HANNA COMMERCIAL NEWSLETTER
2nd Quarter 2017

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Cleveland’s Transformation of Obsolete Buildings into In-demand Housing
A New Generation of Commercial Real Estate Professionals Defined
Introducing the New HannaCRE.com

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CURRENT AND FUTURE RESIDENTIAL BUILDINGS
In the history of Cleveland, the year 2016 will go down as one of the greatest. The combination of a Cavaliers championship, an Indians World Series shot and a successful Republican National Convention put Cleveland in the world spotlight, looking its best. This unprecedented series of positive civic events adds to the list of positive major transformations in Cleveland’s central city neighborhoods as older properties continue being converted into new and attractive loft apartments and hotel suites.

More and more Cleveland fans are choosing to live in the exciting city neighborhoods. This grand makeover of historic properties from what used to be empty B, C and D office buildings into the latest residential products has been a game changer in Cleveland’s transformation over the past decade. Since the Great Recession’s decline in 2010 and eventual recovery, Cleveland has seen forward movement and upward momentum by successfully converting millions of square feet of Class B, C and D office buildings into what we now know as luxury housing and hotel accommodations.

This addition of renewed and eco-friendly housing has been the opportunity that all generations in the Cleveland area were craving. The transformation of under-utilized, often empty, poorly maintained and functionally obsolete buildings into intelligent, green and in-demand housing -- along with upscale hotel suites -- has been the metamorphosis for which the downtown Cleveland market was asking.

This successful transformation has many catalysts in its creation, including historic building stock, market demand for urban lofts and historic tax credits for the buildings being restored.

According to Michael Deemer with the Downtown Cleveland Alliance, “…the State of Ohio enacted an Ohio Historic Preservation Tax Credit program in 2006 that parallels the federal program (and) these historic tax credit programs provided the financing tools necessary to help Downtown Cleveland take advantage of its historic fabric to meet market demand for downtown housing.”

The creation of these historic tax credits paired with financing programs made available to support new construction has played an integral part in what has now become a boom in the Downtown Cleveland residential inventory.

The soon-to-be inhabitants of downtown Cleveland cannot seem to get enough of this new housing stock with waiting lists and anticipation at an all-time high. According to the DCA, more than 70 properties in the central business district are now considered as some form of loft housing or mixed-use hotel buildings. This notably dramatic shift from mostly vacant and older office buildings to fully tenanted mixed-use residential buildings not only has brought Cleveland to the forefront as a place to do business but also has energized life on the streets of Cleveland.

While the conversion of old office stock since 2010 has reduced the number of office buildings by more than 12 with more than 5.8 million square feet converted, it also has raised the quality and draw of the existing office building inventory. This enables the existing office building inventory to firm up and even increase the office rates for the available office space.

Now for the first time in over a decade, rates in the B office market are on the rise. A new normal has since been created with a high demand for restaurants, everyday services and retail options.

In DCA’s Q2 2016 Retail Market Update, it notes that the new retailers and restaurateurs “exemplify the unique experience that Downtown Cleveland offers residents, workers and visitors” to live work and play.

This positive trend toward historic change was well underway as recent as 2014 as evidenced by an article I wrote for our 1st Quarter 2014 company newsletter: “For the first time in Cleveland’s history, negative Class C office has a very viable alternative use: historic loft housing,” and later, “as the demand for trendy, modern downtown apartments continues to climb, we will likely see other CBD buildings in Cleveland consider the switch to residential.”

These conversions add a new and ever-growing enthusiasm to the positive impact these projects will have on not only the Cleveland business district’s office vacancy rate and draw for new business but also the promise of innovative retail and mixed-use developments.

Looking forward to this year’s projects, the DCA states that “1,000 apartments will be delivered to the Downtown Market (West Bank of the Flats to East 30th/Inner belt), including three adaptive reuse developments (Leader, Garfield, and Standard Buildings) and three new construction developments (The Milton Townhomes, Sankofa Village and The Edge).”

The future is still unknown, and as Abraham Lincoln once said, “the best way to predict the future is to create it.”

One thing is for certain in the near future is that Cleveland’s historic cool buildings will continue to be in strong demand.
THE TERM “MILLENNIAL”: DEFINITION OF
the word is “a person born in the 1980s or 1990s,” but over the last 5 years, it has become a word with more characterizations than mere birth year. The term, for good or bad, stripped down to the minimum really just means our working class’ next generation. The youth that adds innovation and idealism to the “now” that in most young people’s eyes appears static. Every generation has what would be considered a millennial: the youth that looks ahead to take over for the mature ready to take a step back.

In commercial real estate, millennials are only beginning to make their marks seen and voices heard with most of us having started our career paths during a recession leaving many positions in the field non-existent. At Hanna Commercial, a new and bright generation of youth is starting to find the momentum needed to continue with the necessary functions of running a commercial real estate firm. What builds this momentum though? What motivates the up and coming generation to choose a profession in commercial real estate? What kind of roadblocks have they come across and how have they successfully maneuvered around them? What ways do they see the period they grew up in as an advantage? Moreover, what do they see for the future of Cleveland? To answer these questions, I took the time to speak with my compeers at Hanna Commercial.

To start, I asked what interested my fellow generation about commercial real estate and why they started in this business. When asked what lured her into commercial real estate, Madison Mawby, National Transaction Coordinator, said, “I was unhappy in my position as a business analyst in the retail world. I knew I wanted something more entrepreneurial and something that was far from monotonous.” Kevin Callahan, Sales Associate, said, “if you put in the time, effort and discipline it will pay off in the long run;” while Cameron Price, National Auction Coordinator, noted that he “felt like Cleveland was on the verge of making a comeback and wanted to be a part of it.” An entrepreneurial spirit, drive and a love for the community in which you live. These elements combined were consistently brought up as the driving force for many of the young professionals making the leap into commercial real estate.

Even with all of this zeal, roadblocks appear even for the most passionate and driven of us. Through these problems, solutions and sincere determination are born. When asked what the most common roadblock is in commercial real estate, the answer was mostly universal: networking opportunities. As Sean Rooney, Vice President, said, “…it can be easy to get lost when trying to determine which groups offer the best chance to expand your contacts in a meaningful way. There is no way to recreate long-term and family relationships.” Where to start, what qualifies as a good connection, who will help move your business forward? As Madison Mawby said, “I think continually putting myself in uncomfortable situations helps.” Forsaking the intimidation created by exposing yourself to new people and new experiences, these young mavens are willing to initiate the proverbial handshake, but without direction and an introduction to these situations from the older generation, this zeal may stay in a potential state. A possible resolution? “Hanna could host and promote our own networking events to invite potential clients, partners, colleagues, competitors, etc.,” suggests Madison Mawby. In a business built on relationships and nurtured with trust and professionalism, one can only conclude the right connections will always be the best route forward.

When asked what advantage they may have based on the times they were brought up in, the consensus was technology. Not surprisingly, technology was also noted as what keeps improving how business is done. Emails available at any time because of mobile devices, tablets to make presentations, meetings and showings more robust with information at your fingertips as well as easy viewing, and smoothly picking up new tasks due to the conditioning one needs to keep pace with the changes in technology. Cheng-Han Yu, Sales Associate, suggested a product already used in retail stores: “I would like to have a product like Apple’s staff (is) using in the store. (Then) we can type in (the) client’s information and have them sign (a) listing agreement or representation agreement right away.” The desire to move from a paper based system to a more tech-savvy method of keeping on top of client contacts, meetings and even documents is often what the younger generation, who is most accustomed to this way of life, is pushing for.

To finish, I asked everyone to play the role of soothsayer and share some of their thoughts on the direction of the Cleveland Market. Cheng-Han Yu said, “…both retail and industrial market vacancy are less than 5%, which is a historic low… I believe the bull market will keep staying for another 2 or 3 years, depends on how the interest rate(s) will shift. Year 2020 will be a critical year to see how the real estate market will go for the next step in Cleveland”. Madison Mawby stated, “Office needs are changing, people want smaller, more efficient, “cool” space so I would imagine there will be a great deal of renovations to the office sector in the future.” Overall, everyone had a positive attitude when giving his or her response, seeing the sun rising versus the sun setting.

Youthful, energetic, open minded, community-centric, tech savvy and optimistic: even if these words don’t define every millennial, they certainly define the millennials here at Hanna Commercial.
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