

Expanding Retail Operations Boost Employment; Low Development Fosters Tight Conditions in Core

Metro job count rises as retailers expand. Total employment in the accommodations and food services sector has accounted for roughly 45 percent of the positions added in the first eight months of 2022. Strong net absorption in the market signals that retailers have continued to grow not only their staffs, but also the space they occupy. In the second quarter, vacancy compressed 50 basis points on an annual basis. Space was predominantly absorbed by grocery stores and apparel retailers. Rising leasing activity can be attributed to retailers entering newly renter-dense areas to provide necessity goods, as multifamily additions in Cleveland outpaced the mean number of additions across major U.S. markets. As consumer spending habits begin to normalize, retailers are seeking space in these locales with high household formation, such as in Downtown where apartment inventory more than doubled in the last 12 years, corresponding to tightening retail vacancy.

Department store conversions limit CBD availability. Downtown Cleveland reported the tightest vacancy rate among the metro's 16 submarkets in June. Deliveries here have been sparse, with only around 90,000 square feet coming online during the last five years. Conditions in the urban core are likely to remain tight, as there is a lack of new project proposals. Additionally, several large department stores have been converted into multifamily housing in recent years — such as The May Company building, the Cleveland Athletic Club and the Cleveland Trust Tower — further limiting vacant space.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



24,500

JOBS
will be created

EMPLOYMENT:

The higher than average number of job seekers in Cleveland will enable total employment to expand by 2.4 percent by year-end. Employment gains in the first eight months of 2022 were driven by a stark improvement in the leisure and hospitality sector.



860,000

SQ. FT.
will be completed

CONSTRUCTION:

Following a record-low number of completions last year, the metro inventory will expand, surpassing last year's count by an additional 612,000 square feet. Over half of the remaining projects slated for delivery this year are multi-tenant builds.



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BASIS POINT
increase in vacancy

VACANCY:

Higher construction will nudge vacancy up to 4.9 percent this year. This minimal change in availability is supported by strong space demand in the metro, as five consecutive quarters reported positive net absorption.



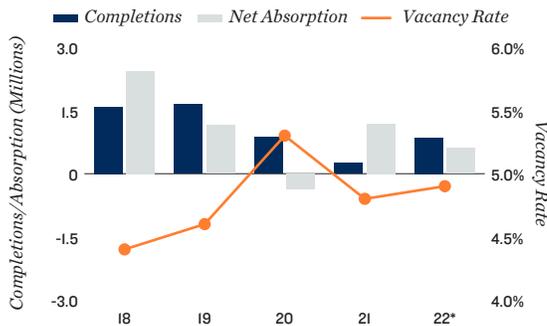
2.8%

INCREASE
in asking rent

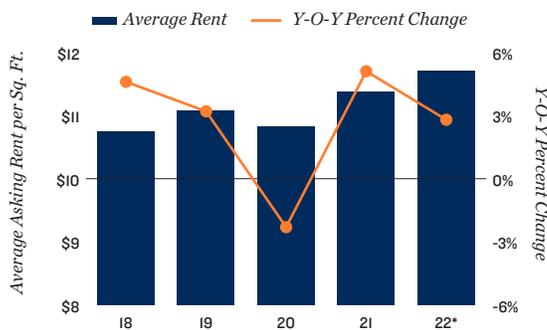
RENT:

Rent growth has not notably deviated from pre-pandemic historical norms. December will end with an average asking rent of \$11.70 per square foot, which is nearly 6 percent higher than the 2019 year-end rate.

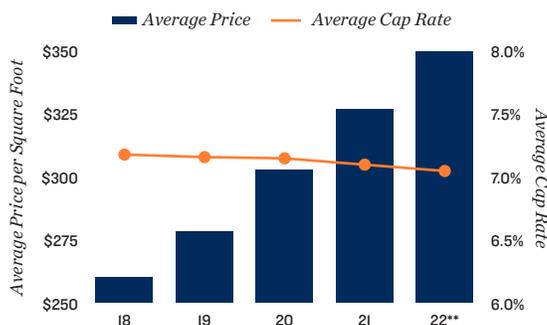
Supply and Demand



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. 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

2Q 2022 - 12-Month Period



CONSTRUCTION

727,000 sq. ft. completed

- In the trailing 12 months preceding July, over 560,000 square feet came online in Medina County, Stark County and Southwest Cleveland.
- Completions were evenly split between multi-tenant and single-tenant properties. Medina County saw the majority of single-tenant builds, while Stark County accounted for nearly all of the multi-tenant space.



VACANCY

50 basis point decrease in vacancy Y-O-Y

- Continuing its year-over-year decrease, vacancy shrunk to 4.8 percent in the second quarter, only 20 basis points above the 2019 year-end rate.
- Five consecutive quarters of positive net absorption has contributed to this compression. The trailing yearlong period reported 1.4 million square feet being taken off the market.



RENT

5.8% increase in the average asking rent Y-O-Y

- The average asking rent in Cleveland reached \$11.42 per square foot in the second quarter, a slight decrease from the year's opening period.
- Multi-tenant structures drove rent growth with an 11.2 percent gain year-over-year to a mean rate of \$12.62 per square foot. Meanwhile, single tenant facilities rose 3.5 percent to an average of \$10.93 per square foot.

Investment Highlights

- Transaction velocity in the trailing 12 months ended in June doubled compared to the previous period. During the same span, the overall average sale price in the metro rose by 11 percent to \$350 per square foot. Cleveland's mean cap rate, however, reported little movement and remained in the low-7 percent range, consistent with the last six years.
- While single-tenant properties accounted for the majority of trades during the four-quarter span, deals involving multi-tenant floorplans rose by over 60 percent. This signals that investors are beginning to target multi-tenant properties in the metro, due to their lower average entry cost of around \$200 per square foot and high first-year yields. Cleveland's multi-tenant mean cap rate of 7.8 percent is one of the highest average cap rates among major markets in the nation, drawing out-of-state investors from metros with higher average sale prices and lower expected returns.
- In the first half of 2022, Lorain County witnessed the greatest number of trades. These deals mostly involved a mix of single-tenant structures. Investors have targeted the lower-cost single-tenant builds here as recorded deals fell in the range of mid-\$100 to mid-\$300 per square foot, well below the segment's metro average asking price of \$470 per square foot.