

Fundamentals Remain Strong for Multifamily

U.S. Market Overview

The U.S. multifamily sector continues its robust recovery recording the largest quarterly demand in over two decades according to MPF Research. Absorption during the second quarter of 2017 totaled 178,092 units, easily outpacing supply of 86,624 units. On an annual basis, overall occupancy increased by 10 basis points to 96.2 percent with 322,600 units added to the inventory and 281,448 units absorbed. The level of new supply remains elevated by historical standards, posting 132,000 units per year above the average over the past 10 years. Permitting data suggests that this pace of new construction will continue through the balance of the year and into 2018.

Rent growth has slowed, recording a year-over-year increase of 3.6 percent. But the recent run up in rents, averaging in excess of four, and even five, percent over the past few years was unsustainable in the long run. The key data point is that the current rate of growth is still a full percentage point over the 10 year average of 2.5 percent.

However, with the vast majority of new product being added in the luxury sector, including a large percentage of high-rise product in urban neighborhoods, the market is beginning to experience some softness at the upper end. Units constructed after 2010 posted an annual increase of only 1.0 percent. At the same time, the affordability issue in many markets has shifted demand to Class B assets, where rent growth has remained robust. Nationally, units constructed in the 1980's recorded a 5.1 percent year-over-year increase, while 1970's and 1990's vintage apartments posted annual increases of 4.2 and 4.0 percent, respectively.

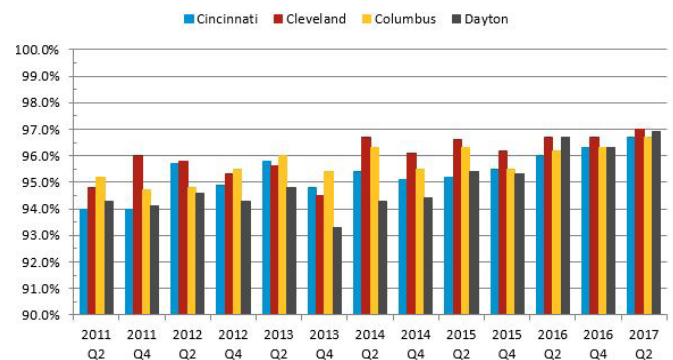
Recently, investors took a step back from apartments. According to Real Capital Analytics, U.S. sales volume totaled \$62.6 billion during the first half of 2017; a decrease of 26 percent over the prior six-month period. Although volume decreased, pricing remains elevated with the RCA CPPI indicating a change of approximately 10 percent over the first half of 2016. The average sale price per unit equals \$142,984 and cap rates continue to fall, currently averaging 5.6 percent.

All indicators point toward continuing strength in the U.S. multifamily sector. Demographic trends favor renting as Baby Boomers downsize and move to city centers and surrounding urban neighborhoods. While it is likely that as the Millennial generation ages, they will follow their parents' pattern of buying a home in the suburbs, the younger cohort following them, Generation Z, is coming of age and will provide additional demand for apartments.

U.S. Apartment Market at a Glance

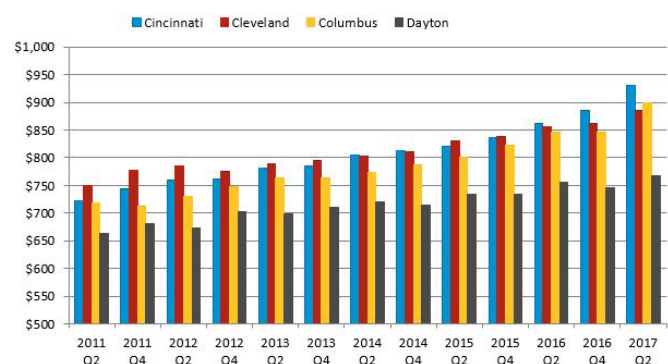
- Nationally, apartment supply outpaced demand as occupancy increased to 93.2%.
- Rent growth slowed to a year-over-year increase of 3.6% with the luxury sector recording only a 1% increase, while Class B & C assets posted gains averaging 4.4%.
- Sales volume fell by 26% during the first half of 2017, although pricing levels remain elevated.

Historical Occupancy - Ohio Markets



Source: MPF Research

Historical Average Monthly Rent - Ohio Markets



Source: MPF Research

Ohio Multifamily | 1H 2017 Notable Sales

PROPERTY NAME	SALE DATE	SALE PRICE	NUMBER OF UNITS	PRICE / UNIT	BUYER	SELLER	MARKET
Mason Grand Apartments	Mar-17	\$51,300,000	294	\$174,490	Mason Grand Apartments LLC	Schottenstein Prop Group	Cincinnati
Altitude Blue Ash	Feb-17	\$35,200,000	242	\$145,455	Trebor Associates, Ltd	Greystone Funding Corp/APM Management	Cincinnati
The Commons Apartments	Jan-17	\$26,434,935	288	\$91,788	Pauls Real Estate Investments LLC	Friedkin Realty Group	Cincinnati
Oxford West	Jul-17	\$24,750,000	303	\$81,683	RISE	MCS Capital Partners LLC	Cincinnati
The Province	Apr-17	\$24,038,000	200	\$120,190	ILM Capital	American Campus Communities	Cincinnati
Northern View	Mar-17	\$13,750,000	119	\$115,546	Iconic Investors LLC	Burlington Capital	Cincinnati
Carriage Court Apartments	Jan-17	\$9,600,000	122	\$78,689	Pauls Real Estate Investments LLC	Ackermann Group	Cincinnati
Magnolia Pointe And Eastgate Gardens	Jan-17	\$7,820,000	170	\$46,000	John Paulsen	Michael E Weigel	Cincinnati
Delaware Crossing	Jun-17	\$5,000,000	96	\$52,083	Anthony M Sansalone	Sundance Property Management, Inc	Cincinnati
Huntley Ridge	Feb-17	\$3,400,000	72	\$47,222		Matthew L Davis & Marcia F Davis	Cincinnati
Treeborn Apartments	Apr-17	\$3,123,800	105	\$29,750	Ernest E Tschannen	Treeborn Cleveland	Cincinnati
Riverbanks Apartments	May-17	\$2,725,000	37	\$73,649	Clifton Quarters Inc	CB Property Management, LLC	Cincinnati
Markim Lane	Feb-17	\$2,659,000	50	\$53,180	Jacobs Management Co LLC	LCH Properties LLC, George Kalbfleisch; Andrea Kalbfleisch, Griffin Properties	Cincinnati
Markim Place Apartments	Feb-17	\$2,650,000	48	\$55,208	Jacobs Management Company, LLC	Griffin Properties LLC	Cincinnati
Waynedale Circle Apartments	Jan-17	\$2,650,000	76	\$34,868	Rick Baldaramos	Ohio Investments	Cincinnati
Green Ridge Court Apartments	Jun-17	\$2,440,000	72	\$33,889	Mark Knight	Tylercase Property Management	Cincinnati
Mayfair of Montgomery	Apr-17	\$2,200,000	21	\$104,762	Jerry D Fry	Carlyle Management	Cincinnati
2992 Woodrow Ave (4 Properties)	Jan-17	\$2,050,000	69	\$29,710	Visionaries & Voices	Tru Capital I-IV, LLC	Cincinnati
Colonial Trace Apartments	May-17	\$1,800,000	48	\$37,500	Acacia Properties	Harkavy Properties	Cincinnati
Highpoint Apartments	May-17	\$1,700,000	44	\$38,636	Wallick Communities	Wallick Communities	Cincinnati
Park Hill at Fairlawn	Jun-17	\$32,500,000	300	\$108,333	Haley Associates Limited Partnership	Fairfield Building Company	Cleveland
The Shoreline	Jun-17	\$15,000,000	138	\$108,696	The Landmark Companies	Aspen Square Management	Cleveland
Cedar Wood Apartments	Jan-17	\$12,800,000	372	\$34,409	Premier Real Estate Management LLC	Miller-Valentine Group	Cleveland
Studio City Apartments	Jan-17	\$7,700,000	373	\$20,643	Studio City Apartments	Heslop Inc	Cleveland
Foxborough Commons	Jun-17	\$4,581,000	181	\$25,309	Watermark Partners Real Estate	W-T Realty	Cleveland
2329-2392 Cambury St	Feb-17	\$2,600,000	46	\$56,522	Douglas J Cunin	Camalak Properties	Cleveland
Kent Tower 43	May-17	\$1,837,321	101	\$18,191	Jonathan Rose Companies	Forest City Realty Trust, Inc.	Cleveland
The Meadows of Elyria	Jan-17	\$1,828,000	90	\$20,311	Brunswick Meadows, LLC	KWT Enterprises	Cleveland
Arbors Of Watermark	Feb-17	\$55,450,000	420	\$132,024	Albion Residential	The Connor Group	Columbus
The District At Tuttle	Mar-17	\$32,800,000	228	\$143,860	Rod Wilt; Scott W Coy; Lisa Boyd; Brian Uffelman; Uffelman Business Distributions Trust	District One LLC	Columbus
Clear Point Gardens	May-17	\$23,092,484	604	\$38,233	1699 Shanley Drive LLC	Darren Schamuhn; Terence W Scott	Columbus
Clear Point Gardens Apartments	May-17	\$22,246,846	604	\$36,833	PF Lofts Parnters	Sixteen 99 LP	Columbus
Regency Arms Apartments	Jan-17	\$17,458,000	406	\$43,000	Kaufman Brothers	Banner Apartments	Columbus
Muirwood Village	Feb-17	\$8,870,000	164	\$54,085	Paul S. Kirshenbaum	The Embassy Group	Columbus
Styglor Village	Feb-17	\$4,280,167	150	\$28,534	National Church Residences of Gahanna	National Church Residences of Gahanna	Columbus
Country Club	Jan-17	\$3,200,000	144	\$22,222	Erez Tubul; Yakov Ben Shoushan	Richard G Cassie	Columbus
Zimmer Park	Jan-17	\$3,200,000	144	\$22,222	Erez & Koby Genesis Investment	Country Club	Columbus
273-325 Union St	Mar-17	\$2,137,500	109	\$19,610	Urban Restorations	Kohr Royer Griffith	Columbus
Preserve at Sagebrook	Jan-17	\$26,000,000	336	\$77,381	Brack Capital Real Estate	CED Capital Holdings	Dayton
The Province Dayton	Apr-17	\$25,000,000	200	\$125,000	ILM Capital, LLC	American Campus Communities, Inc.	Dayton
Brown School Station Apartments	Apr-17	\$3,500,000	40	\$87,500	Taylorview Group Llc	Brown School Station Ltd	Dayton
Waynedale Circle Apartments	Jan-17	\$2,650,000	100	\$26,500	Wc Apartments Llc	Ohio Investments LLC	Dayton
Perry's Crossing Apartments	Feb-17	\$24,250,000	296	\$81,926	Morgan Communities	Cottonwood Residential	Toledo
Fox Chase Apartments	Feb-17	\$21,280,000	304	\$70,000	ROCO Real Estate	Cottonwood Residential	Toledo
Village Meadows Apartments	Feb-17	\$4,775,000	90	\$53,056	Olympia Group LLC	J & D Enterprises Ltd	Toledo
Perth Place	Jan-17	\$2,200,000	75	\$29,333	Watermark Partners Real Estate	Ryan Pyle	Toledo
Timber Ridge Apartments	Apr-17	\$2,500,000	108	\$23,148	One Over Properties Llc		Youngstown

Source: Colliers Research, CoStar, Real Capital Analytics, Xceligent

Ohio Apartment Market Data | 1H 2017

ROW LABELS	INVENTORY (# OF UNITS)	VACANT UNITS	ANNUAL DEMAND (UNITS)	OCCUPANCY RATE (%)	ANNUAL NEW SUPPLY (UNITS)	UNITS UNDER CONSTRUCTION	AVG MONTHLY RENT	AVG RENT PER SF
Cincinnati	152,125	5,020	3,296	96.7%	2,606	3,162	\$931.00	\$0.96
Cleveland	163,381	4,901	1,861	97.0%	1,546	2,500	\$886.00	\$1.01
Columbus	161,201	5,320	3,741	96.7%	3,068	7,948	\$899.00	\$0.91
Dayton	57,832	1,793	906	96.9%	798	1,475	\$767.00	\$0.84
Grand Total / Averages	534,539	17,034	9,804	96.8%	8,018	15,085	\$870.75	\$0.93

Source: MPF Research

Market Takeaways

- In Cincinnati, demand remains robust, outstripping new supply by nearly 700 units. The market has steadily tightened with occupancy increasing by 70 basis points year-over-year to 96.7 percent. As rent growth slows across the nation, Cincinnati is headed in the opposite direction and recorded its highest ever annual rent increase of 5.4 percent. This came on the heels of a 4.9 percent increase during the prior 12 month period. But Cincinnati does, however, mirror the national trends in the bifurcation of the market. Units constructed after 2010 have actually recorded a decrease in the average monthly rent by 4.2 percent over the past 12 months. On the other hand, units constructed in the 1990's recorded a year-over-year increase of 7.5 percent, while those constructed in the 1970's saw rents soar by 9.1 percent during the past twelve months. Even so, demand has been strongest for these Class B and C properties due to their still more affordable monthly rents. The drop in rents has not slowed the construction pipeline. It is projected that 2,387 units will be added to the inventory by mid-2018 – roughly 1.6 percent of total inventory.
- The Cleveland multifamily market maintains its lead in occupancy across the state as demand of 1,861 units outpaced new supply of 1,546 units. The overall occupancy rate stepped up an additional 30 basis points to 97.0 percent, above both the Midwest and U.S. averages. The majority of new supply is focused in the central Cleveland submarket, which includes the resurgent downtown area. Modest rent gains have been recorded across all sectors and property classes, averaging an increase of 1.9 percent overall year-over-year. Bucking the national trend, demand remains strong for newer, high-end properties. New construction, built after 2010, recorded a year-over-year gain in average rent of 3.0 percent, while Class A properties posted an increase of 4.2 percent. The number of units under construction declined slightly from last quarter, but remains elevated in relation to the historical average. Forecasts call for 1,910 units to be completed over the next 12 months, keeping pace with average demand levels recorded over the prior three years.
- Over the past 12 months, the Columbus multifamily market has grown by 2.0 percent with the addition of 3,068 units. Demand totaling 3,741 units pushed the overall market occupancy rate up by 50 basis points year-over-year to 96.7 percent, equaling its' neighbor to the south, Cincinnati. Demand drivers include an above average population percentage of both baby boom and millennial cohorts, along with the fourth lowest homeownership rate of major metropolitan areas in the U.S. Construction activity continues to register well above historical averages, but the market has absorbed over 16,000 units over the past five years, while at the same time increasing occupancy. This level of demand will be put to the test as supply increases. Nearly 8,000 units are currently under construction with 5,069 projected to be completed during the next year. Overall the average monthly rent increased 3.4 percent year-over-year, equal to the Midwest average. Class A and B properties were the beneficiaries of rent growth, while Class C assets recorded a small decline.
- Improving economic conditions and job growth have contributed to positive activity in the Dayton multifamily market. Occupancy increased during the past year by 20 basis points to 96.9 percent. This increase came despite the largest amount of new supply in seven years. Nearly 800 units were completed over the last 12 months, increasing the inventory by 1.4 percent. 1,475 units are currently under construction and 1,361 will deliver over the next four quarters, testing the market's depth. Recent tightening in the market, however, did not significantly impact average rents. The year-over-year increase in average rent was only 1.0 percent, well below the five-year average of 2.4 percent. If demand cannot keep pace with the amount of scheduled new supply, rents may fall further in response to limited demand.

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