

INVESTMENT FORECAST

Retail
Cleveland

IPA
INSTITUTIONAL
PROPERTY
ADVISORS






2022

Preleasing Activity Shows Demand For Quality Space; High-Credit Tenants Drawing Buyer Focus

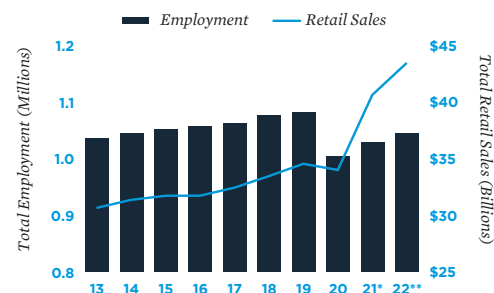
Elevated consumer spending and a relaxed pipeline bolster fundamentals. Cleveland reported steady growth in retail sales since the third quarter of 2020, and is expected to maintain a stable upward trajectory throughout this year. While sales volume has moved above pre-pandemic totals, the metro's job sector is projected to undergo a more prolonged recovery. Employment totals will end this year roughly 40,000 positions short of levels immediately prior to the health crisis. In addition, responses toward the emergence of new COVID-19 strains may alter hiring velocity, particularly among retailers located near the urban core that rely on commuter foot traffic. While challenges remain, muted development activity will benefit the market's currently vacant stock. After finalizing a record-low volume of retail square footage last year, builders are projected to maintain a restrained construction schedule, with few speculative deliveries slated for 2022. Cleveland boasts the highest pre-leasing rates among major Ohio metros, with tenants committed to 98 percent of projects in the current pipeline at the beginning of this year. Additionally, the metro enters the year with vacancy at 4.9 percent, well below the long-term average.

Buyers pursue suburban options to the northeast and west. Investment activity improved last year as investors reacted positively to Cleveland's retail sector weathering the health crisis. Near-record dollar volume was driven largely by REIT acquisitions and several large multi-tenant exchanges. Multiple deals involving power centers occurred in western Cuyahoga County, where out-of-state buyers pursued properties anchored by several national brands. Transactions involving private investors picked up dramatically in the Northeast submarket. Here, single-tenant asking rent growth has consistently outpaced the metro average. Assets with high-credit occupants in this area typically trade for \$1 million to \$2 million, with yields in the high-4 percent to 6 percent range, though multi-tenant options are dealt for higher yields. For example, neighborhood centers lacking grocery anchors trade with rates in the 8 percent to 9 percent tranche.

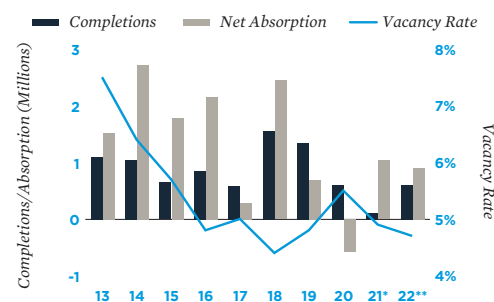
2022 Market Forecast

- Employment** up 1.6%  Cleveland's job recovery continues as area companies expand staff counts with 16,000 new positions by year-end.
- Construction** 605,000 sq. ft.  Despite growth accelerating from last year's low of 110,000 square feet, finalized space in 2022 is projected to remain 240,000 square feet under the trailing five-year average.
- Vacancy** down 20 bps  A moderate delivery schedule combined with rising retail demand results in downward-trending vacancy. The metro ends 2022 with just 4.7 percent of space unoccupied.
- Rent** up 2.8%  Tight vacancy and stable retail sales performance drive Cleveland's rent recovery. Asking rents reach an average of \$11.10 per square foot in 2022, just under the pre-health crisis high.
- Investment**  The emergence of new COVID-19 strains may discourage some bidding for buildings with non-essential tenants, creating upside potential for long-term investors.

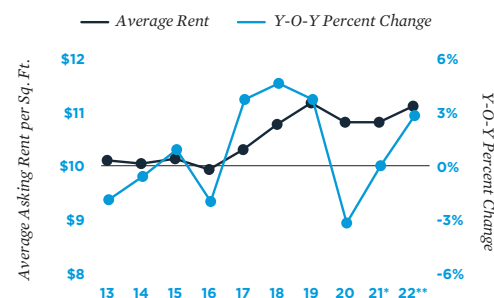
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Daniel Taub

Senior Vice President
Director IPA Retail
Tel: (212) 430-5100 | dtaub@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.