

INVESTMENT FORECAST

RETAIL
Cleveland Metro Area

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2019

Developers Increasingly Confident As Economy Sustains Momentum

Vacancy remains tight despite soaring construction. Retail developers will capitalize on Cleveland's strengthening economy this year, accelerating construction efforts amid the metro's boost in overall spending power. Home-improvement retailer Menard's is adding two locations in Northeast Ohio this year in Avon and Mentor. In addition, the Pinecrest project in Beachwood will receive the finishing touches on its retail space, while several grocery stores and strip centers account for much of the remaining retail property being constructed in the market. Despite the influx of available space, absorption is expected to remain strong, pushing vacancy into the low-5 percent area. Though the infusion of space will not weigh on vacancy, it may ease rent growth after a nearly 10 percent increase was recorded last year. Downtown Cleveland will remain the submarket with the highest asking rent by a considerable margin with more room for growth as vacancy is stationed under 4 percent and the area's revitalization is beginning to attract businesses and residents from the suburbs.

Affordable entry costs capture investor attention. Retail investment in Cleveland remains steady, highlighted by a mix of in-state and out-of-state private buyers. Eastern suburbs, in particular, will be highly regarded by these investors. Numerous small shopping centers provide favorable cap rates reaching the low- to mid-9 percent range. The I-90 corridor will also be targeted by local buyers as this heavily trafficked thoroughfare encourages strong tenant demand for retail space in the area. Moving westward, retail assets near I-480 around Brooklyn and Parma garner the attention of investors seeking relatively more affordable entry costs. Here, first-year yields across the 9 percent band are common, especially for community centers and strip centers in need of improvements. Price tags under \$1 million may derive capital from some entry-level investors, boosting competition for these properties.

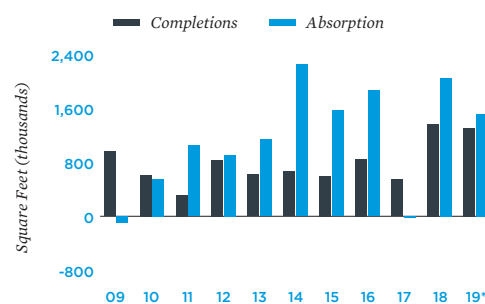
2019 Market Forecast

- Employment** up 2.7%  After adding 33,600 workers last year, organizations will create 29,000 new jobs in 2019. This two-year span is on track to produce as many positions as the prior seven years combined.
- Construction** 1.0 million sq. ft.  Development nearly doubles this year while reaching its highest level since 2008 when 1.8 million square feet was finished.
- Vacancy** down 20 bps  Vacancy will dip to 4.8 percent this year amid strong absorption. This is spearheaded by tight conditions in West Cleveland as well as downtown.
- Rent** up 4.8%  Rent growth will ease this year, though it will still remain strong, moving the average asking rent to \$12.29 per square foot. In 2018, rents climbed 9.5 percent.
- Investment**  High-yield investors will remain interested in Cleveland in this year, particularly as substantial job creation continues to bolster the economy.

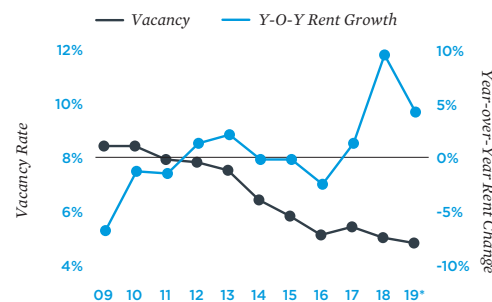
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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