MARKET REPORT

Marcus & Millichap

RETAIL

Cleveland Metro Area

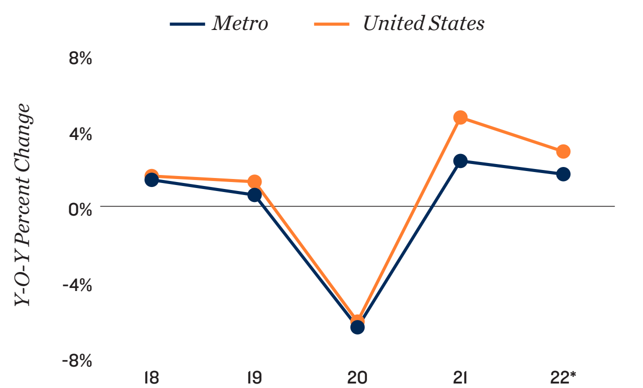
2Q/22

Vendors Follow Renter Movement as Employees' Return to Offices Reinforces Downtown's Strength

Retailers expand suburban presence, reducing vacancy. Despite health crisis shocks across the nation's retail sector, Cleveland's vacancy rate recaptured the 4.7 percent 2019 benchmark entering the second quarter of 2022. While this can be partially attributed to limited supply additions over the past four quarters, it also illustrates retailers' heightened interest in suburban submarkets — a response to more than 2,900 multifamily units being absorbed in these areas over the past year. Stark County and Northeast and Southwest Cleveland, the metro's largest retail submarkets by inventory, each recorded vacancy compressions of at least 60 basis points over the past four quarters, driven by notable demand for single-tenant space. While overall retail availability in each locale exceeds its pre-pandemic recording, strong apartment demand in these areas moving forward should fuel additional retailer expansions.

Scant availability persists in CBD. Vacancy in Downtown Cleveland has remained extremely sparse for the past two years, holding below 2.5 percent throughout. Entering April at 2.2 percent, availability is the lowest among submarkets. The return of more professionals to downtown offices in the coming quarters should further bolster retail fundamentals in the CBD as foot traffic improves. Sporting events, namely Guardians' baseball games, will also improve patronage at area restaurants and bars, potentially supporting an increase in downtown dining establishments. These circumstances will coincide with minimal near-term supply additions.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

18,000
JOBS
will be created

EMPLOYMENT:

Cleveland's employment base is on track to expand by 1.7 percent this year, nearly returning the total job count to the pre-pandemic benchmark. Traditional office-using positions will grow by 6,500 for the second straight year.

560,000
SQ. FT.
will be completed

CONSTRUCTION:

After a drop in construction during 2021, this year's production pipeline is set to increase inventory by 0.3 percent. Still, delivery volume will remain below the trailing five-year average of 978,000 square feet.

10
BASIS POINT
decrease in vacancy

VACANCY:

Amid fewer supply additions, expanding retailers continue to browse the metro's existing vacant stock, supporting a net absorption of 747,000 square feet this year. This demand will compress vacancy to 4.7 percent.

2.8%
INCREASE
in asking rent

RENT:

After recording exaggerated growth in 2021, Cleveland's average asking rent is expected to reach $11.72 per square foot by year-end. Nevertheless, the metro's marketed rate trails that of the other two major Ohio markets by at least $1.50 per square foot.

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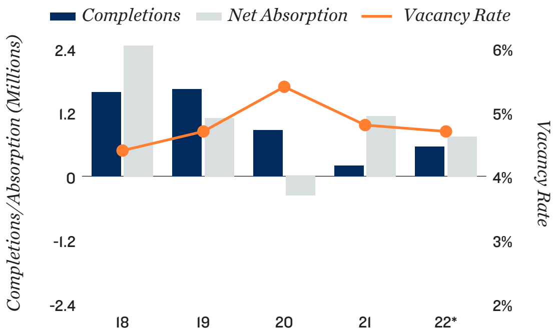
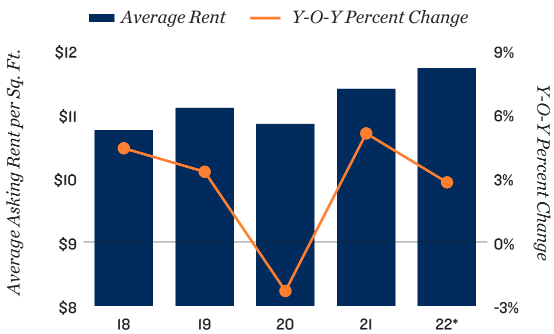
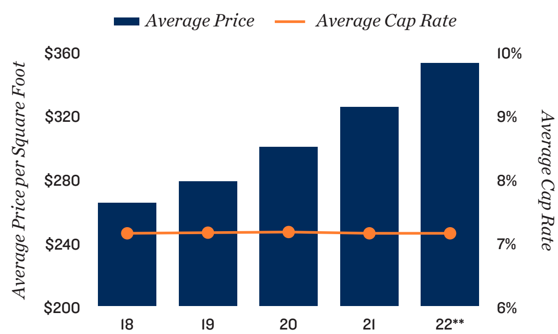
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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1Q 2022 - 12-Month Period

CONSTRUCTION

240,000 sq. ft. completed

- Delivery volume moderated during the past 12 months ended in March compared to the previous yearlong period, when developers finalized more than 700,000 square feet.
- Most first quarter completions were in Erie and Ashtabula counties, where 32,000 square feet and 20,000 square feet came online, respectively.

VACANCY

80 basis point decrease in vacancy Y-O-Y

- Vacancy compression over the past four quarters reduced the metro's vacant stock to roughly 8 million square feet in March, equating to an availability rate of 4.7 percent.
- Southeast Cleveland noted the greatest drop in vacancy among submarkets, as availability plummeted 420 basis points to 6.0 percent.

RENT

6.7% increase in the average asking rent Y-O-Y

- The pace of rent growth over the past year was the strongest recorded since 2018. This gain pushed the mean marketed rate up to $11.50 per square foot in the first quarter.
- Single-tenant rent increased 7.0 percent to average $11.21 per square foot, as multi-tenant asking rates rose 6.0 percent to $12.22 per square foot.

Investment Highlights

- Transaction velocity doubled during the trailing 12-month period ended in March compared to the prior yearlong span. Relative to other Midwestern markets, Cleveland retains one of the highest average cap rates at 7.1 percent, drawing investors seeking higher yields to maintain spreads as interest rates increase. The demand boost drove the price up by double-digit percent gains to $352 per square foot.
- Multi-tenant deal flow more than tripled over the last four quarters, aided by Cleveland offering buyers the highest average cap rate among Ohio markets at 8.0 percent. Trades involving neighborhood and community centers were elevated, with a high number of these sales in Northeast Cleveland.
- Single-tenant vacancy has held below 5 percent since 2016, as essential retail and drive-thru options aided operations, despite health crisis disruptions. This performance is fueling buyer demand for fast-food locations and restaurants, with these assets trading at a 5.0 percent average cap rate. Additional single-tenant properties are also coveted, with investors reporting low- to mid-6 percent first-year returns for drug and convenience stores in Lorain County and South Cleveland, marking these areas as having high yields, even among properties with predictable cash flow.

Price: $250