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Fighting through the recession in Cleveland

by Dan Rafter

It's rare that Cleveland gets compared to Las Vegas. But it's happening today, and it's the Midwest city on Lake Erie, rather than the glittery oasis in the desert, that's getting the favorable reviews.

Just ask Terry Coyne, senior vice president with the Cleveland office of Grubb & Ellis.

"Relatively speaking, Cleveland is doing OK in today's commercial market. It's certainly doing better than Las Vegas," Coyne said. "I had one large developer tell me that Ohio is one of the few bright spots in the country right now. Rents in Florida are down, what, 50 to 60 percent? We're not seeing that here."



The Cleveland skyline

Cleveland, like all major cities, has seen commercial construction slow during the real estate slowdown that's swept across the country. Its real estate pros are taking on fewer deals. Financing is tough to come by as the credit markets still haven't thawed.

But when you compare the city to other markets, to former hotbeds of activity in Florida, California, Arizona and Nevada, the commercial market in Cleveland looks positively vibrant.

Coyne and other commercial real estate pros point to one factor: Cleveland never saw the dizzying heights that other markets saw during the real estate and economic boom times. That means, too, that it isn't experiencing the sudden drops now that other cities are facing.

The city is also home to some commercial sectors that are actually doing quite well. The multi-family market is holding its own, while healthcare construction - paced by the city's two major healthcare systems, the Cleveland Clinic and University Hospitals - remains a bright spot.

There is even continuing discussion of bringing to Cleveland the Medical Mart, a permanent showroom facility for medical manufacturers. Though a site, and firm plans, for this project is still being debated, it's a sign that the city's healthcare market is a viable, energetic one.

"Cleveland has long had a thriving healthcare market," said Bill Gagliano, partner and chairman of the real estate group with Cleveland-based law firm Ulmer & Berne. "It's one of those things, I think, that people who are not from the city are surprised by. We really do have a thriving, active healthcare industry here."

Industry hasn't stopped

Coyne specializes in the industrial market. In many cities, this would mean tough times. But when Coyne looks at the Cleveland market, he sees a city where, yes, industrial construction and activity has slowed, but also one where industry is still a major part of the urban landscape.

Cleveland has always been set up to be a favorable place for industrial developers, Coyne said. And that's something that hasn't changed, even as the country's recession continues.

"We don't have a lot of spec building going on here," Coyne said. "Our rents grow a little bit each

year. Our cap rates are higher. There is less competitiveness than in other markets. In all, the industrial market here is more favorable to the developer."

There are still deals being done in the industrial market, Coyne said.

"Industry hasn't stopped," he said. "People are still waking up in the morning and going to work. This market has never been one that's experienced a lot of growth spurts only to get crushed and be left with nothing to fall back on."

On the office side, Cleveland is still seeing a fair share of deals, Coyne said, and vacancies have gone down. But a lot of the deals are tenants moving from Class-B office space to Class-A. The reason for this? The sluggish economy. Tenants can upgrade to nicer office space and pay rents that aren't as high as they would be in a stronger economy.

"You can upgrade now with out spending as much as you would in years past," Coyne said. "It's a boring, slow, reasonably safe market here. And we're fortunate for that."

Doing well in a tough economy

Ray Fogg Jr., president of Ray Fogg Corporate Properties in Cleveland, said that his company, too, is still making deals even as the national economy sputters.

Ray Fogg Corporate Propertis has a portfolio of just under 2-and-a-half-million square feet, Fogg said, most of it in the Northeast Ohio market. The occupancy rates of these properties are higher today than they were at this time last year, he said.

The company's active lead pool also remains at the same level that it's been at for the last 12 months, Fogg said.

There is one big difference, though, Fogg said: It's taking longer to close leases and deals.

"That's without question," he said. "Everything is moving much slower in comparison to a year ago at this time when deals and leases were closing at a fairly rapid rate."

Fogg says that Cleveland is poised to survive the economic slump better than many markets largely because the city's real estate market never experienced the rapid recovery that the rest of country did following the economic downturn of 2001 and 2002.

It actually took Cleveland about five or six years to climb out of that slump, Fogg said.

"We never did get back all the way where we were," Fogg said. "We almost did, but not quite. Therefore, we didn't have as big a bubble to burst here. Cleveland has almost always fared better than the rest of the country. We have peaks that are as big or valleys that are as deep."

Of course, Fogg, along with Coyne, is a realist. He knows that Cleveland, despite its steady nature and diverse commercial markets, isn't totally immune to the economic slowdown. There aren't many markets, if any, across the country that are.

But Fogg still considers himself fortunate to be doing business along Lake Erie, where "slow and steady" is a way of business life.

"I'm not saying that the market here isn't taking any hit," Fogg said. "To talk broadly about our economy, and not just the real estate market, there are certainly people losing their jobs. I'm not saying that we're not seeing any negative effects here. But we are poised to have a quicker comeback. We haven't overbuilt here. We haven't had a lot of speculative construction. All of those things that contribute and make a market's suffering worse don't exist here."

