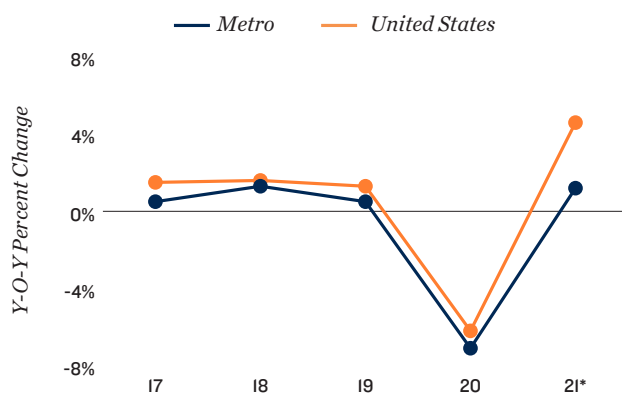


Cleveland's Retail Sector Commences Recovery as Investors Scour Market for High-Yielding Assets

Return of positive absorption tied to single-tenant demand. Cleveland's retail sector demonstrated its first signs of recovery in the second quarter of 2021 as 200,000 square feet of space was absorbed. While far from a historical performance, the re-emergence of positive leasing momentum was a welcome occurrence for a metro where vacant stock increased by 1.7 million square feet during the prior 12 months. Encouraging conditions were relatively widespread from April through June as 11 of 16 submarkets recorded positive absorption amid an overall improvement in single-tenant demand. Highlighting the list of recent lease executions was Marc's commitment to a 54,000-square-foot former Kmart in Brunswick and discount department store Ross signing on for 31,000 square feet in Beachwood. Additionally, Lowe's inked a renewal for 122,000 square feet in Mentor, which limited the volume of space that returned to the market.

Vacancy rates in standout submarkets hold. The recapturing of 8,200 jobs during July 2021 indicates Cleveland's rate of employment growth is improving. If sustained, this job creation will increase household formation, consumer spending and the market's overall economic outlook. Influenced by these factors, more retailers may expand local operations moving forward. Available space in top-performing submarkets including downtown Cleveland, Stark County and the metro's East region stand to benefit. Prospective tenants will be drawn to these floor plans while the development pipeline remains extremely sparse.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook



12,500 JOBS
will be created

EMPLOYMENT:

Driven by an improvement in second half hiring velocity, Cleveland will recoup nearly 20 percent of the 77,200 positions lost last year. Still, the metro's 1.2 percent annual rate of job growth in 2021 will keep local unemployment above the national mark.



86,000 SQ. FT.
will be completed

CONSTRUCTION:

Retail inventory increases by less than 0.1 percent in 2021 as annual delivery volume totals less than 500,000 square feet for the first time since at least 2007. The expansion of Beachwood Place Mall accounts for roughly half of this year's supply additions.



0 BASIS POINT
change in vacancy

VACANCY:

Job creation in the second half will improve local consumer spending and encourage retailer expansions. By the end of 2021, vacancy will rest at 5.5 percent, a rate 50 basis points above the prior five-year average.

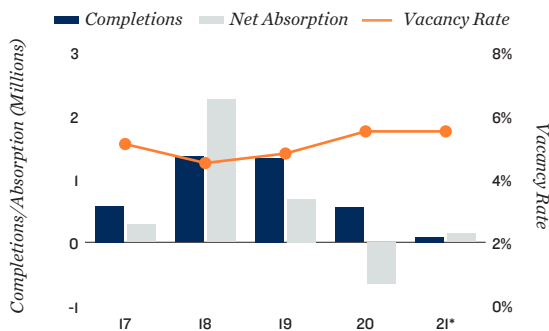


0.4% DECREASE
in asking rent

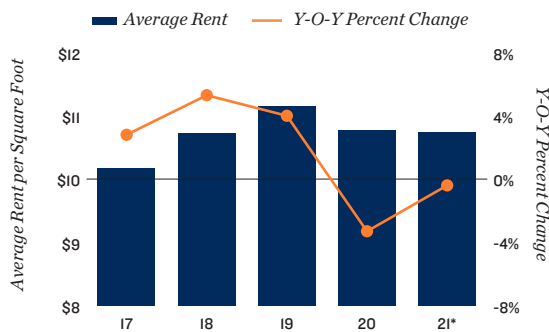
RENT:

Average asking rent will regress for a second consecutive year, albeit at a nominal pace in 2021. At \$10.74 per square foot the metro's year-end marketed rate will represent the lowest mean among major U.S. metros by roughly \$1.50 per square foot.

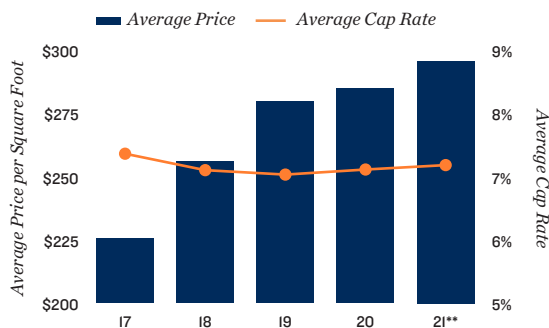
Supply and Demand



Rent Trends



Sales Trends



* Forecast; ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics
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2Q21 – 12-Month Period

CONSTRUCTION

362,000 square feet completed

- Following the delivery of 281,000 square feet in the third quarter of 2020 supply additions have been sparse, with just 30,000 square feet finalized in the first six months of this year.
- As of July, construction was underway on 238,000 square feet including a Menards in Brunswick slated for 2022 completion.

VACANCY

70 basis point increase in vacancy Y-O-Y

- Cleveland's vacant stock grew by nearly 1.2 million square feet during the 12-month period ended in June, lifting availability to 5.7 percent.
- Single-tenant vacancy rose 40 basis points over the past year to 5.0 percent. Multi-tenant availability climbed at a more pronounced pace, increasing 130 basis points to a seven-year high of 7.4 percent.

RENT

2.7% decrease in the average asking rent Y-O-Y

- Average asking rent fell over the past four quarters to \$10.74 per square foot after increasing 2.8 percent during the prior yearlong span.
- The drop in asking rent was driven by a 7.6 percent reduction in the multi-tenant marketed rate, which reached \$11.12 per square foot in June. The single-tenant sector noted a moderate dip of 0.5 percent.

Investment Highlights

- A pre-pandemic level of sales activity was registered from October 2020 through March 2021; however, transaction velocity regressed during the second quarter of this year. This variability translated to a 6 percent decline in deal flow during the 12-month period ended in June.
- The number of single-tenant transactions was practically unchanged over the past year as out-of-state investors continued to acquire suburban drugstores, fast food restaurants and supermarkets with triple-net leases in place. Competition within this buyer pool pushed single-tenant pricing up 7 percent to an average of \$345 per square foot, with the mean cap rate holding in the high-6 percent range.
- Community and strip centers with less than 10 tenants accounted for the bulk of trading activity in the multi-tenant segment, where mean pricing rose 4 percent to \$185 per square foot over the past year. Initial returns for these assets commonly exceeded the low-7 percent band.
- Lakefront communities north of Cleveland and southwest suburbs are attracting buyers focused on mixed-use listings. In both locales, smaller office and apartment buildings with ground floor retail are available at 8 to 10 percent cap rates.