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**REAL ESTATE: COMMERCIAL AND INDUSTRIAL**

## **With glut of existing buildings, bargains available in office market**

By **STAN BULLARD**

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Get ready for recession chic to remake the office market.

In the same way that consumers switched to fast food from higher-priced restaurants, wary businesses shedding employees and slashing spending are developing an appetite for office-market bargains.

With the planned Ernst & Young Tower in the Flats stalled due to the financial crisis and other plans falling aside, existing buildings downtown suddenly look more attractive.

And with little suburban office construction, the same focus on existing buildings is occurring regionally. Online data provider CoStar says 13 million square feet of empty office space is available in Northeast Ohio.

Paul Voinovich, a principal at office design firm Vocon Inc. in Cleveland, said the environment is such that "not only are existing buildings becoming more of an opportunity, existing offices are becoming more of an opportunity." He said tenants want to make existing offices work or upgrade at little added cost.

"It's no longer a question of attracting and keeping employees," Mr. Voinovich said. "It's a question of, 'can our employees live with this? They should be glad they have a job.' It is a very different outlook from six months ago."

Tenants now want short-term deals of five years or less to be nimble so they can adapt to changes in the economy, said Rico Pietro, a vice president at the Cresco brokerage in Independence. Landlords need long-term leases for pricey updates or to construct new buildings.

Moreover, bargains are surfacing as companies vacate offices where they still are on the hook for rent.

"There is a constant stream of new sublease space hitting the market that is aggressively priced," said George Hutchinson, CEO of Valley View's Allegro Realty Advisors.

More empty space likely will hit the market from business mergers and failures, such as when PNC Bank of Pittsburgh consolidates operations with National City Corp.

"We could have an organic building boom as this happens," said Al Wiant, a senior vice president in CB Richard Ellis's Cleveland tenant representation unit.

Mr. Wiant said the market's challenges worry him as a resident of the region.

"If you can put aside your self-interested motives as a mid-career professional (who could make more money if landlords are hungry), the community and the city absolutely has to get a handle on this," Mr. Wiant said.

CB put downtown vacancy at 18% and suburban vacancy at 17% effective Jan. 1. CB calculates companies could shed more than 2 million square feet of office space.

However, Mr. Wiant believes there is an opportunity lurking in the bedlam: Owners of existing buildings could quickly renovate at a much lower cost and catch this new frugality. A rent of \$35 a square foot for a new building was a tough sell before; now, good space at \$20 a square foot is doubly attractive as existing leases expire.

### **Drawn to the city**

Capitalizing on bargain rents is a city of Cleveland strategy, said Tracey Nichols, Cleveland director of economic development. She noted that as a factor in recent deals that attracted tech firms here from other regions.

With funds for tenant updates tight, she noted the city of Cleveland's vacant property initiative allows a company to obtain a partially forgivable loan of up to \$300,000 to help retrofit office space if a building is more than 40% vacant or it occupies an office emptied by more than 50 lost jobs.

The region might even catch a new tide rising in the recession. Mr. Pietro said there are multiple requirements afoot nationally to combine operations to slash costs that could be a fit for the region's cheap offices — and aid its economy.

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