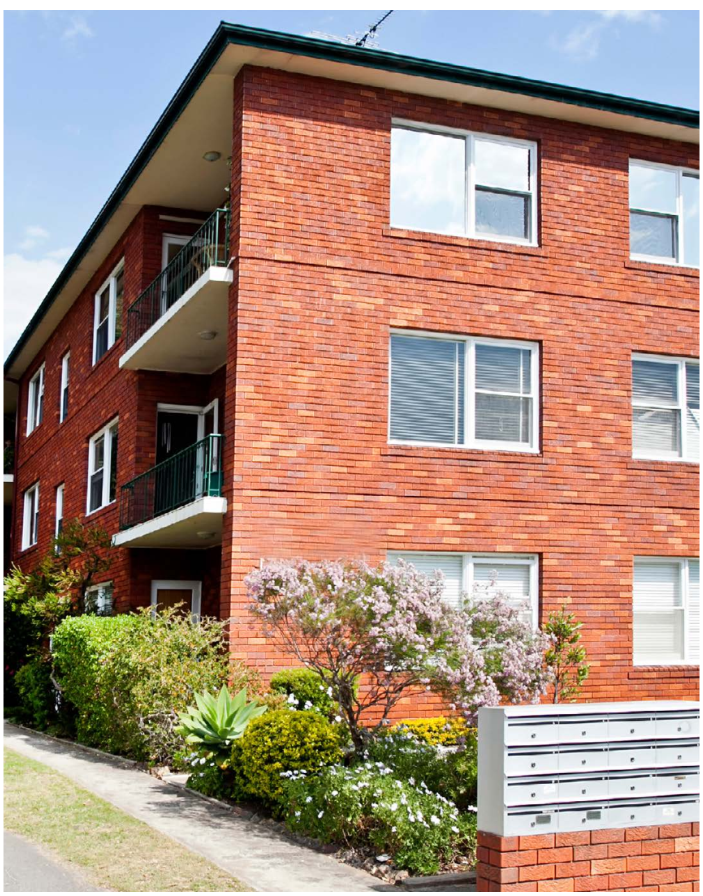

## Current Construction Activity (Units)



**Cincinnati** - The first quarter of 2023 saw occupancy rates drop within the Cincinnati multifamily market. In total, occupancy fell 0.5% at a quarterly rate to 95.7%. This was a 2.5% drop from the first quarter of 2022 which saw a total occupancy rate of 98.2%. Class B multifamily properties saw the largest annual drop in occupancy at 2.9%. Additionally, demand fell by 219 units at a quarterly rate. There were 545 new units delivered this quarter, marking a 0.3% increase in total inventory. At an annual level, demand fell by 1,577 units. Also at an annual rate, supply increased by 2,596 units, marking a 1.6% increase in inventory. There are still 6,625 units under construction in the market with 4,237 units estimated to be completed in the next four quarters.

In other news, the average monthly rent for the total Cincinnati market was $1,315. The total average rent per square foot was $1.42. For comparison, the first quarter of 2022 had an overall average monthly rent of $1,180 and a PPSF of $1.27. Annual revenue change for the first quarter of 2023 was 5.7%, which continues the trend of decreasing revenue changes since Q1 22's tracked set high of 13.1%. Amidst declining positive revenue changes, more units are offering concessions than in recent quarters. In total, 6.2% of units were offering concessions in Q1 of 2023. The average concession for the start of 2023 was 4.5%, which is an increase from the first quarter of 2022's rate of 3.3%.

Lastly, it is forecasted that in Q1 of 2024, annual demand will be much stronger at 2,523. Occupancy is forecasted to drop lower to 94.8% whilst the annual occupancy change is predicted to be –0.9%. The forecast also predicts that the annual rent change will be 2.7% and annual supply will be 4,237 units.



**Columbus** - The Columbus apartment market saw a decline in demand which translated to a fall in occupancy and an east in the rent growth. The first quarter economic output for Columbus expanded 1.0% and saw a net gain of 8,400 jobs, expanding the employment base by 0.8%. The unemployment for Columbus in February registered at 3.4%, a 0.3-point decline, year-over-year. The employment base sits at a 22,300 which was 2% higher than the pre-pandemic level in February 2020.

Columbus saw an annual move out of 912 and a positive absorption of 292 units for the first quarter. This was the second annual resident lost in the Columbus market since 2008. At the end of the first quarter, annual supply was 4,015 units. Completions over the past year expanded inventory by 2.1%. At the end of the first quarter there were currently 11,029 units under construction with 5,965 of those units expected to deliver over the next 12 months.

First quarter occupancy decreased to 95.2%, a 2.5-point decline on an annual basis and 0.3-point decline, quarterly. That occupancy ranked 22nd out of 29th in key Midwest region markets and 67th among the top 150 markets in the nation. Class C units led the way with occupancy for the quarter with a rate of 96.3%. Class A and B both had the same occupancy rate to finish the year at 94.8%. The most prominent submarket for occupancy was North Central Columbus with an occupancy of 96.4%.

Rent growth saw a decline for fourth quarter but finished with a positive annual growth. Rents increased by 0.4% averaging $1,278 per month. On an annual level, rents were up 6.8%, still above the five-year average of 5.0%. Columbus ranked 8th in the Midwest and 38th nationally. Class A saw the largest rent growth at 7.5%, Class B followed with 6.6% and Class C at 6.5%. Columbus is seeing elevated rents, but that growth is starting to slow and has a 12-month forecast of 3.3% growth. Occupancy is forecasted to increase by 0.1% to 95.3%. The market is most likely to remain in this same state which being home to the capital of the state and the largest state university which influences the market maintain consistency.

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