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## CLEVELAND SEES GROWTH IN ALL SECTORS

Scott Jacobs, Richard Edelman, Adam Bradford, Warren Morris, Viamonte Lee

Cleveland's commercial real estate market is seeing growth in all sectors, and even more improvement is expected for 2005. The industrial market is taking a conservative approach to speculative building, which, along with moderate absorption rates, is creating good product availability and rental rates for the coming year. Cleveland's retail sector is dominated by lifestyle and power centers, many of which are being creatively developed on unique sites. Multifamily developers are bringing new properties to Cleveland's downtown, causing occupancy rates to continue to increase and fuel future demand. Vacant office space continues to decrease, which is expected to increase new office building construction in 2005.

### Industrial

Cleveland's industrial market has continued on its historical path of relative stability during 2004, but a new focus on regionalism bodes well for both retaining and attracting business in all sectors of real estate. The drive to strengthen the region's larger economy is being led by the city of Cleveland, in conjunction with the newly formed Team NEO. Team NEO is a consortium of the region's business leaders and economic development organizations from 13 surrounding counties representing a population of 4 million people. Leaders hope their efforts will ultimately drive demand for new and existing industrial buildings — in addition to office, retail and residential projects — throughout the region.

Generally, overbuilding in Cleveland's industrial sector has not occurred to the same degree it has in other geographical growth markets. However, the relative softness of the area's economy, fueled by occasional manufacturing job cuts, has prevented rental rates from rising and has created ample opportunities for tenants — especially in the flex markets where vacancies remain above 20 percent. Vacancy for traditional industrial space in 2004 is about 10 percent, approximately the same as in 2003.

Speculative building has been fairly limited during 2004. For a project to get up and running, there has usually been a lead tenant already in place. Almost 90 percent of more than 2 million square feet of new space built in 2004 was pre-leased.

Typical transactions in 2004 ranged from 10,000 to 100,000 square feet. Notable larger transactions include Sysco Foods (330,000 square feet), Cardinal Health (125,000 square feet), Diebold (130,000 square feet), ColorMatrix Corporation (128,000 square feet), MP Biomedicals (120,000 square feet) and Heidtman Steel (220,000 square feet).

Duke Realty Corporation's Emerald Valley Business Park, located in the southeast suburb of Glenwillow, is representative of a project with steady activity. Five buildings totaling more than 1 million square feet are complete, with another 1.5 million square feet of build-out possible. Duke typically breaks ground in Emerald Valley each year on one or two buildings of at least 150,000 square feet.

In addition to Duke, other active developers in the area include Geis Companies, Fogg Realty Company and Lake County-based developers such as Richard, Rick Jr. and Mike Osborne.

Several submarkets in surrounding Cleveland suburbs should remain healthy during 2005. These include Strongsville — which continues to have good availability of

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land and product — Solon, Glenwillow, Twinsburg and Lake County.

Overall, the outlook remains positive in the industrial market. Communities throughout Northeast Ohio continue to offer aggressive incentive packages for industrial occupants, the area's labor force is skilled, infrastructure resources including air and highway access are updated and efficient, and union activity has been somewhat tempered recently. The area's conservative approach to speculative building combined with moderate absorption rates will result in good product availability and reasonable rental rates throughout 2005.

— *Scott Jacobs is a consultant with Cleveland-based Allegro Realty Advisors.*

## **Retail**

Development in the Cleveland metropolitan area is dominated by lifestyle/Main Street projects and unique and complicated power centers.

Almost simultaneously with the first anniversary of Legacy Village — Cleveland's first lifestyle center that Beachwood, Ohio-based First Interstate Properties developed and debuted on October 23, 2003 — Woodmere, Ohio-based Robert L. Stark Enterprises and The Carney Group introduced Cleveland's west side to Crocker Park on October 29. Crocker Park, located in Cleveland's prominent suburb of Westlake, Ohio, is a true lifestyle center with its Main Street design, mixed-use components and significant distance from other enclosed regional malls. When fully built, Crocker Park will include approximately 1.7 million square feet of retail (610,000 square feet), office (225,000 square feet) and residential (900,000 square feet). Phase I includes 400,000 square feet of retail, 110,000 square feet of office and 160 apartments. Crocker Park marks the Cleveland debut of Urban Outfitters and H&M, in addition to typical lifestyle and mall tenants such as Gap, The Limited, Talbots, Abercrombie & Fitch, Abercrombie Kids, Ann Taylor, Barnes & Noble, Chico's, Coach, Coldwater Creek, Dick's Sporting Goods, J. Jill, Limited Too, Steve Madden, Sur La Table and Trader Joe's. Bialosky Partners Architect LLC provided architectural services for Crocker Park, which is an extension of Stark's original 265,000-square-foot shopping center built in 1992 called The Promenade of Westlake. The center was recently renamed The Promenade at Crocker Park. Its tenants include Bed Bath & Beyond, Borders Books & Music, Giant Eagle, OfficeMax and a remodeled and expanded Regal Cinema.

The more traditional power center development is headlined by unique and complicated development sites. Solon, Ohio-based McGill Property Group has commenced construction of the 700,000-square-foot City View Center located in Garfield Heights, Ohio. City View Center is being built on two former landfills — the first retail project ever to be built on a landfill in the state of Ohio. City View Center is slated to open in the fall of 2005 with Wal-Mart, Circuit City, Bed Bath & Beyond, Dick's Sporting Goods, A.J. Wright, OfficeMax, Giant Eagle, Jo-Ann and a proposed Home Depot as tenants. The project architect is Richard L. Bowen & Associates.

The second unique power center is the proposed Steelyard Commons by First Interstate Properties. The proposed site for Steelyard Commons is the former warehousing and pickling facility for the once-famous LTV Steel Mill. First Interstate is buying 130 acres in the heart of Cleveland's industrial valley. Upon completion, this will be the first power center ever built in the city of Cleveland. Totalling 1 million square feet, the center will provide a venue within the city of Cleveland for its residents to spend an estimated \$1.3 billion, which is currently spent outside the city limits in suburban shopping centers. Steelyard Commons is likely to include Wal-Mart, Target and The Home Depot, all of whom are negotiating with First Interstate. Best Buy, Staples, Giant Eagle and other junior anchors, in addition to numerous outlot tenants, are also interested in the project. Dorsky Hodgson + Partners is the project architect.

A third unique project is being developed by Schottenstein Management within part of the 600-acre, mixed-use Chagrin Highlands project master-developed by The Richard E. Jacobs Group in conjunction with the city of Cleveland. Chagrin Highlands is located in the eastern suburbs of Beachwood, Orange, Warrensville Heights and Highland Heights. The retail component of this project is limited to 250,000 square feet with no single retail box exceeding 50,000 square feet. Schottenstein Management intends to build the first Filene's Basement in the Cleveland area, along with DSW Shoe Warehouse and a proposed Bed Bath & Beyond. The Schottenstien project is being built in conjunction with a new Marriott Hotel and Conference Center. Existing restaurants include Bahama Breeze and Red Robin, which are anticipated to be joined by Abuelo's Mexican Food Embassy, Longhorn Steakhouse, and Chipotle Mexican Grill. The architect is Herschman Architects.

Development is still very difficult in Northeast Ohio. This past election saw two projects that went to the people to decide the fate of the zoning, one of which was

approved and the other failed. Crocker Park, Legacy Village and Avon Commons — three of the larger centers built in the recent years — all were decided by a vote of the people in their respective communities. With little or no growth, the markets that people are moving into are typically opposed to power center development. Therefore, projects need to be built on landfills, former steel mills and defunct existing retail land or land requiring rezoning.

Several retailers, such as Bass Pro Shops, are having trouble finding locations in Cleveland. Bass Pro Shops is looking for a site, but hasn't been able to land one to date. The Mills Corporation also has been looking for years and has been involved with a number of different sites, some of which weren't big enough while others have been opposed.

Tampa, Florida-based DeBartolo Development has made a big push back into Northeast Ohio. The company has completed The Crossings at Golden Link in Macedonia, Ohio, which is anchored by Target, Lowe's Home Improvement and Giant Eagle. Pad sites include Chipotle Mexican Grill and Golden Corral, and Longhorn Steakhouse and IHOP are proposed. Meadowlands Town Center in Chardon, Ohio, is under construction with Wal-Mart and The Home Depot committed, and Bed Bath & Beyond, Staples and Kohl's are interested. The architect for both projects is Bialosky Partners Architects LLC.

Liberty Development Company is taking on its largest project to date with Lighthouse Village, which is located in Lorain, Ohio. The project architect is Dorsky Hodgson + Partners. The more than 60-acre site is encumbered by deed restrictions prohibiting the property for any use other than one that which benefits the women and children in the community as imposed by the original property owner. Liberty Development Company has been working with the community, land owner, probate court and parks system to work out a deal that will allow for the property to be developed into a 400,000-square-foot shopping center anchored by The Home Depot and proposed Target and Kohl's, while at the same time fulfilling the desires of the original property owner by making other accommodations that fulfill her wishes. The project has been on the table for 3 years while the developer has worked through the land use issues. These seem to be resolved, and construction is expected to commence in 2005.

— *Richard Edelman is a principal with Lyndhurst, Ohio-based Goodman Real Estate Group.*

## **Multifamily**

Cleveland's economic renaissance of the early 1980s ignited a flurry of new office, retail and entertainment-related construction throughout its central business district (CBD), which continues to this day. However, new and renovated multifamily projects remained notably absent from the mix. Today, thanks to some dramatic projects either under construction or recently completed, all that is changing.

Conversion of existing structures to multifamily dwellings in the city's historic Warehouse District and Flats neighborhoods has occurred slowly since the 1980s. Developers have begun converting some of the last-remaining buildings into urban-style condominiums, townhomes and apartments. As these projects come on line, developers expect supporting consumer services to fuel a long-awaited urban residential community.

One of the more well-known downtown projects is the Bingham, an \$80 million luxury apartment complex with 340 loft-style units located in the Warehouse District. Built in 1915 as the headquarters for the W. Bingham Company, one of the Midwest's largest hardware companies, it was redeveloped by Chicago-based Bingham Burnside LLP. The project was completed in June. Rent for one-, two- and three-bedroom units range from \$710 to \$2,400. Additionally, the building houses an 8,000 square-foot grocery store slated for completion by this month — a first for the Warehouse District.

Adjacent to the Bingham is District Park, a new warehouse-style building featuring one- and two-bedroom condominiums, two-story townhomes and a penthouse from 835 to 2,808 square feet. Prices for one-, two- and three-bedroom units begin at \$170,000.

New construction also is moving forward. Most notable is the Pinnacle, a 12-story luxury condominium adjacent to the Warehouse District slated for completion in spring or summer 2005. Units range from 1,400 to 4,600 square feet and are priced from \$300,000 to \$1.2 million.

On the west bank of the Flats, Stonebridge — a development that features both condominiums and apartments — has a contemporary design that complements its

classic industrial surroundings. Condominiums and penthouses are priced from \$149,900 to \$247,900, while monthly rents for apartments range from \$650 for 800 square feet to \$900 for 1,100 square feet.

Many of these new properties provide modern options that were not previously available in the downtown Cleveland market. It is anticipated that occupancy rates will continue to increase in the future and fuel additional demand.

With available land becoming more scarce, additional multifamily development has moved primarily to outlying areas, mostly on Cleveland's far west side and especially in Olmsted Township. Nearby communities such as North Ridgeville, Avon and Avon Lake also have experienced steady levels of development.

Recently, all eyes in Cleveland looked to the October opening of Crocker Park in Westlake. Crocker Park will feature 160 units in Phase I for lease by April 2005. One-, two- and three-bedroom apartments will range from 670 to 1,200 square feet and will be priced from \$750 to \$1,200. Based on future assessments of the center's overall performance during first and second quarter 2005, additional phases will call for townhomes and condominiums.

National homebuilders — such as Ryan Homes, Pulte Homes and Forest City — and smaller, locally based builders continue to vie for a steady base of middle-income tenants in the Cleveland area.

Average multifamily occupancy in Northeast Ohio was 87.3 percent through the third quarter, roughly similar to third quarter 2003. The annualized turnover rate, based on the third quarter, was 63.5 percent for all of Northeast Ohio. This appears to be average compared to similar U.S. markets. However, the average occupancy rate for Northeast Ohio is lower than in other similar U.S. markets.

Looking ahead, west side communities, such as Olmsted Township and Lorain County, continue to grow and will likely see more multifamily development. Additionally, new and planned multifamily projects downtown will likely create future demand for housing, which can potentially fuel the residential renaissance civic leaders have long envisioned.

— *Adam Bradford is a consultant with Cleveland-based Allegro Realty Advisors.*

## **Office**

Cleveland's office market is witnessing an increase in secondary education facilities that offer advanced degrees and technical training, which has been mostly concentrated in the suburban areas. During the past 12 months, Indiana Wesleyan University has opened a facility in Independence; the University of Phoenix has leased space at Enterprise Place in Beachwood; Vatterott College located to Broadview Heights, and Cleveland State University located to Solon and Westlake. Corporate College (a division of Cuyahoga Community College) in Westlake is another example of adult education for the business community.

The city of Cleveland has partnered with Case Western Reserve University to move more than 300 university employees to the Halle Building on Euclid Avenue early next year. The Halle Building, with a present vacancy rate of 31 percent, will absorb 80,000 square feet of leased space from this deal. Case Western will move its university relations staff, including the controllers, accounts payable and purchasing offices, as well as some information technology functions, which are needed to free space at the university for academic and program needs.

Mixed-use development has been the most promising area of overall market activity recently. The Bingham Building redevelopment and the renovation of the former Ohio Knitting Mills building into the MidTown Technology Center are examples of adaptive re-use of functionally obsolete existing space. This type of activity promises to bode well for future central business district and MidTown development.

With downtown office occupancy at 77 percent, there has been no compelling reason for developers to put new office product on the market. However, with downtown Class B vacancy near 20 percent and Class C space at an even higher rate of more than 21 percent, the good news has been creative re-thinking of existing space to support the economic development initiatives of the city of Cleveland as it tries to package downtown and its adjacent areas as a more pedestrian-friendly, live/work urban village. It is the city's desire to create a downtown technology culture that will not only help local small, medium and large companies continue to flourish in metropolitan Cleveland, but also will attract outside interests to the Cleveland area.

Perhaps the poster project for downtown revitalization is the \$168 million Euclid Corridor Transportation Project that will serve multiple objectives. The primary objective is to revitalize Euclid Avenue from Public Square to University Circle. To accomplish this, the city will connect its major local growth industries — biomedical/bio-tech, research and academics — to the downtown area. This corridor will also link the new business and technology hub to The Cleveland Clinic, University Circle and downtown Cleveland using modern, European-styled hybrid buses along the Silver Line of the Bus Rapid Transit (BRT). Another objective is to create “urban rooms” along either side of the corridor that will feed off of the increased pedestrian traffic created at strategic intersections along what is estimated to be the Regional Transit Authority’s (RTA’s) most heavily used route.

The Euclid Corridor Transportation Project also will establish a residential mixed-use district surrounding the MidTown Technology Center that will capitalize on the area’s best qualities and create a true neighborhood center along Euclid Avenue.

Although downtown has the higher profile projects, there is more office activity in the suburban market, which is attributed to lower vacancy rates than in the downtown markets. Development is taking place at a modest pace in the suburban markets. Some examples include Heritage Corporate Center, a 63,000-square-foot building on Royalton Road in Broadview Heights; Dow Circle Office Building, a 21,860-square-foot building on W. Sprague Road in Strongsville; Highlands Business Park, a 32,000-square-foot office building on Richmond Road in Warrensville Heights; and currently under construction is a 35,000-square-foot expansion on Enterprise Parkway in Beachwood.

Cleveland is seeing vacancy rates decline across most areas. In the CBD, the third quarter vacancy rate is currently 23 percent, which remains level with third quarter 2003. However, Class A vacancy is presently 17.5 percent compared to 19.5 percent in third quarter 2003. Suburban vacancy has experienced a decrease from 17.5 percent in third quarter 2003 to 16 percent in third quarter 2004. Suburban Class A dropped from 20.5 percent in third quarter 2003 to 18.5 percent in third quarter 2004.

Rental rates in the CBD range between \$20.66 per square foot for Class A property to \$14.35 per square foot. In the suburbs, rates range from \$18.94 per square foot for Class A space to \$17.77 per square foot. Year-to-date absorption has been 134,999 square feet in the CBD and 388,742 square feet in the suburbs.

The market is regaining strength. Vacancy rates are decreasing with an anticipated reduction of several percentage points for 2005. There should be an increase in new construction as the existing supply of vacant space continues to decrease. The south suburban markets should see the most office activity in the next year with the largest absorption of space, the most new construction and a decrease in vacancy. Overall, there is 1.6 million square feet of proposed new office construction in Northeast Ohio slated to begin in mid 2005.

— *Warren Morris is a partner with Cleveland-based Colliers International. Viamonte Lee is the research director for Colliers International.*



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