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Built to Last

Office vacancies are down and construction is up. 2005 looks to be a rebound year for commercial real estate.

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Ross Environmental Services Inc.'s relocation to its current headquarters in Elyria happened a little sooner than anyone there thought it would.

"Our building was being sold," says owner Maureen Cromling, who was president and CEO of Ross at the time, and is now chairwoman. "We weren't quite ready to move, but we knew eventually we would."

Ross Environmental, which provides hazardous and industrial waste management services, built its \$5 million, 30,000-square-foot facility in the Great Lakes Technology Park on the campus of Lorain County Community College.

"It was a big investment," Cromling says. "But for us it has worked out well, and we really love where we are."

Ross moved to its new headquarters in June 2002, in the middle of a commercial real estate slump in Northeast Ohio. But late last year, the market began to rebound. Commercial construction increased in some sectors like retail and manufacturing, and several suburban office markets started to see a decrease in vacancies.

"It's like a submarine scraping the bottom of the ocean," says Patrick Finley, managing partner at Omni Realty Cos. in Pepper Pike. "Now we've bounced off and we're heading back up. We're seeing that on all fronts: industrial, office, retail. There's definitely more confidence in the marketplace."

In Cuyahoga County, suburban office vacancies reached 19.6 percent in 2003. But during 2004, vacancies shrunk to 15.9 percent in the Eastern suburbs, 18.2 percent in the Western suburbs, and 18.9 percent for all suburbs, according to commercial real estate firm Grubb & Ellis Co.

Commercial construction, which boomed in the late 1990s, slowed in the past few years. In 2000, 828,839 square feet of new construction was completed, but only 296,255 square feet was completed the next year. In 2003 and 2004, a retail boom — as evidenced by "lifestyle centers" like Crocker Park in Westlake and Legacy Village in Lyndhurst — began to turn the market around.

"In the last year, Northeast Ohio was placed on the national retailer map, which was long overdue," says Michael Cantor, principal at Allegro Realty Advisors Ltd. in Independence. "A lot of that was due to the fact that developers were able to articulate the historically skewed analysis of our region, which to some extent is based on how the Census Bureau tracks different metro areas."

With projects like First Interstate Properties Ltd.'s proposed \$90 million Steelyard Commons development near the Cuyahoga River south of downtown Cleveland and McGill Property Group's \$100 million Cityview Center in Garfield Heights, retail looks like it will continue to drive the commercial construction market in the short term.

"We've had record shopping center construction and retail construction in recent years," says David Browning, managing partner at CB Richard Ellis Inc. in Cleveland. "We will continue to see a wave of retail construction and repositioning on the part of tenants. On the office side, we will see more suburban office construction."

Downtown Cleveland office and industrial construction, however, is still lagging.

"We have seen some increased activity in the markets, but it has not yet translated into a broad-based recovery," Browning says. "We still have corporate mergers and consolidation that is occurring here in the downtown tenant base, so our crystal ball is still not out yet saying whether we're going to have positive absorption or not."

Some construction firms, however, expect 2005 to be a solid year for the industry.

"[Last year] picked up as far as intensity," says Shawn Dixon, president of The Krill Co. Inc., a commercial construction

firm in Cleveland. "We've seen more of the lab and R&D [projects], partially because of the market, and partially because we've marketed to it. [Last year] picked up for us in volume and we think 2005 is going to keep going."

Marous Brothers Construction in Willoughby Hills, which experienced \$20 million to \$30 million of growth a year for seven consecutive years, deliberately slowed its growth in 2004, says President Adelbert "Chip" Marous.

"We don't like to grow vertically every year; we like to level off," he says. "But, for us, [2005] is stacking up really good. ... We have almost \$200 million in backlog right now."

Above all, experts say activity in the commercial real estate sector indicates the economy is improving and companies are becoming more optimistic.

"People have repositioned, gotten more efficient, and, most of all, more confident that their customers are going to buy from them," says Finley, president of the Northern Ohio chapter of the National Association of Industrial and Office Properties. "To me, being a building owner and having more than \$100 million in mortgages, if I hear interest rates are going up, you'd think I'd be trying to put my head under the pillow, but the fact of the matter is I'm very encouraged by that because that means all indicators are that business is back up."

Although it's more than two years old, Cromling and her 70 employees at Ross Environmental have just settled in to their building tucked away in the woodsy college campus.

"It still feels like it's brand new," Cromling says. "I mean brand new because you still feel the energy that you get from the environment you're working in, and that's an important part of this place."