



CLEVELAND, OHIO

— MARKET SPOTLIGHT —

MATTHEWSTM
REAL ESTATE INVESTMENT SERVICES

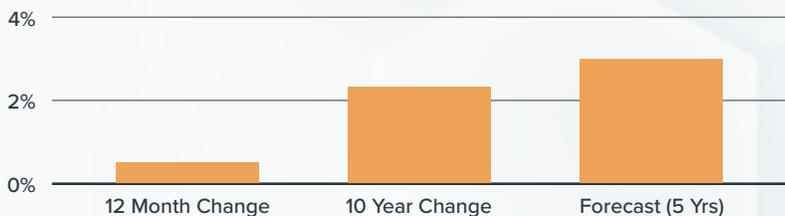


MARKET OVERVIEW

A gradual recovery is expected in Cleveland. Already, 89,000 jobs have been recovered since the height of job loss in April. This amount accounts for nearly half of the metro's COVID-19 job losses. Cleveland's recent development activity illustrates potential labor force growth in the near-term, and with companies searching for cheaper markets for business, Cleveland may benefit from an influx of relocations. One of the industries facing high demand is healthcare services. Hospitals continue to invest in new facilities in Cleveland, including a new 11-story, 270-room MetroHealth hospital, a \$200 million expansion of University Hospital's Ahuja Medical Center, and Cleveland Clinic's new hospital in Mentor. Other notable big-name brands are making moves in the metro, including Sherwin-Williams, which announced its global headquarters would remain in Cleveland with plans to invest \$600 million in northeast Ohio. Logistics providers also supported demand in recent quarters, with tenants like Amazon, who had occupied over 2.3M square feet to date, behind the top leases signed year-to-date. Rent growth is modest but remains consistent for industrial, with manufacturing space dominating the metro. Commercial real estate experts believe the Cleveland market will emerge stronger than ever post-pandemic.

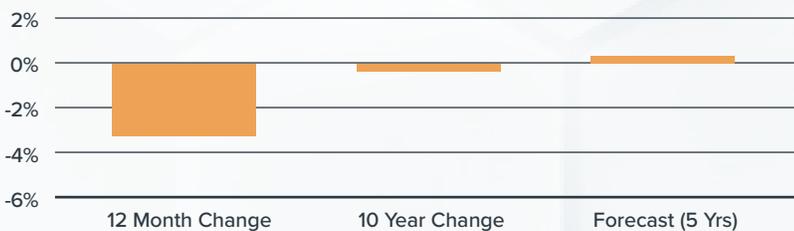
INCOME GROWTH

SOURCE: COSTAR



LABOR FORCE GROWTH

SOURCE: COSTAR



MARKET SNAPSHOT | Q4 2020

SOURCE: COSTAR



POPULATION

2,053,466



HOUSEHOLDS

861,536

SOURCE: OXFORD ECONOMICS

HOUSEHOLD INCOME

SOURCE: OXFORD ECONOMICS

\$57,143

Median Household Income

\$81,405

Average Household Income



MULTIFAMILY MARKET

The apartment sector has been among the most resilient property types amid the pandemic, and the Cleveland apartment market has experienced minimal disruption. Rent growth in the market remains healthy, driven by increased demand for suburban locations. Similar to the national trend, suburban markets boast higher rents than the pre-pandemic peak. Meanwhile, the average rent for units in urban areas fell from June through November. Overall, apartment rents in Cleveland have increased by 1.6% year-over-year. Demand for apartments has remained positive, and net absorption among Cleveland apartments was near record levels in Q2 2020. Lease-up in newer units has shown signs of slowing, with new deliveries pushing vacancies to 6.8%. The most notable weakness in vacancies is in downtown Cleveland, where vacancies are at 16% as of Q3 2020. A fundamental cause of this was because developers concentrated deliveries downtown, which increased inventory by 7%. The vacancy rate will remain stagnant or expand in areas with heavy supply. Cleveland City Planning Commission has approved plans for a 20-story, 313-unit apartment complex called City Club Apartments and another 11-story, 167-unit apartment complex called Bridgeworks. Additionally, the long-planned \$300 million Circle Square urban town center is expected to start development as early as 2021, including three apartment towers that will hold 2,000 residents.



OFFICE MARKET

Similar to other markets, the Cleveland office market is feeling the impact of the pandemic. Both demand and investment volume softened in Q3 2020 but is anticipated to increase in 2021 as companies eye the Cleveland market for relocation. Leasing activity improved slightly in Q3 2020 but remains below activity in Q1 2020. The Aecom Building in Cleveland's Central Business District (CBD) captured some of the quarter's largest move-ins. Rents are highest in the Chagrin Corridor, representing a large amount of new development in the area. Looking forward, the development pipeline for the Cleveland office market is limited, which will place upward pressure on vacancy in the near-term as net absorption stays around zero in the upcoming quarters. The Cleveland office space sees many plans to convert unused office space into multifamily units, like the historic 17-story Rockefeller Building, which is expected to trade for \$13.4 million. Investor activity moderated in Q2 and Q3, and amid cloudy economic conditions, investor activity may remain muted.



HEALTHCARE MARKET

Health services have remained in high demand during the pandemic, and as one of Cleveland's largest industries has remained a big focus for commercial real estate in the metro. Cleveland's hospital system has continued investment in new facilities, and this activity is projected to bring over 2,000 positions to the area. Cleveland recently hosted the Cleveland Clinic Medical Innovation Summit, which focused on adopting telehealth and other digital health initiatives. The Cleveland Clinic plans to double the number of patients it sees in the next five years to four million. One of the ways it will expand its presence and access to patients is through new construction projects. These projects include building a new hospital in Mentor, Ohio, expanding Cleveland Clinic's Cole Eye Institute, constructing a new Neurological Institute building, and upgrading Cleveland Clinic's Fairview Hospital.



RETAIL MARKET

Nationwide, retail continues to struggle as consumers reallocate their spending and pivot to online shopping. Bankruptcies in the category continue to increase, leaving retail space empty. Retail assets with strong location fundamentals are being swept up and remain in high demand, especially for repurposing trends. In the Cleveland metro, unused retail space is being transformed into industrial as e-commerce continues to take off. Retail leasing activity across Ohio has picked up in recent months, with volumes improving from depressed Q2 2020 levels. As health and wellness move to the forefront of consumers' minds, fitness centers have signed multiple leases in Ohio markets, including NoNonsense Training and Fitness (NTF) in Cleveland. Despite some slowdown, rent growth remains positive and outpaces national trends, especially in high demand locations. In terms of vacancy and absorption, top-performing submarkets are in the CBD and Lorain County as retail tenants continue to move into vacant spaces



INDUSTRIAL MARKET

The industrial sector has proven resilient amid COVID-19, and the impact on Ohio markets is varied. Manufacturing-heavy areas such as Cleveland continue to face headwinds, while distribution hubs are performing well, such as Cincinnati and Columbus. Manufacturing accounts for nearly 44% of Cleveland's industrial inventory, and nearly 2.6 million square feet of industrial product is expected to return to the market. This reflects Cleveland's exposure to manufacturing, which is facing both muted domestic and global demand. Rent growth has stayed consistent, but the decline in investment activity will likely continue while buyers and sellers take the wait-and-see approach. Just 1.4 million square feet or less than 1% of inventory is underway in Cleveland. Industrial is experiencing heightened e-commerce activity, feeding into demand for last-mile delivery and cold storage distribution centers. As efforts shift away from just-in-time inventories, this demand could increase development and leasing for Cleveland distribution hubs in the future. Contributing to this is Carvana, an online used car retailer, which will build a 200,000 square foot inspection and distribution facility that will welcome 400 new jobs. The Lorain and Avon Lake submarket saw the most impressive lease deal in 2020 for a 140,000 square foot warehouse building. Elyria-based pipe supplier Dura-Line leased the space, a 3 Star warehouse building built in 1991 and renovated in 2006.

Cleveland's business-friendly environment, paired with its impressive manufacturing and healthcare industries, has helped keep the metro afloat during COVID-19 and is projected to come out on top. Although the city experienced a loss of 168,000 jobs in April, momentum picked back up in May with more than 55,000 jobs. Moreover, the conversion trends taking off in the area with unused office, retail, and industrial space should keep investor interest. For more information on the Cleveland market, please reach out to a Matthews™ specialized agent today.

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