MARKET REPORT

Marcus & Millichap

RETAIL
Cleveland Metro Area

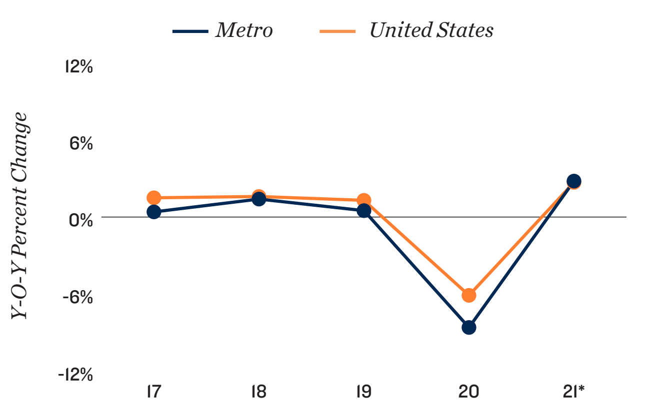
2Q/21

Cleveland's Economic Underperformance and Store Closures Impacting Retail Fundamentals

Retail struggles to recover from pandemic. Restrained employment and household growth will hamper Cleveland's economic recovery this year. The metro will fail to regain all of the jobs lost during the coronavirus shutdown, which will weigh on household formation. As a result, retail sales are forecast to rise at a slower pace than the nation in 2021 and will likely suppress retailer demand for space. Last year, J.C. Penney and Bed Bath & Beyond were among the companies shuttering sites, which produced negative annual absorption for the first time since 2009. This year, additional retail closures including a 190,000-square-foot Macy's in the Great Lakes Mall will outpace leasing activity and push the vacancy rate even higher.

Mixed performance among metro submarkets. Minimal supply pressure is holding vacancy at metro lows in the 2 percent range in downtown Cleveland and extending into the Western portion of the metro. In the Southern part of the region along with Ashtabula and Huron counties, strong leasing demand dropped vacancy more than 80 basis points last year, cutting the rate in these submarkets into the 4 percent range. In contrast, vacancy remains highest in the East and Southeast portions of the region at 8.3 percent and 8.0 percent, respectively, suppressing rent in these areas. Vacancy holding below the metro average and positive net absorption resulted in rents rising in the South metro, as well as Ashtabula and Lorain Counties. These dynamics will lead to an uneven recovery across the market in 2021.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook

27,300 JOBS
will be created

EMPLOYMENT:

Following the loss of 77,200 positions last year that raised the unemployment rate an annual 380 basis points to 8.1 percent, hiring resumes in 2021 as more businesses fully reopen. An employment gain of 2.7 percent is anticipated this year.

82,000 SQ. FT.
will be completed

CONSTRUCTION:

During 2021, deliveries are scheduled to plummet to the lowest annual level since at least 2007, bumping up inventory less than 1 percent. Completions will be well below last year's 469,000 square feet.

70 BASIS POINT
increase in vacancy

VACANCY:

Even as deliveries hit a recent low, slow leasing activity and store closures will continue to suppress absorption. This year, the vacancy rate reaches 6.2 percent, comparable to the rate last registered in early 2015, as a net of 1.1 million square feet becomes available.

2.9% DECREASE
in asking rent

RENT:

Greater availability among lesser-quality space will hamper rent this year. The average asking rent decreases to \$10.46 per square foot, the second consecutive year of decline.

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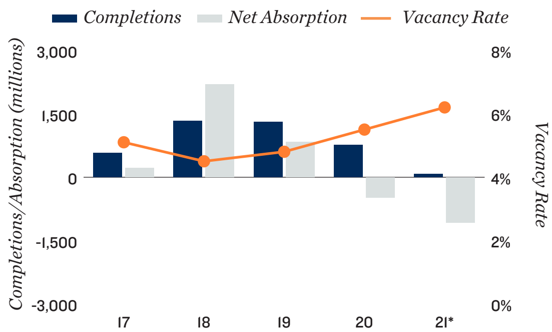
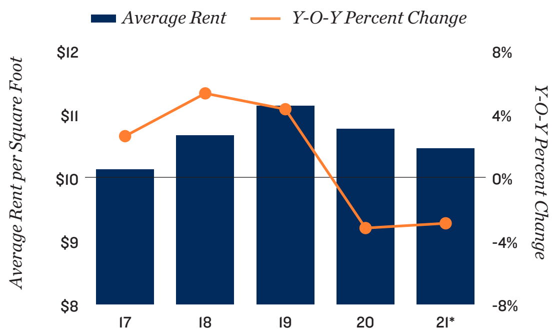
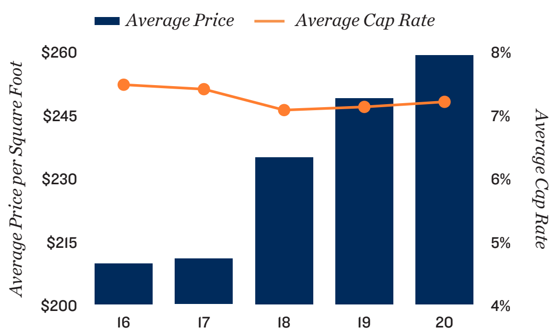
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics

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2020

CONSTRUCTION

469,000 square feet completed

- Deliveries were down more than 60 percent from 2019, expanding inventory nominally. Fully leased single-tenant projects accounted for all but 127,600 square feet of the new space.
- Portage County received the bulk of this year's deliveries including a 183,000-square-foot Menards in Kent.

VACANCY

70 basis point increase in vacancy Y-O-Y

- Net absorption turned negative in the last three quarters of the year as store closures overtook leasing activity. As a result, vacancy ended 2020 at 5.5 percent, the highest annual rate since 2015.
- Vacancy in the East submarket recorded a hike of 150 basis points in 2020 to a metro high of 8.3 percent.

RENT

3.2% decrease in the average asking rent Y-O-Y

- The average asking rent declined from the 11-year high achieved in 2019 to $10.77 per square foot.
- Multi-tenant vacancy jumped 140 basis points to 7.1 percent in 2020 slowing rent gains. Asking rent in this segment contracted 5.6 percent to $11.19 per square foot on average.

Investment Highlights

- Trading volume decreased 46 percent during 2020 as many investors stepped to the sidelines. Transactions were especially down in the second half of the year as many buyers waited for more clarity from the uncertain impact of the pandemic. During the year, suburban Class B/C properties in Lake and Cuyahoga counties were most often targeted. Single-tenant net lease buildings, meanwhile, kept some out-of-state buyers active.
- Investor competition for quality properties contributed to the average price rising 4 percent to $259 per square foot in 2020, the 10th straight year of price gains. The average cap rate rose 10 basis points but held in the low-7 percent span. Single-tenant assets surged 8 percent to an average of $304 per square foot, while the multi-tenant buildings inched up minimally to $183 per square foot.
- Many out-of-state buyers sought suburban Class B drugstores. Buildings constructed before 2000 traded at an average of $204 per square foot but prices ranged from $120 to more than $300 per square foot. Cap rates for these assets were typically in the 7 percent range but varied widely depending on quality of tenant and lease terms.

Price: $250