2015
Real Estate Trends in Northeastern Ohio
BACKGROUND

This is the first edition of The ULI Cleveland District Council's Real Estate Trends in Northeastern Ohio. It takes the pulse of the region's real estate market, including capital markets, various sectors of property types, and geographic submarkets. This survey complements the national PWC/Urban Land Institute's Emerging Trends in Real Estate, adding an in-depth local perspective to the national survey's insights on the U.S. economy and real estate markets.

In September, ULI Cleveland distributed a link for an online survey to its e-mail contact list. The survey was available between September 15th to October 4th and 63 non-random responses were collected, a response rate of about 6%. Additionally, 12 in-person interviews were conducted with key local experts from the private and public sectors across a range of professional disciplines, in particular real estate development, management, finance, and planning.

The information presented in this report includes quantitative data and open-ended comments from the online survey and quotes from the personal interviews.

EXECUTIVE SUMMARY

The survey provides a general overview of how the respondents view the market for various sectors of the real estate industry. It should not be used as a basis for investment decisions.

About half of survey respondents are in management at their companies, and their companies are reported as active in markets both in and outside the State of Ohio.

Main points drawn from the responses are:

- Generally, the Cleveland market is good for the real estate business, and consensus is that it should be better next year.
- Respondents expect to see a good profitability in real estate businesses in 2015, especially apartment/multi-family developers.
- The most important issues for real estate investment and development in 2015 are construction costs, vacancy rates, land costs, and infrastructure funding/development.
- Apartments are the most active sector in Northeastern Ohio now.
- Northeastern Ohio is also seen as better for multifamily developers and private local real estate owners compared to other markets.
- Though inflation and interest rates are expected to increase modestly in the next few years, most respondents are optimistic about capital availability and believe they are in good position with respect to financing.
- Retail is viewed cautiously with a shift away from large regional centers to smaller community based retail.
- The hottest submarkets are identified as University Circle, Downtown Cleveland and Bay Village/Westlake, in which respondents expect good and excellent real estate prospects.
- All respondents regard the economic health of the region as vital to continued growth.
- Over one third of respondents think taking into account wellness- and health-related building or design features in businesses are important.

After several cold years subsequent to “The Great Recession”:

There’s a lot going on in Cleveland which is exciting. For many years, how goes Cleveland is how goes Northeast Ohio.

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SURVEY RESULTS

Methodology

A total of 63 respondents participated in the survey. Survey respondents chose and answered questions related to their professions, thus different sectors have a different number of responses. Not all respondents answered every question in their chosen sectors. Most questions before the property sector component of this report (apartment, retail, office) have sufficient sample to be instructive (typically 30-60 responses). Each of the sector responses have about a dozen responses, partially because housing people did not answer retail questions, and vice versa. This is at the lower end of the range of acceptable samples, and these results should be viewed with caution. When the number of responses falls below ten, these results should only be considered as anecdotal evidence of trends.

The questions were asked in varying formats. To provide a better comparison, the CSU Levin College research team converted selected answers to standardized results on a 1-5 Likert scale. For example, abysmal prospects are assigned a score of 1, poor scores receive a 2, fair scores a 3, good scores receive a 4 and excellent scores are 5. The same scale is used for comparison of prospects: running from much worse (scoring a 1) to much better (5).

Cap rates and interest rates in the report are not recorded as actual percentage points, but relative perceived changes in trends. Falling cap/interest rates are desirable and mean bigger asset value. For our purposes, a larger number reflects falling cap rates, lower risk, and a better investment climate. Thus the right side of the scale (5) is always favorable. The lower numbers on the left side (such a 1) reflect rising cap rates or interest rates, and lower property values.

Survey Respondent Characteristics

Professional service firms represent the largest share of survey respondents at 32%, followed by brokerage (23%) and private developers (18%). See Chart 1

Over half of survey respondents are Vice President (22%), director/manager (21%) and owner (21%) at their firms. Generally, respondents range across different levels from CEO to Associate. Over half of respondents are in the management level of their companies.

With respect to which markets respondents are active in, nearly half of the respondents’ organizations (41%) are active in markets both in and outside Ohio. 27% of respondents are focused on Northeastern Ohio real estate market only.
General Business Prospects

Overview

Survey respondents expect their real estate business (all sectors combined) to do slightly better in 2015 compared to 2014. 42% of survey respondents expect profitability to be good or excellent in 2015, compared to 38% in 2014. A total of 51 respondents answered this question, and Chart 3 shows the number of people and their expectations.

Overall, the Cleveland market is viewed as good for the real estate business and it appears to be getting better next year.

We generally view NE Ohio in a very optimistic light and feel that the positive momentum will continue for the next couple years.

Business expectations

Among real estate sectors, new multifamily development has the highest profitability expectation in Northeastern Ohio in 2015, which scored 4.0. Followed by REITs (3.7), real estate investment management (3.7), private local real estate owners (3.7), real estate brokers (3.7) and commercial developers (3.7). Those respondents who are homebuilders/residential land developers are expected for the lowest profitability (3.1). Chart 4 shows this information.

According to the survey responses, over half of the multifamily developers (56%) believe business prospects in Northeastern Ohio are better than other markets. This is supported by architects and designers (44%) and commercial developers. REITs have the lowest business expectation, at 3.0, or the same as other markets.

Chart 4: Prospects for Real Estate Business in Northeastern Ohio in 2015

Chart 5: Business Prospects for Northeastern Ohio in 2015 Compared to Other Markets
All 46 respondents on this issue are expecting good profitability in their real estate businesses in 2015, especially multifamily developers and private local real estate owners, who believe Northeast Ohio is better.

One respondent explained:

*On the multifamily side, I think there’s a few drivers for its strong performance. On one side, you see the empty nesters wanting to move back into the urban cores and be close to that kind of lifestyle. You also have a lot of recent college graduates in that 25-35 age group that are saddled with a lot more debt than my (the previous) generation was coming out of college and can’t afford a home. So, they have to rent and they also want that urban lifestyle.*

Chart 6 presents the factors seen to affect market potential. Respondents believe that construction costs (3.7) are the most important issue for investment and development in 2015. Other factors including vacancy rates, land costs, and infrastructure funding/development are about the same importance, which all rated above 3.5. Risks from extreme weather are the least importance issue.

In general, increasing costs are the biggest concern of real estate investors and developers.

*We’ve started to see the acquisition of properties beginning to get tougher for clients due to the change in cap rates, which has driven the values up.*

**Capital Markets**

**Inflation, interest rates, and borrowing costs**

Inflation and interest rates are expected to increase moderately in 2015 as well as over the following five years, with average scores above 2.0.

Long-term rates (10-year treasuries) are expected to see the highest increase (2.5) in 2015, while respondents believe in the next five years, short term rates (1-year treasuries) will increase the most (2.2). 31 participants answered this question (See Chart 7).

Though generally inflation and interest rates are expected to increase in following years, most respondents didn’t show much concern.

*I don’t think interest rates will play a major role in development in the near term. Financing will remain affordable in 2015.*

**Chart 6: Importance of Various Issues Affecting Investment and Development in 2015**

**Chart 7: Expected Change in Inflation and Interest Rates in 2015 and Beyond**
Underwriting standards

According to 31 responses, underwriting standards for real estate equity and debt are expected to stay about the same in 2015. Underwriting for core investment is the most stable, with scores of 3.0, while underwriting for opportunistic investment is more rigorous (2.5) in 2015 than 2014 (see Chart 8).

Capital availability

All 31 survey respondents expect to see both equity and debt capital to be more available in the upcoming year. According to survey responses, institutional investors (3.7), foreign investors (3.6), private REITs (3.6) and private companies (3.6) are expected to see the largest increase in the availability of equity capital. (See Chart 9)

Sources of debt capital and the availability of commercial bank debt are expected to increase the most (3.6). For most sources of debt capital, especially the public REITs and government enterprises, the availability is expected to increase in 2015 as much as it is for equity.

Overall, 45% of the respondents believe equity capital for real estate investment is in balance, while 36% of respondents think it is undersupplied. Most think debt capital is in balance. However, half of responses think debt capital for development/redevelopment is undersupplied. The normal time horizon for real estate investing is 3-5 years or 5-10 years.

In general respondents are optimistic about capital availability.

We’ve positioned well from a financing side.

Untraditional capital sources, including foreign investors (for example EB-5), are playing an important role in real estate financing.

Continued emphasis on development and redevelopment due to obsolete structures and availability of unconventional financing.
Northeastern Ohio Market

Overview

According to the 58 survey respondents, job growth, income and wage growth, and interest rates are the top three most important economic and financial issues for real estate investment and development in 2015, and rated between 3.8 and 3.9. Energy prices and inflation are the least important (see Chart 11). In general, all the issues are rated of at least moderate importance.

There is concern about job and income growth. Respondents think this is the most important factor that would affect future real estate investment.

Next to job growth, income and wage growth, and interest rates are also important. Energy prices and inflation are the least important issues. However, all the issues are rated of at least moderate importance.

Chart 11: Importance of Economic and Financial Issues for Real Estate Investment and Development in 2015.

<table>
<thead>
<tr>
<th>Economic and Financial Issues</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job growth</td>
<td>3.8</td>
</tr>
<tr>
<td>Income and wage growth</td>
<td>3.8</td>
</tr>
<tr>
<td>Interest rates</td>
<td>3.8</td>
</tr>
<tr>
<td>Energy prices</td>
<td>3.0</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.0</td>
</tr>
<tr>
<td>State and local budget problems</td>
<td>3.0</td>
</tr>
<tr>
<td>New building construction</td>
<td>3.0</td>
</tr>
<tr>
<td>State and local budget problems</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Overall the survey reports that the most active sectors in Northeastern Ohio are:

- Apartment (52.9%)
- Retail (41.2%)
- Office (32.4%)

Less active are:

- Industrial (20.6%)
- Niche/Alternative (20.6%)
- Hospitality (17.7%)

Least active are:

- Residential—for sale (8.8%)
- Institutional/Public (8.8%)

See Chart 12

Multi-family housing is the sector in which most respondents showed interest. It is believed that:

*Many people are opting to rent over own, so that apartment sector will continue to grow in the future.*

*Multi-family development is clearly what is going to continue driving the market throughout 2015.*

Northeastern Ohio Geographic Submarkets

Submarket prospects

Based on 28 responses, University Circle is viewed as having the best prospects in the region for real estate activity in the year ahead, with a rating of 4.3. Downtown Cleveland also achieves good-to-excellent ratings. On the other hand, Olmsted Falls/Berea, Columbia Station, Parma/Middleburgh Heights, Brunswick/Hinkley,
Newburgh Heights and Warrensville Heights rated poor-to-fair.

Many respondents have talked about downtown Cleveland and University Circle in their interviews. These two hubs are expected to see the most development.

*If you look at downtown right now and look at where the development is happening, there’s so much happening in downtown and university circle. Those are the two hubs right now.*

Downtown Cleveland (Urban Core) has the highest development expectations in our region. According to our interviewees,

*Nationally, all markets are seeing the trend of moving downtown and having more infill and urban to some noticeable degree.*

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**Chart 13: Prospects for Various Northeastern Ohio Submarkets in 2015**

- University Circle
- Downtown Cleveland
- Bay Village / Westlake
- Hudson / Streetsboro / Solon
- Lakewood/Rocky River/Fairview Park
- Chagrin Falls / Hunting Valley
- Aurora / Twinsburg
- Avon Lake
- Mayfield/Beachwood/Shaker Heights
- Cleveland-West
- Mentor / Willoughby
- Strongsville
- Akron
- Cleveland-East
- Medina
- Richfield / Bath
- Cleveland-South
- Olmsted Falls / Berea
- Brunswick / Hinkley
- Parma / Middleburgh Heights
- Columbia Station
- Newburgh Heights
- Warrensville Heights

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**Chart 14: Importance of Potential Needs for Land Use and Development in Northeastern Ohio**

- Greater availability of sites for development
- Better parking in downtown
- Better public transportation
- More workforce for construction and skilled trades
- More economic growth (greater demand for real estate)
- Better building and zoning regulations

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**Land use and development needs**

93% of the 30 survey respondents believe that more economic growth will be the highest priority for driving land use and continued development in Northeastern Ohio. At the same time, 68% of respondents think more economic growth is also the biggest need in Northeastern Ohio now.

Better parking in downtown is also seen as a major need (55%), followed by better building and zoning regulations (47%), and greater availability of sites for development (45%). Chart 14 provides this information.

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**Integrating wellness and health into buildings**

ULI is currently promoting its Building Healthy Places Initiative, which highlights the connection between development and health. 34% of 29 respondents think taking into account wellness- and health-related building or design features in their businesses are important.

Over half of responses plan to incorporate wellness-and health-related building or design features in their work.

*Health and wellness for employees is a high priority – opportunities for physical exercise are very beneficial.*
More people are starting to take wellness and health related features into account, and some survey respondents believe this trend will affect the real estate market.

*Lifestyle trends will continue to shape development. You see office buildings changing. You have floor plates that create shared open spaces that create collegial kinds of atmosphere and operations. So, you see it in where you work and where you live as well. So, we’re no longer selling space. We’re really selling lifestyle if you really want to encapsulate it.*

Meanwhile, some survey respondents showed their concerns about apartment investments:

*Apartment business, fundamentals have been strong for the past couple of years, very competitive, tough.*

**Apartment cycle**

Chart 16 below shows respondents’ perception of the current market cycle for luxury apartments, moderate apartments, tax credit apartments, and student housing. The vertical axis shows the number of responses out of the 13 people that answered these questions.

Overall, perceptions of the apartment sector in Northeastern Ohio are good. All survey responses believe the apartment sector is recovering, growing, and some believe at the peak, more specifically: luxury apartments (100%) followed by moderate apartments (85%), student housing (67%) and tax credit apartments (62%).

**Northeastern Ohio Apartment Sector**

Overall, the apartment sector in Northeastern Ohio is seen as good. According to the 13 survey respondents, the apartment industry is recovering and growing. However, over 20% of the respondents think the general apartment industry is at the peak. Cap rates of apartment business are expected to fall moderately or remain generally stable over the next three years. Responses reflect fair or good prospects for investment and development.

When compared to other markets; half the respondents believe the Northeastern Ohio market is about the same, or somewhat better than others. Most investment recommendations for apartment business received are expected to hold true in 2015.

**Chart 15: To What Extent Do You Take into Account Wellness-and Health-Related Building or Design Features**

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wellness/health is a key component of our business</td>
<td>10.3%</td>
</tr>
<tr>
<td>Not at all</td>
<td>10.3%</td>
</tr>
<tr>
<td>To a significant extent</td>
<td>24.1%</td>
</tr>
<tr>
<td>A little</td>
<td>27.6%</td>
</tr>
<tr>
<td>Somewhat</td>
<td>27.6%</td>
</tr>
</tbody>
</table>

**Chart 16: Current Stage of Real Estate Cycle: Apartment**

<table>
<thead>
<tr>
<th>Stage</th>
<th>All apartments</th>
<th>Luxury apartments</th>
<th>Moderate apartments</th>
<th>Tax credit apartments</th>
<th>Student housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Early decline</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Advanced decline</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bottomed out</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Recovery</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Growth</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

**Apartment cap rates**

Chart 17 shows respondents’ perceptions of the trend in apartments cap rates over the next three years. The horizontal axis reflects the perceptions of the relative cap rates on a 1-5 scale with 1 reflecting rising cap rates and 5 indicating lower cap rates, which are favorably associated with increased asset values. A total of 11 people answered these questions.
While survey participants consider capitalization rates for all apartment types to be generally stable over the next three years, varying only slightly between 2.9 and 3.3, individual apartment types showed more variation.

Cap rates for luxury apartments are expected to see the most decrease, from 3.3 in 2014 to 3.0 in 2017, followed by a slight decrease in cap rates for moderate apartments and tax credit apartments.

Student housing is seen as a little more risky, with an increase from 2.8 to 3.3 (in 2015), dropping again to 3.1.

**Chart 17: Cap Rate Trends in 2014 – 2017: Apartment**

<table>
<thead>
<tr>
<th>Apartment Type</th>
<th>2014</th>
<th>2015</th>
<th>2015-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student housing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax credit apartments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moderate apartments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Luxury apartments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All apartments</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Apartment recommendations**

This question asked respondents to recommend their conclusions on whether to buy, hold or sell.

Based on 13 responses, 91% of investment recommendations for apartment in 2015 are hold or buy, especially for luxury apartments. Tax credit apartments have gained the least support for buying. While the prospects for Northeastern Ohio are considered fair-to-good, respondents feel other markets are stronger.

**Northeastern Ohio Retail Sector**

Overall, retail in Northeastern Ohio is mixed. According to 11 survey respondents, some, but not all sectors of the retail industry are recovering. Cap rates of retail business are expected to remain generally stable over the following three years. Responses reflect fair prospects for investment and development.

However, about half of the respondents consider the Northeastern Ohio market to be somewhat worse than other markets.
We’re concerned about the overabundance of retail in a market that is growing only slightly. Increasing competition from on-line retailers is further eroding the demand for more bricks and mortar stores.

Most investment recommendations for retail business were to hold in 2015.

Retail cycle
Chart 19 shows respondents’ perception of the current retail cycle for regional malls, power centers and neighborhood/community centers. The vertical axis shows the number of responses out of the 11 people that answered these questions.

Overall, perceptions of retail in Northeastern Ohio are mixed. On the positive side, 73% of survey responses believe neighborhood and community shopping centers have made a large shift toward to recovery. Almost the same percentage of respondents (70%) think regional centers are still in advanced decline. Power centers are perceived to be stable.

Retail cap rates
Chart 20 below shows respondents’ perception of retail cap rate trends over the next three years. The horizontal axis reflects relative cap rates on a 1-5 scale with 1 reflecting rising cap rates and 5 indicating lower cap rates, which are favorably associated with increased asset values. A total of 10 people answered these questions.

While survey participants consider capitalization rates for all retail types to be generally stable over the next three years (varying only slightly between 3.2 and 3.4), individual retail types showed more variation.

Perceived cap rates for Power Centers are unchanged, at 3.3. Regional Mall cap rates are expected to vary more, from 3.8 (in 2014) to 3.4. Neighborhood/community shopping centers are the most volatile and risky, with respondents expecting an undesirable increase in rates from 3.2 (in 2014) to 2.8.

Retail prospects
Chart 21 below shows respondents’ perception of the near-term prospects for retail investment and development. The horizontal axis reflects relative prospects, on a 1-5 scale with 1 reflecting abysmal/much worse conditions, a 3 meaning fair/about the same, and 5 indicating excellent/much better. A total of 12 people answered these questions.

Compared to other markets, prospects for NE Ohio retail are generally rated less robust than other markets rated 2.7 for all retail, with regional malls being the weakest.

For investors and developers, prospects for retail are reported as fair, with average scores slightly below or above 3.0 (between fair and good). Over half the
respondents (62%) consider investing in neighborhood/community shopping centers are good or excellent options, while prospects for Regional malls are typically abysmal and poor, with a 1.4 score for development prospects and 2.5 for investment prospects. Power centers were in the middle.

Despite over-supply, there seems to be no end to retail expansion in all sectors except regional malls.

**Chart 21: Investment and Development Prospects: Retail**

Retail recommendations:

This question asks respondents to recommend their conclusions on whether to buy, hold or sell. Based on 11 responses, 90% of investment recommendations for retail in 2015 are hold or sell. The only exception is neighborhood/community shopping centers, where over half of the respondents think it is time to buy. Lower scores on the prospects compared to other markets indicate opportunities are comparable in other markets.

**Northeastern Ohio Office Sector**

Overall, the office market in Northeastern Ohio is mixed. According to 11 survey respondents, some, but not all sectors of the office industry are recovering. Cap rates for the office business sector are expected to remain generally stable over the following three years, except for medical office, which may see a moderate increase. Responses reflect fair and good prospects for investment and development. Over half of the respondents consider the Northeastern Ohio market to be about the same as other markets. Most investment recommendations for office business received are expected to hold in 2015.

Many respondents are optimistic about office development, especially office projects in downtown Cleveland.

*I think a permanent change will be in downtown office. You may see just the beginning of people moving their companies to downtown, but as the market tightens and becomes more exciting, I think the office momentum will fully return to downtown.*

**Office cycle**

Chart 22 shows respondents' perception of the current cycle for the office sector for central city offices, suburban offices and medical offices. The vertical axis shows the number of responses out of the 11 people that answered these questions.

Overall, perceptions for the office sector in Northeastern Ohio indicate a recovery. Half of the survey responses believe central city offices and medical offices have made a large shift toward recovery, followed by suburban offices. One third of respondents think medical offices are in growth.
Office cap rates

Chart 23 shows respondents’ perceptions of office cap rate trends over the next three years. The horizontal axis reflects relative cap rates on a 1-5 scale with 1 reflecting rising cap rates and 5 indicating lower cap rates, which are favorably associated with increased asset values. A total of 9 people answered these questions.

Survey participants consider capitalization rates for all office types to be generally stable over the next three years, varying only slightly between 2.6 and 2.9.

Perceived cap rates for medical offices are almost unchanged, at 2.8 to 2.9, as are suburban office cap rates, holding between 3.0 and 3.1. However, central city offices cap rates are expected to fall slightly from 2.6 (2014) to 3.0 (2017).

Office prospects

Chart 24 shows respondents’ perceptions of the near-term prospects for office investment and development. The horizontal axis reflects relative prospects, on a 1-5 scale with 1 reflecting abysmal/much worse conditions, a 3 meaning fair/about the same, and 5 indicating excellent/much better. A total of 11 people answered these questions.

Compared to other markets, prospects for NE Ohio office are generally rated less robust than other markets, which are 2.6 for all offices. Medical offices are the strongest.

Office recommendations

This question asks respondents to recommend their conclusions of buy, hold or sell. Based on 11 responses, 90% of investment recommendations for general office in 2015 are to hold or sell. However, some respondents think it may be a good time to buy central city offices (30%) and medical offices (40%).

Northeastern Ohio: Other Sectors

There were a small number of respondents to provide definitive results, so these following sections should be considered anecdotal.

Industrial sector

6 people participated in the survey for this sector. According to this limited sample, the industrial market in Northeastern Ohio is good. According to survey respondents, most sectors of industrial are recovering.
Cap rates of industrial business are expected to remain generally stable and even moderately fall over the following three years. Responses reflect good and fair prospects for investment and development. Over half of the respondents consider the Northeastern Ohio market to be somewhat better than other markets. Based on 6 responses, 83% of investment recommendations for industrial in 2015 are to hold or sell.

**Industrial Cycle.** 5 survey responses believe industrial sector is in recovery and growth, especially for R&D industrial, which all respondents think is growing. General industrial property is also viewed as a good market, with 5 respondents thinking it is recovering and growing, followed by similar positive outlooks for bulk/distribution industrial (4 responses) and self-storage (3 responses).

**Industrial Cap Rates.** While survey participants consider capitalization rates for all industrial types to be generally stable over the next three years, about half of the respondents believe there will be a moderate decrease in specific sectors. The only exception is self-storage, which sees an increase in 2015 and a slight decrease in the next two years.

**Industrial Prospects.** Compared to other markets, prospects for Northeastern Ohio industrial are generally rated more robust than other markets for all industrial, with general industrial and medical industrial being the strongest. About half of respondents believe the industrial sector is good with excellent investment and development prospects, except for self-storage, where 4 respondents considered a poor to fair investment.

**Hotel sector**

Five people participated in this part of survey. Overall, the hotel sector in Northeast Ohio is good. According to survey respondents, the hotel sector is recovering. Cap rates for hotel business are expected to remain generally stable and even moderately fall over the following three years. Responses reflect good and excellent prospects for investment and development. 3 of the respondents consider the Northeastern Ohio market to be better than other markets.

Based on 5 responses, investment recommendations for all hotels in 2015 are to hold or sell.

**Hotel cycle.** Perceptions of the hotel market in Northeastern Ohio are good. 4 survey respondents believe hotel sector is in recovery and growth, including both full-service hotels and limited service hotels.

**Hotel Cap Rates.** While over half survey participants consider capitalization rates for all hotel types to be generally stable in the next three years, we see a moderate decrease in 2014.

**Hotel Prospects.** Compared to other markets, prospects for Northeastern Ohio hotel sector are generally rated more robust for all hotels. 4 investors and developers believe prospects for hotels are good and excellent.

**Other real estate sectors**

Three people participated in the survey on the education sector. They believe the education sector in Northeastern Ohio is mixed. According to survey respondents, though higher education, hospitals and state-funded development or redevelopment projects are recovering, K-12 education and locally funded development and redevelopment projects are still considered to have bottomed out. Cap rates for education business are expected to remain stable, or to moderately increase over the following three years. Responses reflect fair prospects for development, but good prospect for investment. General investment advice for education in 2015 is to hold.

Four people participated in the survey on niche/alternative sectors. According to survey respondents, the land business in Northeastern Ohio has bottomed out, while urban mixed-use properties and infrastructure are seeing growth. Cap rates for general niche/alternative sectors are expected to remain stable. For investors and developers, urban mixed-use properties, infrastructure, mixed-use town centers, lifestyle/entertainment retail and land are better options than master-planned communities and data centers. 90% of respondents believe 2015 will be a good time to buy into niche/alternative sectors.

Development and investment prospects of residential-for sale are poor and fair. This sector is believed to be in advanced decline and may be bottoming out. Investment recommendations for residential – for sale investors in 2015 is to hold.
Acknowledgments

Our thanks go to the many people who made contributions to the development of this new ULI report.

The Report

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