



ALEC J. PACELLA

Steady as It Goes


Cleveland's commercial real estate investment market offered an interesting paradox in 2011. If you are a regular reader of this column, you will likely recall that the January column includes a recap of the year and the total investment sales volume that was achieved. When looking at just the numbers, the market showed a continued steady improvement. After seeing the sale volume bottom out in 2009 with a low of \$190 million, the market has since rebounded, climbing to \$290 million in sales volume in 2010 and just under \$400 million last year.

But how we got there was anything but steady. To learn all of the details, read on.

Market time

One of the more encouraging signs associated with the turnaround was a return of market transactions – i.e., arms-length transactions between willing buyers and sellers using normal underwriting criteria. There were several examples last year, including

transfers of Duke's Great Northern Corporate Center, a 275,000-square-foot suburban office complex in North Olmsted, and Fairview Centre, a 180,000-square-foot grocery-anchored strip center in Fairview Park. Nationally, the Blackstone/Centro portfolio was easily the transaction of the year. The \$9 billion transaction involved 585 properties across the country, including eight properties located in Northeast Ohio. All of these



2012 Meetings and Events:

Educational Membership Meeting
Thursday, January 19, 2012
Topic: *Generation X, Y and the Millennials: How To Make It Work*
Meeting Location: TBD

The Event - BOMA Rocks the Winter Blues
Saturday, February 18, 2012
Location: Windows on the River

The Every Building Show
Thursday, March 29, 2012
Location: Cleveland Browns Stadium

To register for a meeting or get more information visit www.bomacleveland.org

BOMA Greater Cleveland membership represents over 157 commercial buildings in both urban and suburban markets; that's over 33 million SF of commercial property in a four county region!

WHY IS BOMA SO POWERFUL?

- Advocacy:** We're a major voice in local, state and federal government and legislative issues.
- Education:** Our seminars and educational courses are designed to enhance professional growth and performance.
- Networking:** Regularly scheduled events and meetings provide countless peer-to-peer interaction.
- Information:** Access to countless informational resources to keep you current on commercial property ownership/management news.
- Group Purchasing:** Buying power to secure substantial cost savings for items like air filters, natural gas, solid waste removal and more!

BOMA Greater Cleveland | 200 Public Square, Suite 209 | Cleveland OH 44114 | Ph: 216-575-0305 | Fax: 216-575-0233
Federated with BOMA International

transactions involved properties that had solid financial performance and sold for “retail” prices that were predicated on their financial performance.

Own to rent

The apartment sector continued to be a favored investment type. Sales activity among well-located multifamily properties flourished, bolstered by solid fundamentals, high occupancy levels and a growing pool of lenders. To underscore the strength of this segment, multifamily transactions accounted for approximately one-fourth of the total sales volume, despite the fact that there were very few individual sales that exceeded \$5 million.

Rent to own

Several companies took advantage of depressed pricing and elected to purchase facilities for their own occupancy. AmTrust Financial purchased a 475,000-square-foot office building and associated parking deck at 800 Superior Avenue for a scant \$16 per square foot. The company subsequently announced plans to populate the largely vacant tower with up to 1,000 employees. New York Community Bank purchased an office building at 1801 East 9th Street for \$38 per square foot and again plans to occupy a substantial portion of the building with its own employees. And TravelCenters of America bought a 98,000-square-foot office building located at 24601 Center Ridge Road for \$51 per square foot. The company had leased a substantial amount of space at this same property for several years.

Net lease fever

During the investment rage of the mid-2000s, the single-tenant net leased sector was one of the hottest product types. Fueled by aggressive and plentiful debt, investors flooded the market in search of passively managed investments occupied by tenants such as Walgreens, Autozone and CVS. But as financing dried up and the economy soured in the latter part of the decade,

sales activity fell off a cliff. Last year marked the return of the single-tenant net lease deals. The debt markets are much more conservative as compared to four years ago, forcing many of these transactions to use little to no leverage. But this didn't stop the segment from posting some impressive numbers. Sale prices on a per square foot basis routinely exceeded \$200 and cap rates for tenants with rated credit typically dipped below 8%.

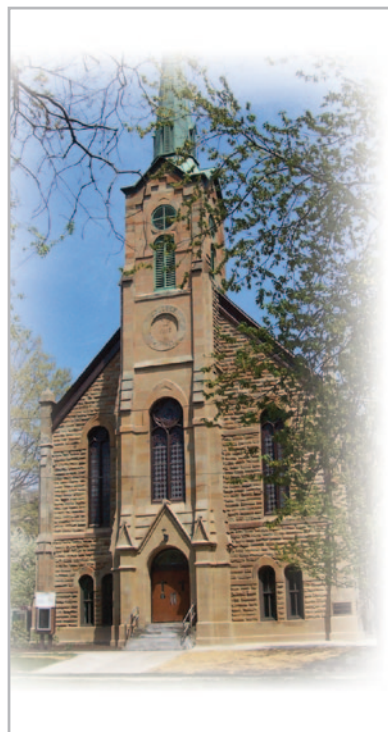
Not so hot in Cleveland

The Cleveland CBD was certainly a hotbed of development activity last year, with work crews busy constructing the new Medical Mart and convention center, phase one of the new Horseshoe Casino and the Flats East Bank office tower, the first new multi-tenant office property in over 20 years. Collectively, these projects amount to approximately \$1.5 billion. But the story couldn't be more different when traditional real estate sales activity is examined. Consider the following: 65 & 75 Erievue Plaza, a 187,000-square-foot office complex, sold for a scant \$13 per square foot. A

parking garage at 525 Euclid Avenue sold for a little over \$8 million, this after being developed six years ago for an estimated \$25 million. And the Euclid Arcade at 401 Euclid Avenue, a historical structure that dates to 1890 and underwent a \$60 million renovation in 2000, had no takers in a late summer sheriff sale. It was sold at a subsequent sheriff sale in December for the minimum bid of \$7.7 million.

Still stressing

A couple years ago, on the heels of the residential housing crises and subsequent sub-prime mortgage meltdown, several pundits proclaimed an impending large wave of commercial foreclosure that would paralyze the market. Although the bombshell that was predicted by many failed to materialize, there has been a slow but steady stream of distressed properties come to the surface, with most taking at least a couple years to work through the system. The examples are many and varied, including Commerce Park I, II and III (a three-building suburban office complex), Chase Financial tower (a four-floor CBD office build-



AMERICAN INTERNATIONAL

CONSTRUCTION

Restoration Contractors

American International Construction, Inc. is a company dedicated to the restoration and preservation of numerous types of buildings, including related services on new structures. Let our commitment to quality and client satisfaction work for you.

- Caulking & sealants
- Building cleaning
- Tuckpointing
- Facade restoration
- Masonry & stone restoration
- Storefront renovation
- Waterproofing
- Historic preservation

Michael Petrasek
president

1075 WEST BAGLEY ROAD, BEREA, OHIO 44017
ph: 440.243.5535 f: 440.243.7745 www.aiconstruction.com

Serving Northeast Ohio Since 1956



**Landscape
Design/Build
Grounds Maintenance
Commercial & Residential**

**1285 North Cleveland Massillon Rd. • Akron, OH 44333
330-666-8811 | 800-896-8811 | www.rbstoutinc.com**

**Excellence in Contracting
Since 1948**




**BAY Mechanical and
Electrical Corporation**

HVAC | Electrical | Plumbing | Fire Protection
Maintenance & Service | Design Build | Rigging

440-989-4065

www.baymec.com | 2221 West Park Drive, Lorain, OH 44053

ing underneath a hotel), the Lucas Aerospace building (a 198,000-square-foot industrial building), Hickory Ridge Plaza (a 130,000-square-foot retail strip center) and Essex Plaza (a 61,000-square-foot suburban office building). While the reasons for each of these property's particular situation is unique, the end result is almost always the same: an asset trading at a 40% to 50% loss as compared to the amount of its mortgage.

And the crystal ball says . . .

As we head into the new year, there is a lot to like. Interest rates are at record lows, with the 10-year treasury note hovering around 2% for much of the year. Lenders are creeping back into the market, providing additional liquidity for businesses as well as investors. And the overall real estate fundamentals are improving, with vacancy slowly dropping and rents slowly firming. But there are several caution signs as well. There are several high profile distressed properties that could throw the market into a tailspin if they fall into foreclosure. Job creation remains sporadic. The global economy continues to be on tenuous footing and any sudden slips could quickly and negatively impact the recovery. And all of this is against the backdrop of the political posturing associated with a presidential election year.

As for the collective impact on our investment market, I think the good news will outweigh the bad and result in the aggregate sales volume again increasing for 2012. If pressed for a number, I will settle on \$500 million. So be sure to check back each month in *Properties*, as well as on my blog (<http://blog.sbequitiesinc.com/>) and my twitter account (#dausyouknow) and see just how steady things are going. **P**

Alec Pacella, CCIM, senior vice president at NAI Daus, can be reached by phone at 216.831.3310, ext. 125 or by email at apacella@naidaus.com.