ON THE GROUND: CLEVELAND

Rents and vacancies are hovering at healthy levels

Here is what people may know about Cleveland: It is an old industrial city; it is losing population; it has a football team that could stand to win a few games. Here is what people may not know about Cleveland: It is a great retail town.

Between 1998 and 2008, the Cleveland metro area saw roughly 1 million square feet of new retail construction annually, according to Keith Hamulak, a Cleveland-based vice president of retail brokerage at CBRE. Then the recession hit. And this might lead one to conclude that, given all that new construction, the market did a nosedive. And one would have concluded wrong. “You don’t do speculative building in northeast Ohio,” said Hamulak. “Most of the projects that were built had an anchor and were probably 70 percent leased before they even broke ground.”

Vacancy rates, even during the heart of the recession, were never worse than in the low double digits and are today under 10 percent. Rental rates, which were at about $15 to $17 per square foot at the start of the recession, eased upward during the recession years and are now at about $18 to $20 per square foot.

For some developers, vacancy and rental rates are even higher. One of Cleveland’s biggest retail developers has been locally based Stark Enterprises, with some 6.5 million square feet of space in the region, including such high-profile projects as the massive, mixed-use Crocker Park and the upscale Eton Chagrin Boulevard shopping center. “The Cleveland market is doing very well,” said Stark Enterprises President and CEO Robert Stark. “In our retail developments, we are 98 percent occupied — the highest rates we ever had.”

That sort of performance has translated into high lease rates. Even if one strips out Stark Enterprises’ high-end centers, the company’s plain-vanilla strip centers are getting lease rates in the mid-$30 range. New retailers to Cleveland look to Stark Enterprise developments. Cleveland’s first H&M and Urban Outfitters came to Crocker Park, while Eton Chagrin attracted the town’s first Anthropologie, Lululemon and North Face. Eton Chagrin brought in Cleveland’s first Tiffany & Co. store too.

Stark Enterprises’ strength has always been in the affluent Cleveland suburbs, but Stark says the next wave of opportunity will be in the city proper. “There has been a boom in downtown Cleveland and in the various interesting and ethnically diverse neighborhoods of Cleveland proper,” Stark said. “It is a very hip, happening place, and it all has hit a remarkable tipping point.”

Hamulak concurs. “Cleveland has so much momentum with its urban core — with a lot of new multifamily development, convention center and office buildings,” Hamulak said. “It’s phenomenal. I’m looking forward to the next 10 years.”

There is opportunity for retail in this Cleveland boom, says Stark. “We are on the cusp of urban-style retail finding its place in downtown,” Stark said. “In the smaller neighborhoods that surround the downtown, there has been an explosion of local-owned, chef-driven restaurants and coffee-roasting concerns.”

The locally owned Heinen’s supermarket chain has committed to opening a full-line store in downtown Cleveland. Otherwise, most new retail leasing deals downtown have been done with eatery chains such as J. Gumbo’s, Jimmy John’s and Potbelly Sandwich Works, and soon, a Chipotle. Heinen’s and these restaurants are out to serve an area where the multifamily sector is 95 percent leased and the waiting time for an apartment is about six months.

Downtown Cleveland boasts about 15,000 residents. Over the next three years, that is expected to double, and then over the three years following that, to double again, according to Stark. “There have been rumblings from national retailers, which would like to be in the urban mix,” he said. “If the right opportunity presented itself, those retailers would want to be a part of it.”  — Steve Bergsman

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