

HANNA COMMERCIAL NEWSLETTER

1st Quarter 2017

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FUTURE LOOKS BRIGHT FOR NORTHEAST OHIO INDUSTRIAL MARKET

BY: DAVID R. STOVER, SIOR, PRINCIPAL & EXECUTIVE MANAGING DIRECTOR

A S ONE OF THE TOP 10 INDUSTRIAL real estate markets in the United States, with approximately 490 million SF of total inventory, the Northeast Ohio industrial market is strong, healthy and on pace to continue to prosper.

The region is completing a historic year replete with significant events and accomplishments, highlighted by the Cleveland Cavaliers winning the NBA championship, finally ending our city's 52-year drought of titles; hosting the Republican National Convention; the Cleveland Indians coming within one run of winning the seventh game of the World Series in extra innings; and Forbes magazine naming Cleveland the "Hottest City in America".

“The Northeast Ohio Industrial Market is Strong, Healthy and on Pace to continue to Prosper”

While all the excitement was occurring around town, industrial properties were filling up with companies purchasing, leasing and subleasing space at record levels.

The Cleveland economy is comprised of a diverse range of businesses from many different sectors, making it less prone to volatile cycles common in other industrial based regions.

Our local industrial market, which consists of numerous submarkets, had a vacancy rate ranging from 4% to 5% throughout 2016, and the average lease rate for industrial space was approximately \$4 per square foot.

Both of these indicators compare favorably to the U.S. average, which has both slightly higher vacancy and lease rates.

There is a perception around town that there is an abundant supply of industrial properties available for sale or lease, although this is not reality.

As stated before, vacancy rates for industrial properties in Northeast Ohio are at record lows.

There is, however, a disparity between the available properties for lease and those for sale.

Industrial properties available for lease outnumber properties available for sale, thus it is challenging for buyers to locate and secure desirable facilities to acquire. Tenants looking to lease, however, should have many facility options and will be able to negotiate favorable terms and conditions with landlords.

Local investors and out-of-town investors now have a strong appetite to acquire properties, thus leading to decreasing cap rates. All of these events help increase property values and indicate a healthy market.

A major challenge facing growing companies is the lack of available industrial space.

With the shortage of inventory, companies may need to consider building a new facility. Build-to-suit projects were at a tepid pace during the last year, however, with compressed inventory levels and indications of rising interest rates, that may be a beacon of light to developers and 2017 may prove to be a vibrant year for new construction.

EXAMPLES OF RECENT NOTEWORTHY BUILD-TO-SUIT TRANSACTIONS INCLUDE:

- **Arhaus Furniture: 743,721 square feet in Boston Heights**
- **Riddell: 347,205 square feet in North Ridgeville**
- **Amazon: 250,000 square feet at the Cornerstone Business Park in Twinsburg**

To summarize, the industrial real estate landscape in Northeast Ohio is experiencing historic low vacancy rates, robust activity, numerous sale and lease transactions and rising property values.

The future looks bright for our industrial market -- now, if only our beloved Cleveland Browns could win more than one football game this year!



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HISTORICAL RENOVATIONS WITH ALLEN W. HAGAN, RPA, FMA

BY: MARGARET LILL, EDITOR

AT WHAT POINT IN YOUR CAREER DID YOU NOTICE A RISE IN THE CBD'S HISTORIC BUILDINGS BEING RENOVATED?

I think it started in the early 80s with the buildings that had good bones to them and were strong structurally with the idea that because of the strength of the building, it was better to preserve that building versus building a new and modern building that may not be as well built. They didn't quite restore them so much as take the very well put together buildings constructed in 1895 and repurpose them for the needs of the 80s. Modernizing the interiors as well as the façades on them. After that, the 90s brought in a wave of renovation in the Warehouse District. Phenomenal buildings that just didn't have the footprint to meet most modern business needs that were restored to what they were in the 1800s. I think the preservation during the changes to the Warehouse District is really what spurred the community to start moving in that direction. You can see that in the restoration of the theaters at Playhouse Square now; none of those buildings look much different than they did in the 1920s.

WHAT KIND OF AN IMPACT ON THE CITY DID THIS MOVE TOWARDS RESTORING THESE HISTORICAL BUILDINGS HAVE?

I think it made the city realize that they don't need to be a shiny glass city like Chicago. That Cleveland could be itself with an almost European look and feel to it as you walk the streets. That East 4th Street is really a European mall concept. The cobblestone and the brick sidewalks along Euclid really bring us back to our roots as the Midwest. Modern businesses are now seeing the benefit of having a more unique footprint with the interiors of the building having a more modern finish but keeping the exterior and the ambiance of old craftsmanship built facilities.

WHAT ARE SOME OF THE BIG TICKET ITEMS INVOLVED WITH THE RENOVATION/RESTORATION OF A BUILDING?

It really depends on the type of funding you have, where you are, what historical agencies are involved and how much leeway you have. Sometimes an agency won't allow any changes. So if you have a brick that needs to be repaired but only a certain brick pattern is allowed, it has to be matched exactly which can get expensive. Some historical agencies are so detailed that it has to be everything, even items that aren't visible by the human eye.

WHAT ARE SOME "RED TAPE" INCIDENTS YOU'VE COME ACROSS SO FAR?

I was involved in a project at a building that had a basement that no one knew existed. Sometime in the 1800s it was concreted over, but it's still there. It was

discovered while someone was trying to do something in the basement and something happened that caused a hole in the floor and they could see a whole other basement underneath them. Or another building that has a gas well that had been capped off sometime in the 1920s. Things like that have to be dealt with, they can't just be built around. Most of these kinds of problems are discovered during the due diligence period, which is very extensive, but these kinds of unknown contingencies can become catastrophic.

WHAT IS ONE OF THE MORE INTERESTING BUILDING ATTRIBUTES YOU'VE SEEN UPDATED?

The Terminal Tower restoration, which I wasn't directly involved with, but was attached to. It was a really cool mix of keeping the historical integrity of the building using modern techniques. The rotunda in the Terminal Tower was in dire need of replacement, but instead of trying to recreate the plaster work, molds were sent out and so although it's now a synthetic material it matches the exact original.

WHAT IS AN UPCOMING PROJECT YOU'RE WORKING ON?

One of the most exciting things going on that we are working on is the Superior Avenue Corridor. One of our clients owns 9 or 10 properties in an area that stretches from The Plain Dealer at East 21st St. down to East 35th St., with more properties planned. The client is trying to seek historical tax credits and developers to renovate the entire neighborhood to really highlight it and draw people to it.

Allen Hagan joined Hanna Commercial in 1995 as a Building Superintendent, bringing with him 14 years of facility management experience. Mr. Hagan leads and directs the building services staff, management of capital and tenant improvement projects, and aids in the daily operation of properties in the company portfolio of over 3 million square feet. Mr. Hagan has successfully managed large scale projects throughout his career. He oversees multiple roof, HVAC, concrete restoration, parking lot, elevator, and TI projects to conclusion.



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JOSEPH MARTANOVIC & THE CLEVELAND NATIONAL AIR SHOW

THE CLEVELAND NATIONAL AIR SHOW, which arrives in town each Labor Day Weekend at Burke Lakefront Airport, has been a long standing Cleveland tradition since its start in 1929. It underscores Cleveland's long history of exhibiting and working with military and general aviation and is held in the highest regards with air show enthusiasts and participants. It is our country's oldest air show and one of the most highly esteemed in the world.

Joseph Martanovic, Hanna Commercial's veteran industrial real estate broker, started flying in the 1970s, holds an FAA commercial pilot license with instrument rating and has owned several aircraft. When Joe started at Ostendorf-Morris in 1978, now Hanna Commercial, he did aerial photography in addition to being a broker, sales manager and department head. Joe joined the board of the CNAS in 2006 and was elected president in October of 2016.

Annually, the 3-day weekend fete-of-flight brings in approximately \$9 million to the city, displaying not only the most modern and highly technical aircraft, but also the sharpest of the world's greatest jet teams and aviators including the US Navy Blue Angels and the US Air Force Thunderbirds. With the convention for the International Council of Air Shows having just wrapped up in Las Vegas and the choices being made for this year's acts, Cleveland anticipates this year's air show to be no less than impressive.



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