

A bright 2015

Unexpected 2014 economic twists turn spotlight on new opportunities

INTERVIEWED BY DENNIS SEEDS

The year 2014 brought some unexpected turns in the economy, and those events will affect what happens in 2015 to a large degree, says Joseph V. Barna, a principal at Cushman & Wakefield/CRESCO Real Estate.

“In 2014, it was thought interest rates would rise,” he says. “They didn’t. The global economy grew a lot slower and weaker than anybody anticipated, our Northeast Ohio economy continued to rebound. Additionally, oil prices came down. With those things occurring, they set the stage for what will happen in 2015.”

Smart Business spoke with Barna about the trends Northeast Ohio real estate investors might want to watch in 2015.

What statistics from 2014 indicate some positive real estate news?

In the industrial market, 2014 ended at about 6.2 percent vacancy, which for Northeast Ohio was extremely low, probably the lowest in the last decade. In comparison, at the end of 2013, the figure was 7.9.

The primary drivers to this activity were automotive, health care concerns and logistics.

The other highlight of last year was that new absorption in the market was more than 3 million square feet, which is also a sign that the economy is turning around in Northeast Ohio, following the national trend.

What kind of new development activity is occurring?

For the first time in a long time, there is speculative development in Northeast Ohio. There are five projects breaking ground totaling more than 1 million square feet that will happen this spring. These projects will drastically impact the pent-up demand in the market, specifically in the bulk distribution-

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type high-bay facilities, capable of racking and stacking product to take advantage of the cubicle space.

When the economy takes a turn, what typically happens first with real estate?

The good, functional existing inventory gets absorbed. When that inventory is nonexistent, or is low, build-to-suits and speculative construction are the next option. Once these projects get underway, they fuel a whole different market sector that has not experienced growth in a long time.

Also, because the market is so tight, lease rates are finally starting to escalate, which is good for the owners. Sale prices will also increase due to lack of product on market.

There has also been an unprecedented interest in Northeast Ohio by out-of-state investors and developers who are asking, ‘What are you doing differently in Cleveland? What is fueling the downtown residential?’ And the questions go on.

How has residential real estate development increased?

In Northeast Ohio, the activity in urban revitalization is also having a significant impact. The amount of residential housing units coming on the market in the central business district and the first ring neighborhoods confirms that there is an on-going demand for this type of development.

I don’t see it stopping anytime soon.

When these neighborhoods are revitalized, it fuels the services that support the residential area. For instance, a major grocery store presence in the central business district would be unheard of if there wasn’t a significant residential population. A rebirth of retail is very likely to happen to support the residential growth in the inner-city, which is all healthy.

On the flip side, Class B and C office buildings are being acquired and renovated. As they are redeveloped for residential use, many still have some office tenants in them that will be displaced. This should push the vacancy rates down on the balance of the product in the central business district. It’s a positive chain effect all around.

What other factors are driving real estate?

Industries that deal with servicing seniors, software development, health care, medical, life sciences, biotechnology, technology, data centers, R&D-type facilities, logistics and high-tech manufacturing, which is specialized manufacturing that can’t be done out of the country because a skilled labor force is need. In addition, the list should include activities pertaining to area colleges and universities. The region is in a great position in 2015 and will continue to experience the benefits of a healthy economy getting healthier. ●