2025 Emerging Trends in Real Estate
Cleveland

ULI Cleveland

Emerging Trends in Real Estate
2025

Content

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Prepared For ULI Cleveland

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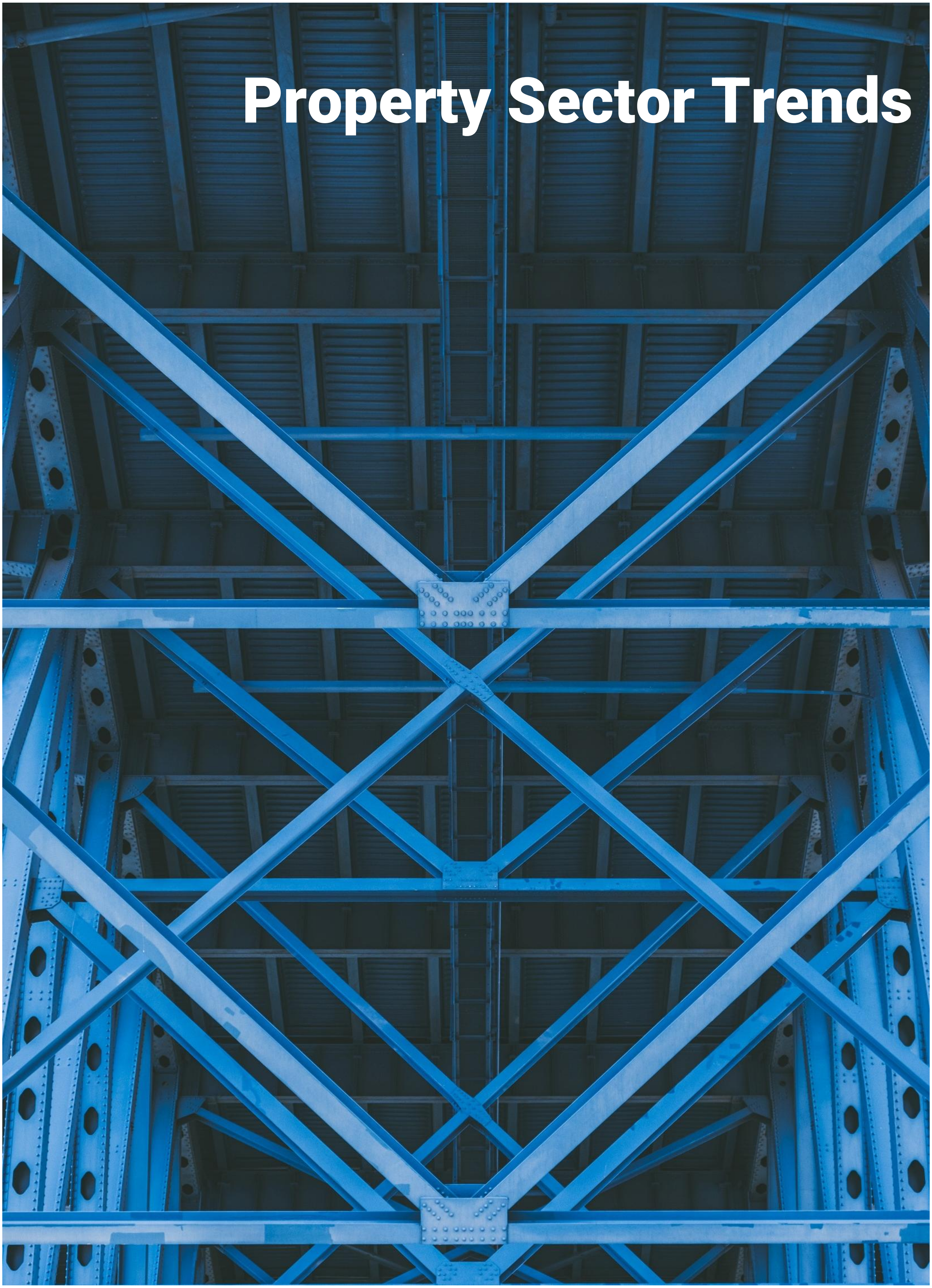
Property Sector Trends



Office Market

Jack Newton

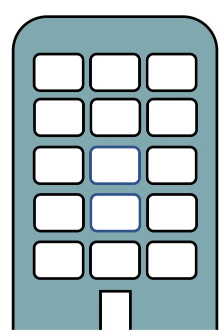
Like markets across the country, Cleveland's office sector has continued to soften as remote work and other Covid hangovers play out. However, due to the market's lack of new supply prior to the abovementioned trends, overall vacancy remains below the national benchmark. CBRE Cleveland's *Office Figures Q4 2024* report, overall vacancy only increased by 2% year-over-year to 15.9%. For reference, Cincinnati's office vacancy rate currently sits at 21.4% and Columbus at 22.1%.

Broken down by submarket, downtown Cleveland has the highest vacancy rate (19.5%) with strong suburban office corridors in the West, East, and Southeastern submarkets continue to maintain vacancy levels around 10%. A bright spot for the central business district is year-to-date absorption in December 2024 was nearly 40,000 sf. Rightsizing will continue in the near future as large leases signed prior to Covid/remote work will be up for renewal and tenants continue to shrink their footprints. The completion of Sherwin Williams' new headquarters on Public Square is another positive milestone that will come online in early 2025.

Cleveland continues to be a nation-wide leader in office conversions, which has helped buoy the office market. Developer Bluelofts completed the $100 million adaptive reuse of the former Ohio Bell headquarters in 2024, turning the 1985 office building into 357 multifamily units. The conversion of the adjacent Erieview Tower gained momentum throughout 2024, receiving its senior loan as well as a variety of tax credits. According to *Crain's Cleveland*, "the $200 million endeavor includes state and federal historic tax credits, C-Pace financing, funding from Ohio's Brownfield Remediation Program, local tax abatements and tax-increment financing, and senior debt through Huntington National Bank." The 40-story tower will be converted into a Marriott-branded hotel and adjoining residences as well as upgraded office space.

Cleveland has had to be creative with its office space for several decades, and it has created an ecosystem of adaptive reuse professionals. The creation of the Erieview Historic District, an initiative driven by many local preservation experts, unlocked both State and Historic Tax Credits that are instrumental to executing projects of this scale in an affordable Midwestern market. Though the office market overall will continue to evolve, the Northeast Ohio region is familiar with these challenges and should be up to the task of evolving with the trends.

Figure: Return-to-Work Update, Dec 2024



58.1%

Share of Downtown Cleveland Workforce Back in the Office

Source: Downtown Cleveland, Inc

Industrial Market

Jack Newton

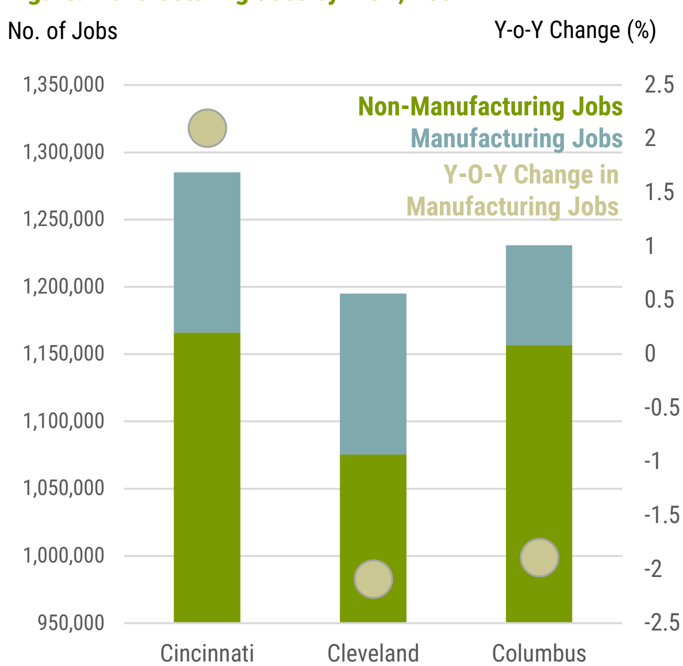
Cleveland's industrial market remains tight, with a vacancy rate of 2.8% according to CBRE's *Cleveland Industrial Figures Q4 2024*. The report notes that this is the third consecutive quarter that the vacancy has held steady, attributing the trend to a reduced construction pipeline starting in 2022. Like other property types, the industrial market has been impacted by higher interest rates. This has caused most new construction to be either owner-occupied or built-to-suit projects.

Because space is limited, asking rents have increased year-over-year, though rent growth lags behind regional peers that specialize in logistics and distribution. Rent growth should remain positive in 2025, which should lead to construction starts as large spaces continue to become less available.

Capital markets were active in Cleveland's industrial sector, with a number of large transactions occurring around the region. One notable industrial property sale is the December 2024 acquisition of Sysco's Cleveland distribution hub for $44 million by New York-based Blue Owl Capital's Chicago office. The deal is part of a sale-leaseback agreement, meaning Sysco will remain on site. Another major sale occurred when Rochester-based Royal Oak Realty Trust purchased Riddell Sports Group's North Ridgeville plant for $36.5 million in April. 2024. Buyers will continue to find opportunities in Northeast Ohio as rents, construction pipelines, and vacancy remain stable.

Cleveland's manufacturing sector continues to shed jobs. Between January and December 2024, the sector lost roughly 1,500 jobs. The impacts of a potential trade war and domestic manufacturing incentives will be front and center in 2025, though the lack of a boom-bust approach to Cleveland industrial should cushion the region from any tectonic shifts.

Figure: Manufacturing Jobs by MSA, Dec '24



Source: OH Dept of Jobs and Family Services, Q1 2025

Retail Market

Jack Newton

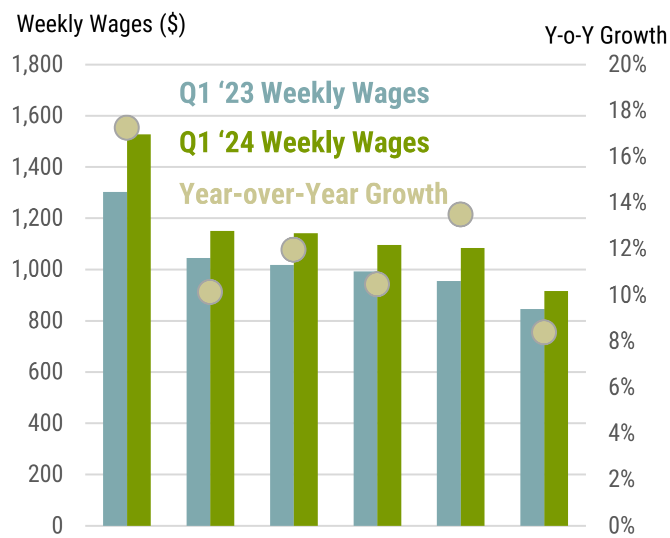
Once viewed as a doomed sector, brick-and-mortar retail continues to rebound from the negative impacts seen by ecommerce in the early 2020's. Consumer preference continues to evolve as Gen Z grows its purchasing power, driving change in how retailers engage with their buyers. Additionally, according to CBRE's *U.S. Real Estate Market Outlook 2025*, "[e]conomic uncertainty and high inflation have made consumers more budget-conscious, often prioritizing essential goods that account for approximately 65% of consumer spending." This second factor may ring especially true for the Cleveland area, which consistently ranks as one of the poorest big cities in the United States.

Retail performance has seen bifurcation over the last decade or so, with centers like Crocker Park perform exceptionally well while others become vacant. This has caused several former malls to be reimagined as distribution centers for ecommerce—a poetic evolution—and mixed-use developments like Belle Oaks, located on the former Richmond Town Square Mall. Though no new malls have been built in the area for a decade or so, successful centers have been adding new spaces/retailers, according to Marcus & Millichap.

Downtown Cleveland's retail occupancy sits at 80% as of Q4 2024. The neighborhood added 29 new establishments over the past year, split relatively evenly between food/beverage and goods/services establishments. Downtown Cleveland, Inc, remains "focused on creating the environment for retail to succeed through targeted streetscape and public space improvements, strong research and marketing, and a business attraction strategy that supports retail brokers in the community."

Big box retailers like Meijer continue to invest in the area, offsetting some of the closures. In December 2024, the retailer purchased land in Chardon for $5 million. These transactions in addition to retail's ability to pivot with consumer preferences should bode well for the sector, though economic headwinds may occur in 2025.

Figure: Weekly Wages and Y-o-Y Growth by County, Q1 '23–Q1 '24



Source: Bureau of Labor Statistics, Q1 2025

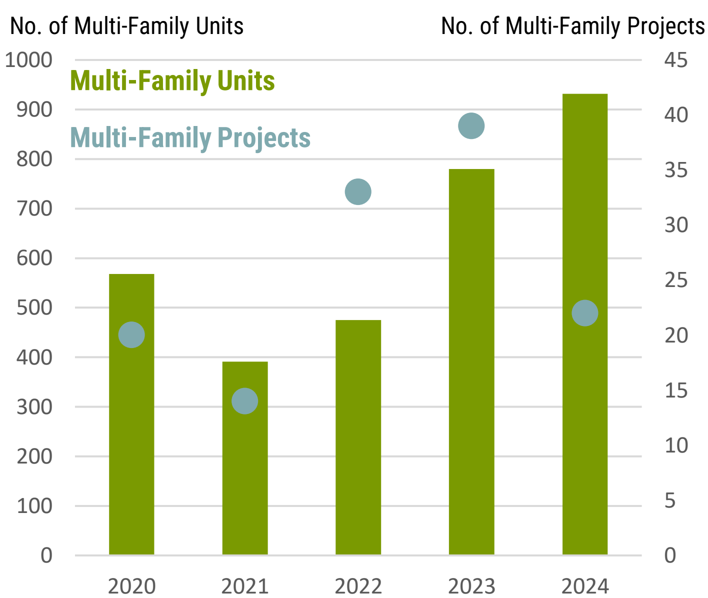
Multi-Family Residential Market

Sean Dittoe

As another year of data comes to a close it was an exciting and interesting year for the Cleveland Multifamily market. Last year's report highlighted an abundance of new units coming to the market raising questions as to whether or not the city was ready for such a surge in units, while this answer remains unclear due to some of the new product still in lease-up we can begin to paint a picture of what 2025 has in store for the multifamily market in The Forest City.

While job growth has been steady and the unemployment rate in the Cleveland MSA has trended downward, our vacancy rate still sits above 0.2% the national average of 8.0%. A lack of income growth as well as overwhelming demand can be attributed to a lackluster performance on the vacancy front. Only two of Cleveland's submarkets posted positive absorption figures over the last year. Those two markets were Downtown and South Cleveland. While these two submarkets have padded the overall market statistics, we need to see other parts of MSA grow in similar ways if we want to get vacancies down below that 8% benchmark.

Figure: Multi-Family Units and Projects by Annual Total, 2020-2024

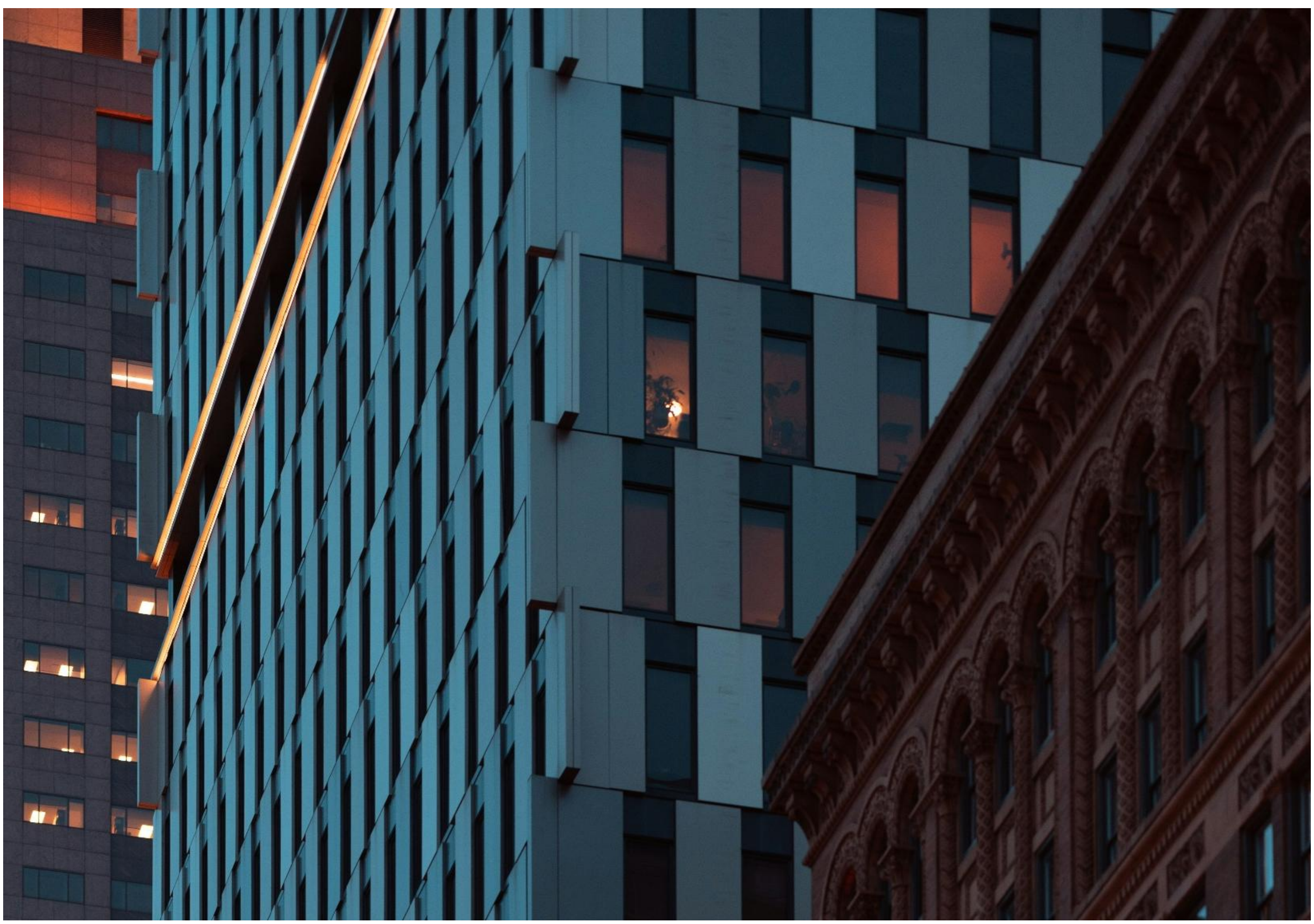


Source: US Census Bureau, Q1 2025

While from a vacancy standpoint the market has somewhat struggled the Cleveland MSA shines in other places such as rent growth. We saw rent growth in three consecutive quarters, a trend that is likely to continue into 2025. Downtown Cleveland has the highest rents in the entire MSA coming in at $1,690/month, 42% above the market average. The large number of new products continues to weigh down on the potential rent growth that we could be seeing. This is a recurring issue when looking back at last year's report. However, projections from The Downtown Cleveland Alliance continues to show great potential with the 2032 projected population coming in at 26,000 people in the downtown market alone.   The strong performance of Midwest markets we saw in 2023 has continued into 2024 with no exception being made for the Cleveland MSA despite the slightly high vacancy figure. It seems likely that the additional supply coming into the market will be met with increased demand as we continue to see strong rent growth paired with healthy jumps in employment and job growth. Cleveland ranks among the top 10 markets in the US in terms of rent growth, seeing a 2.9% jump over the past year when looking at the entire Cleveland MSA. However, we saw weaker growth in Downtown Cleveland submarket at 1.8% YTD. At 3,000 units construction remains near record levels but when put in perspective to other top MSAs total development activity is overall lower than other comparable MSAs.

Some notable deliverers we saw Downtown in the past year include The Bell with 367 units, the largest project of the year. This kind of project is something that can impact rent growth due to the sheer number of units it has when compared to the number of new households created in the market. However overall demand for new units remains as there are 940 units currently under construction downtown alone which is good for 6.1% of the current inventory. The majority of the new units coming to Cleveland in 2025 are down on Scranton Peninsula, a new frontier for development. We can expect to see 300 units delivered by JRoc and another 600 units from NRP over the next several months. It will be interesting to observe how these projects perform in a relatively uncharted part of the Cleveland market.

Overall, the Cleveland market has held strong through 2024 and 2025 is shaping up to be another strong year for the MSA, and the city. Continued growth and success of the Cleveland Multifamily market will continue to be mostly reliant on creative financing and various sources of abatements. There continues to be an incredible amount of potential all around, let's hope that we can take that potential and turn it into reality.



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