



CLEVELAND

EXECUTIVE SUMMARY

- The recentralization trend into Cleveland's CBD shows signs of a slowdown as demand for office space fades.
- Sherwin Williams announces their national search for a new headquarters raising concern amongst office market participants.
- The market remains of interest to outside investors looking to place capital following a slight decrease in activity throughout 2019.
- Demand amongst end-users for industrial space remains persistent despite trade uncertainty at the national level.
- Amazon broke ground on their third distribution center in Northeast Ohio, bringing their economic contribution to now over 8,500 jobs.

The Cleveland real estate market has been subject to tempered business growth in 2019. Efforts are underway to diversify Cleveland's historically manufacturing-based economy into other areas of healthcare and technology, but the region has yet to realize the benefits. Commercial real estate occupiers, landlords, and investors remain conservative in anticipation of an economic slowdown.

After several strong years, uncertainty looms around the future of Cleveland's office market after facing significant adversity in 2019. Over the past year, absorption levels hit a 10-year low and vacancy rates spiked 1.3% across northeast Ohio. However, demand levels were steady in several of Cleveland's suburban submarkets with net absorption levels hitting 40,300 sf in the Southern submarket, 38,100 sf in the Western Corridor and 42,600 sf in the Chagrin Corridor over the past 12 months. The suburban office markets have traditionally outpaced Cleveland's CBD and are expected to remain stable due to competitive pricing, proximity to living arrangements, and free parking. The most notable suburban office transaction in 2019 was Medical Mutual's 344,000 sf lease at the former American Greetings corporate office in Brooklyn, OH. The move will bring over 750 jobs to the area.

Demand for office space in Cleveland's CBD seemingly disappeared as net absorption hit negative (-569,000 sf) in 2019. This comes on the heels of a large recentralization trend spurred by the adaptive reuse of over one msf of compromised office space into apartments. The objective to create a vibrant live / work / play environment in Cleveland's urban core has succeeded on many levels but is beginning to show signs of

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	↑	↑
Vacant Space	↑	↓	↑
Construction Levels	→	↓	→
Leasing Volume	→	↑	↑
Investment Volume	↓	→	→

instability. In addition, Sherwin Williams announced their national search to relocate their global headquarters and R&D facility. While local confidence is high that the paint giant will remain in Cleveland, the potential displacement of over 4,000 jobs and addition of 500,000 sf of vacancy to the market has market participants watching closely.

New tariffs and trade discussions have sprung unpredictability into long-term planning within the Industrial market. With the 2020 presidential election around the corner, uncertain regulatory factors and the slowing of global expansion have caused local manufacturing businesses to become hesitant. This caused vacancy rates to bump 50 bps year-over-year to 4.4% while three msf of new inventory was added to the market. Despite the increase, vacancy rates below 5% are considered historically low and demand remained present in 2019 with 850,000 sf of positive net absorption. In the past seven years vacancy has fallen 120 bps with a positive net absorption of 1.3 msf.

Speculative projects have become less prevalent in Cleveland's construction pipeline as developers become increasingly wary of demand. However, six build-to-suit projects totalling just under three msf are underway, with most targeting a completion date inside of 2020. The most notable projects include; Amazon's 695,383 sf Fulfillment Center in Akron (fourth quarter of 2020) and Ravago's 506,000 SF manufacturing facility in Medina (fourth quarter of 2019). It's anticipated that Cleveland's industrial market will stay its course in 2020 as growing companies will backfill vacancies spurred from changes in manufacturing market.

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CLEVELAND'S CBD OFFICE MARKET

