CRAIN'S CLEVELAND BUSINESS

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Housing is resurgent, offices are a concern in Downtown Cleveland Alliance's annual report

MICHELLE JARBOE

Dustin Franz/Bloomberg

The Downtown Cleveland apartment market has rebounded from the shock of the pandemic, and hospitality is recovering. But the outlook for the office market remains murky, with so many people still working at home.

A report from the nonprofit group, which represents property owners, shows a central business district that's convalescing — but far from healed.

The downtown apartment market is humming. Pedestrian traffic is picking up. But the outlook for offices remains murky, as employers wrestle with a tight labor market and weigh their real estate needs.

That's the thrust of the Downtown Cleveland Alliance's annual report, a 2021 snapshot released on Monday, May 2. The nonprofit group, which represents property owners, described a central business district that's convalescing — but far from healed.

"We need to give people reasons to come downtown, just as employers need to create the type of environment within the four walls of their offices to make people want to come in," Michael Deemer, the alliance's president and CEO, said during a recent interview.

The alliance, which recently launched a five-year strategic-planning process, is preparing for a big marketing push. Downtown Cleveland Restaurant Week, set to begin May 12, will kick off a slate of spring and summer activities.

Despite a rash of business closures in 2020, there are more restaurants and bars downtown today than there were before the pandemic, Deemer said.

Downtown retail occupancy is 87.3%, the alliance reported, though that figure does not account for vacant space that is not being marketed for lease. Center-city retail was 89% leased in 2019, according to the alliance's archives.

The hospitality business, which took a brutal hit in 2020, is looking healthier. Hotel occupancy rose to 44.8% last year, helped along by pent-up demand for weddings and marquee events including the NFL Draft and the Rock & Roll Hall of Fame induction ceremony.

That's a sharp improvement from 2020, which occupancy was a dismal 27.8%. But it's still down from 2019, when downtown hotels were 67% full, based on the alliance's records.

The average daily rate for a hotel room was $159.87 last year, up a few dollars from 2019. But revenue per available room — a key performance benchmark — has a long way to go. At $71.68, that metric more than doubled from 2020 but was off by 30% from 2019 levels.

The supply of downtown hotels held steady over that period.

Housing is the real bright spot, in a center city that is home to 20,500 residents. Rental occupancy jumped to 90.1% last year, after dipping to 84.1% in 2020. The average rental rate hit $1.72 per square foot, a 9.5% annual increase.

The typical studio or efficiency now rents for $835 a month, while the average two-bedroom commands $1,936, the alliance reported. At the turn of the year, construction was underway on projects comprising more than 600 units, in a mix of ground-up deals and office-building conversions.

In 2021, buyers purchased 90 townhouses or condos — the largest number of downtown home sales since 2015. The average sale price slipped to $259,709, from $310,338 in 2020, though.

For-sale housing is a sliver of the downtown market, accounting for only 5% of housing supply. So a handful of transactions can shift the average price figure.

With a strong residential base and resurgent visitor activity, office workers are the missing piece of the puzzle, Deemer said, noting that office usage is at half of its pre-pandemic levels on any given workday.

The alliance is working with Mayor Justin Bibb's administration, the Greater Cleveland Partnership and Destination Cleveland on ways to encourage large employers to bring workers back, he said. Remote and hybrid work pose a significant threat to the city, which leans heavily on income-tax revenues from suburban commuters to support basic municipal services.

The halting return-to-office movement looms large for many urban centers, where lunch spots, shops and service businesses rely on white-collar workers to survive.

"People are getting tasks done at home, but I think our economy is missing a beat," Deemer said. "I think our employers know they are missing a couple of beats by having people separate from one another and connected only virtually. There is economic power in bringing people together to collaborate."

From a leasing standpoint, downtown office space was 84.6% occupied at the end of the year, based on data from the CBRE Group Inc. brokerage featured in the alliance's report. That's actually an improvement from 2019 and 2020 — but it's largely due to planned residential conversions of obsolete office space and changes in how the numbers are calculated.

Class A occupancy, at downtown's newest and priciest buildings, hovered at 84.7%, the alliance said. That marked a decline from 87.1% in 2020, according to data from real estate brokerage JLL.

The Sherwin-Williams Co. started site work last year for a new headquarters tower near Public Square, and CrossCountry Mortgage is scheduled to move its corporate offices and hundreds of jobs to the Superior Arts District, just east of downtown, in August or September. And some existing office users, including the Benesch law firm, are committing to new leases in high-profile digs.

Deemer isn't bracing for a wave of distress in the office market. But he expects vacancies in mid-grade, or Class B, buildings to rise.

"If there is a shift in demand for office space," he said, "we are national leaders in repurposing office space for new uses like housing and hotels. There are other cities whose downtowns are scrambling to figure out how to use those strategies. … We just need to keep doing, and accelerate what we were already doing, in that space to maintain a healthy housing and office mix."

Inline Play
