

Cleveland and the Myth of Job Creation

By Robert Bach

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Sometimes I marvel at the blind allegiance to job creation as the only driver of demand for commercial real estate worth mentioning. Not only is the truth more nuanced, but it may reveal opportunities in markets that investors have not yet considered. Let's use Cleveland as an example.



Cleveland is growing, but not rapidly. Over the past 12 months, Cleveland's labor market expanded by 1.1 percent versus 1.9 percent in the U.S. The metro area lost 90,400 jobs to the recession and has recovered 53,300. The number of jobs is 3.4 percent below the pre-recession peak, putting Cleveland in the bottom quartile of all metro areas according to this metric. Moreover, Cleveland lost population between 2010 and 2013, one of a few U.S. metros to do so.

And yet Cleveland is brimming with opportunities, particularly in the CBD where the population is rising as Class B and Class C historic office buildings are being converted to apartments as quickly as the state tax credits are approved. In the third quarter, seven office buildings totaling 1.4 million square feet traded hands. During three of these seven transactions, the new owner announced plans to redevelop the building and add a multi-housing component.

The enthusiasm has not been confined to apartments. The 500,000-square-foot Ernst & Young Tower, downtown's first speculative building since the early 1990s, opened last year in the Flats/East Bank district and is now 90 percent leased. Inforce Technologies recently announced its pending move from the southeast suburbs to downtown, on the heels of several other tech-company relocations in recent years.

Activity is picking up in the suburbs, too, particularly in respect to medical office projects as the area's three major health systems merge with independent suburban hospitals and reconfigure their service delivery footprints. The Chagrin Corridor has become a hotbed for MOB's and healthcare real estate.

Although the top-level labor market statistics don't look promising, the devil is in the details. Cleveland is getting smarter. A recent study by Cleveland State researchers found that Cleveland has the fifth fastest growing population of workers with an advanced degree in the country. From 2000 to 2012, the metro area logged a net gain of 60,000 new residents 25 years old and older with a bachelor's degree or higher, and lost 70,000 people without a bachelor's degree.

All of this and LeBron.

It isn't just Cleveland. Many secondary and tertiary markets have interesting stories to tell, including those where the topline employment statistics don't look promising.