

Cleveland Office Market

Market Shows Some Signs of Stabilizing

Conditions in the Greater Cleveland office market showed signs of stabilizing in the third quarter of 2021, as the market gave back 58,849 square feet of space. This amount of negative absorption was the lowest of the last four quarters, which all saw larger amounts of space loss. The Cleveland office market has given back 565,421 square feet in negative absorption in 2021 so far.

The negative absorption increased the market's vacancy rate for the fourth quarter in a row and by 30 basis points this past quarter, to 19.5% for all office properties. This vacancy rate was the highest since first-quarter 2013 (20.9%) and up 270 basis points from one year ago, when the vacancy stood at 16.8%. Leasing activity picked up a little in the third quarter, though lease occupations from leases signed in recent months still couldn't outweigh the loss of space.

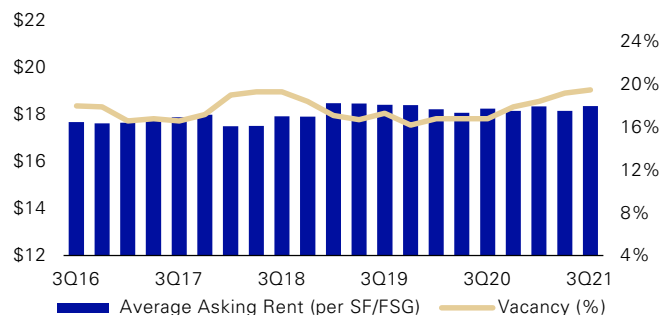
The overall average asking rental rate increased by \$0.21/SF to \$18.36/SF for all classes and continued to stay above \$18.00/SF for 11 straight quarters.

The overall Class A average asking rental rate of \$22.06/SF dropped by \$0.09/SF from the second quarter, though the Class B average asking rental rate increased by \$0.20/SF to \$16.56/SF.

Rental rates increasing in all but one submarket, as well as increased tenant interest in available spaces, point to a favorable outlook heading into the final quarter of 2021.

Market Analysis

ASKING RENT AND VACANCY RATE



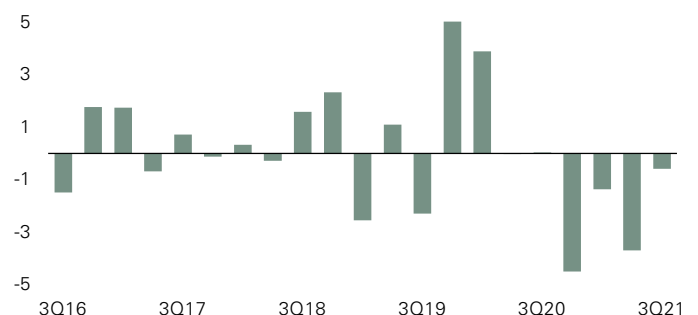
Current Conditions

- The office market has experienced four straight quarters of negative absorption – though the third quarter's loss is the lowest of those four quarters.
- The vacancy rate increased by 30 basis points to 19.5%, the highest vacancy percentage in eight years.
- The average asking rental rate increased by \$0.21/SF from the second quarter, the highest since fourth quarter 2019.
- Headline makers: Ohio's Transformational Mixed-Use Development (TMUD) Program went live in late-September; many office redevelopment projects; big news from Bedrock; and continued news of the forthcoming Sherwin-Williams new HQ project.

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	39M	39M	39M	→
Vacancy Rate	19.5%	19.2%	16.8%	→
Quarterly Net Absorption (SF)	(58,849)	(369,540)	2,844	→
Average Asking Rent/SF	\$18.36	\$18.15	\$18.25	→
Under Construction (SF)	145,000	145,000	100,000	↑
Deliveries (SF)	0	0	0	↑

NET ABSORPTION (SF, Hundred Thousands)



RESEARCH Q3 2021

It is likely that office rents and occupancy will continue to be below Cleveland's late 2019 surge for several more quarters.

There is optimism that the Cleveland office market and overall Ohio commercial real estate industry in general will get a jolt of additional activity due to the launching of Ohio's first-round of the long-awaited Transformational Mixed-Use Development (TMUD) program in late September; \$100.0 million in tax credits are available for applicants in the first round, with \$80.0 million of that pot being reserved for projects near the state's larger cities. The TMUD program came about as a result of Senate Bill 39 becoming law at the end of 2020. The program comes with stipulations, however, including a maximum award of \$40.0 million for any single development, as well as a requirement for developers to provide analytics that show that the state will receive increased tax collections as a result of the project, amongst other specifics.

CBD News

The Central Business District gave back 42,969 square feet in the third quarter, bringing the total space returned so far this year to 411,423 square feet. The occupancy loss caused the CBD's vacancy rate to increase by 20 basis points to 22.4%, the second-highest vacancy in the market.

On the CBD leasing front, the United Church of Christ Board signed a 29,760-square-foot lease in late September to relocate its headquarters several blocks north by first-quarter 2022 to 1300 East 9th Street from its longtime location at the nine-story, 120,000-square-foot building at 700 Prospect. 700 Prospect was listed for sale in July as an owner/user or historic redevelopment opportunity with an asking price of \$7.0 million, or \$58.33/SF. There has not been a significant CBD office building sale in the Cleveland market in the last couple of quarters, and CBD office sales throughout the country have lagged behind the suburbs for the last few years. Research indicates that CBD office transactions nationally should slowly accelerate in upcoming quarters as investors turn their capital toward these assets.

The overall asking rent in the CBD increased by \$0.44/SF to \$19.46/SF, the largest gain of all submarkets as it remained the highest average in the market. The Class A asking rent dipped slightly, however, as it stood at \$24.19/SF, a drop of \$0.08/SF from the second quarter. The Class B asking rent in the CBD helped pace the increase, with a \$0.47/SF rise to \$17.73/SF.

Office redevelopment projects, as well as new office developments in the CBD, once again made news. The 740,000-square-foot Tower at Erieview is one of those redevelopment projects, and it was announced in mid-September that the ownership group of the skyscraper located at 1301 East 9th Street signed a deal with Marriott International Inc. to add a 210-room luxury W Hotel to its plan. The project was awarded a \$5.0-million state tax credit in August of 2020 that will be used toward

an approximate \$90.0-million mixed-use redevelopment for the 40-story building. Plans also call for 200-plus apartments and an elevated restaurant concept on the top floor, with 320,000 square feet of office space remaining. This project could be one of several in Cleveland that pursues the TMUD credit.

Another redevelopment that could qualify for the TMUD credit is the 1.4 million-square-foot Centennial, a \$500.0-million reimagining of the former Union Trust/Huntington Building at 925 Euclid Avenue. Owner/developer The Millennia Companies received final approval in early-August from the Cleveland City Planning Commission for its plan to convert the former office building into affordable housing units, along with museum space and a restaurant.

Another newsworthy development in the third quarter was the announcement by Detroit-based commercial real estate firm Bedrock, in conjunction with the City of Cleveland, of a partnership to redevelop a 130-acre riverfront footprint of land in the city's Historic Gateway District. As part of the City of Cleveland's Vision for the Valley, the project's high-level initial concept is that of a strong mixed-income neighborhood that includes remaking the waterfront with offices, homes, entertainment, retail, parks and improved connectivity between the river and the Central Business District; 30.0% of the land in this 30-year project is owned by Bedrock.

Paint and coating manufacturing company Sherwin-Williams made news again regarding its planned new 1.0-million-square-foot CBD headquarters. In mid-September, the company's schematic designs for its HQ, which include a two-level pavilion facing Public Square, a 36-story office tower and a parking garage, received recommendations by the Downtown Flats Design Review Committee and Historic Downtown Cleveland Design Review Committee and subsequent approval by the Cleveland City Planning Commission and Cleveland Landmarks Commission. The company intends to break ground on this project by the fourth quarter.

Suburban Submarkets

The East submarket's vacancy rate decreased by 40 basis points to 15.0% this past quarter, the second-largest drop in vacancy, and remained the tightest submarket in the area. Rental rates were stable in the East at \$18.93/SF, down \$0.03/SF from the previous quarter. The Class B asking rental rate stood at \$16.62/SF, down by \$0.10/SF. The Class A rate dipped by \$0.42/SF to \$22.44/SF, the largest Class A drop for any submarket. The overall Class A and Class B asking rental rates in the East still all remained second in the market behind the CBD. Absorption-wise, the East gained the most amount of space, with 62,826 square feet of positive absorption. Year-to-date, the East has accumulated 131,823 square feet in the negative, the highest of the suburban submarkets.

RESEARCH Q3 2021

Two noteworthy sales took place in the East: the 30,943-square-foot Water Tower Plaza, located at 25200 Chagrin Boulevard, which sold to an investor group named WaterTower Plaza LLC for \$3.3 million, or \$105.77/SF; and Monarch Centre, 5885 Landerbrook Drive, an 87,630-square-foot building that transferred to an affiliate of Realife Real Estate Group for \$7.25 million, or \$82.73/SF.

The suburban office submarkets saw a vacancy increase of 20 basis points from last quarter to 16.9%. The overall average asking rental rate for the suburban submarkets increased by \$0.03/SF to \$17.32/SF. The suburban submarket with the highest overall asking rent was the East, despite being the only submarket that had a drop. The South's overall asking rent was up \$0.07/SF to \$17.18/SF from the prior quarter, while the West's rent increased \$0.08/SF to \$15.57/SF, the largest increase for the suburban submarkets. The lowest rental rate in the market came in the Southwest, which had an increase of \$0.01/SF to \$14.69/SF.

The West submarket netted 35,313 square feet of positive absorption and finished the quarter with a vacancy rate of 15.5%, a decrease by 100 basis points in the submarket with the second-lowest amount of total inventory. The West finished the first three quarters of 2021 with the distinction of being the only suburb that has positive absorption year-to-date with 40,715 square feet. Of note in the West was the Class B average asking rental rate increasing by \$0.33/SF to \$13.72/SF, an increase that led all of the suburban submarkets in that class.

A newsworthy sale in the West was the transfer of the former Cleveland State University West Center, located at 26202 Detroit Road in Westlake, to owner/user Awakening Angels, a nonprofit organization dedicated to funding biomedical research,

educational initiatives and social programs aimed at improving the quality of life for children and adults who are affected by Down syndrome and autism. The 24,131-square-foot property sold for \$2.5 million, or \$103.60/SF.

The South lost the most space of any submarket in the third quarter, with 87,688 square feet of negative absorption, which prompted a 110-basis-point increase in vacancy to 18.3%. This offset the South's top performance in the previous quarter.

News of note in the South was the groundbreaking of the forthcoming 125,000-square-foot Welty Development Class A office project on Rockside Woods Boulevard in Independence. Upon completion scheduled in the fall of 2022, professional services firm CBIZ intends to anchor approximately 50,000 square feet and make the building its new headquarters.

Also in the South submarket was the transfer of the 61,994-square-foot 925 Keynote Circle in Brooklyn Heights to Easterly Government Properties. The United States government-occupied building was the largest transfer of the third quarter with a price of \$22.45 million, or \$362.13/SF.

The South also saw Redwood Living open its new corporate headquarters at 7007 East Pleasant Valley Road in Independence. The company purchased the 56,002-square-foot building in third-quarter 2019.

The Southwest submarket's aforementioned average asking rental rate increase came, despite 26,331 square feet of negative net absorption. The vacancy rate in the Southwest increased 200 basis points to 25.3%. The Southwest continued to post the highest vacancy rate and the lowest average asking rental rate of the suburban office submarkets. It also has the smallest amount of inventory in the market at just under 1.35 million square feet.

Select Lease/User Transactions

Tenant	Building/Address	Submarket	Type	Square Feet
United Church of Christ Board	1300 East 9th St.	CBD	New	29,760
Clearstead Advisors	1100 Superior Ave.	CBD	Expansion	9,869
University Hospitals	902 Westpoint Pkwy.	West	New	6,741
The Dickson Firm, LLC	3401 Enterprise Pkwy.	East	Extension	4,395
Michael Jaffe Co., Lpa.	6150 Parkland Blvd.	East	Extension	3,637

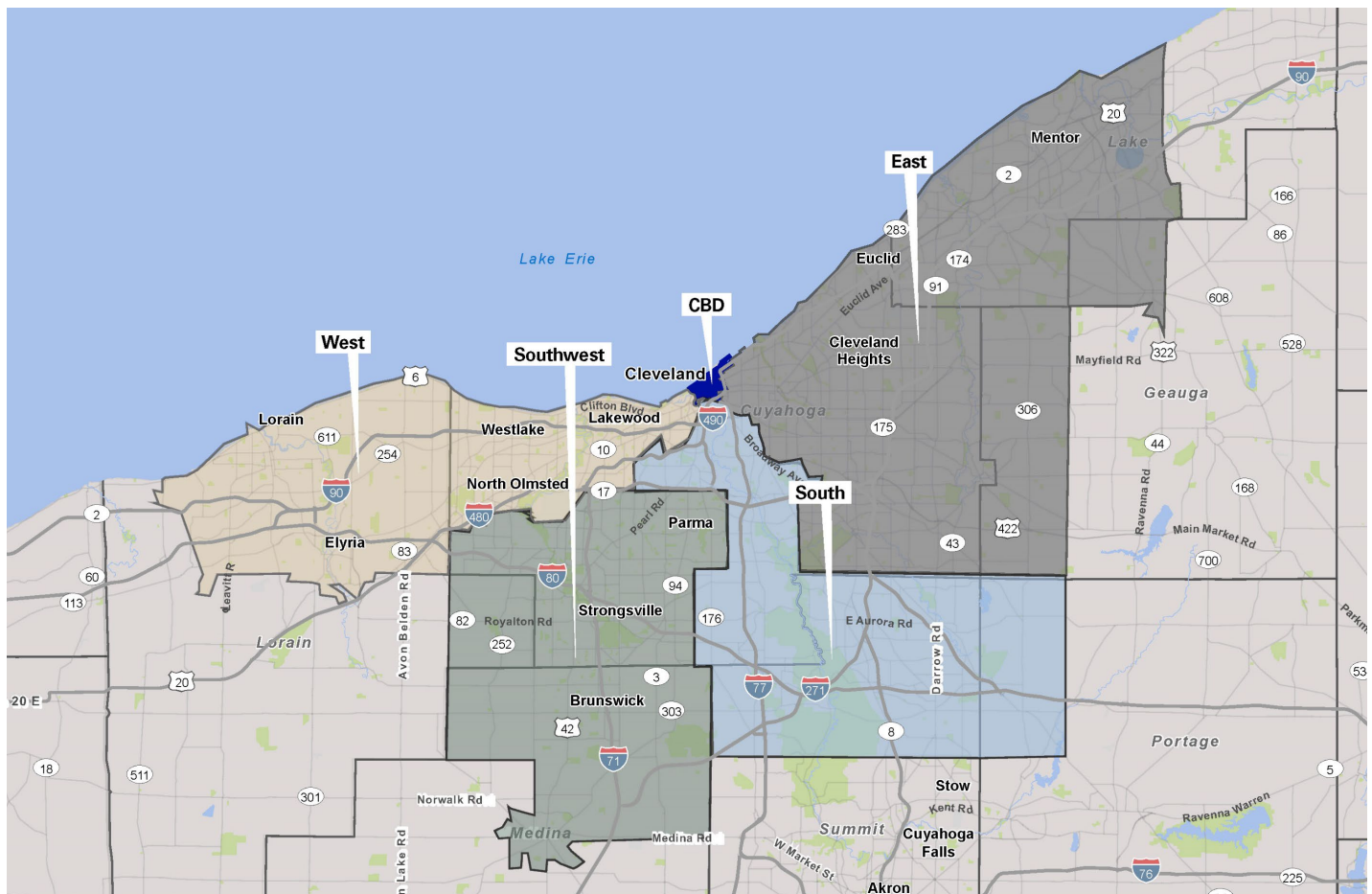
Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
925 Keynote Circle	South	\$22,450,000	\$362.13	61,994
25200 Chagrin Blvd.	East	\$3,272,787	\$105.77	30,943
26202 Detroit Rd.	West	\$2,500,000	\$103.60	24,131
23250 Mercantile Rd.	East	\$1,900,000	\$85.40	22,248
5885 Landerbrook Dr.	East	\$7,250,000	\$82.73	87,630

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Average Asking Rent (Price/SF)
CBD Total	17,949,109	45,000	22.4%	(42,969)	(411,423)	\$24.19	\$17.73	\$19.46
East	8,774,773	0	15.0%	62,826	(131,821)	\$22.44	\$16.62	\$18.93
South	7,408,056	0	18.3%	(87,688)	(5,092)	\$20.37	\$14.97	\$17.18
Southwest	1,344,084	0	25.3%	(26,331)	(57,800)	\$14.75	\$15.07	\$14.69
West	3,587,003	100,000	15.5%	35,313	40,715	\$18.11	\$13.72	\$15.57
Suburban Total	21,113,916	100,000	16.9%	(15,880)	(153,998)	\$20.44	\$15.47	\$17.32
Market Total	39,063,025	145,000	19.5%	(58,849)	(565,421)	\$22.06	\$16.56	\$18.36

Cleveland Office Submarkets



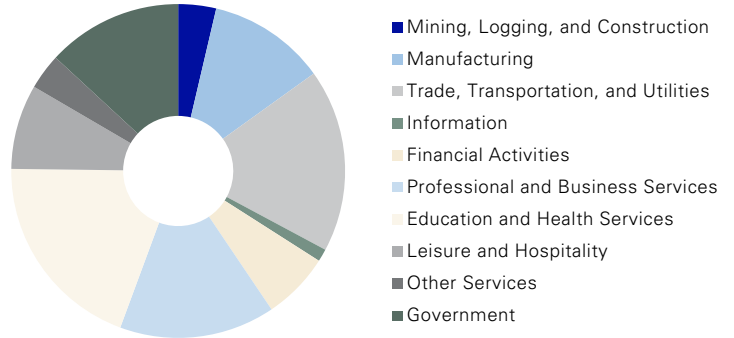
Economic Conditions

The Greater Cleveland economy gained back a modest number of jobs in third-quarter 2021, as total payroll employment increased in August by 1.7% year-over-year. The national total payroll employment number was also up, by 4.4% year-over-year.

Four industry sectors saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics, from August 2020 to August 2021: other services, at -8.1%; manufacturing at -0.4%; education and health services at -0.3%; and trade/transportation/utilities at -0.2%. All other sectors saw an increase from the past year. The leisure and hospitality industry gained the most, by 10.7%; followed by mining/logging/construction at 6.5%; the information sector at 5.9%; professional and business services at 3.5%; financial activities at 2.3%; and government at 1.5%.

Employment By Industry

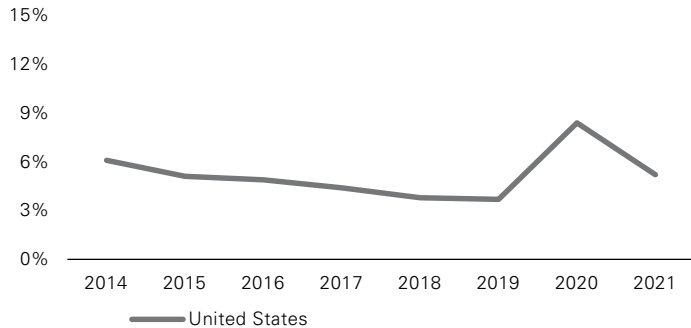
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

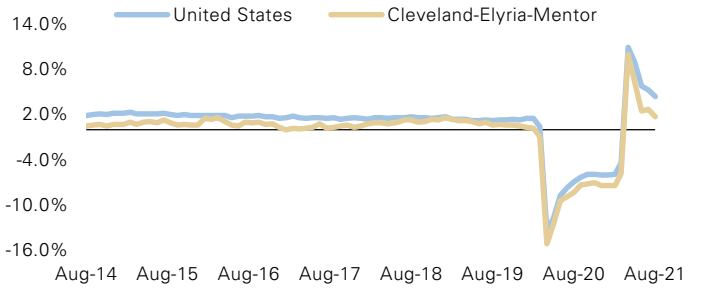
SEASONALLY ADJUSTED



Source: Source: U.S. Bureau of Labor Statistics

Payroll Employment

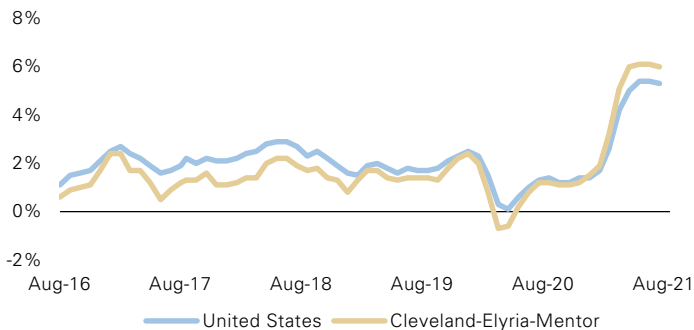
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

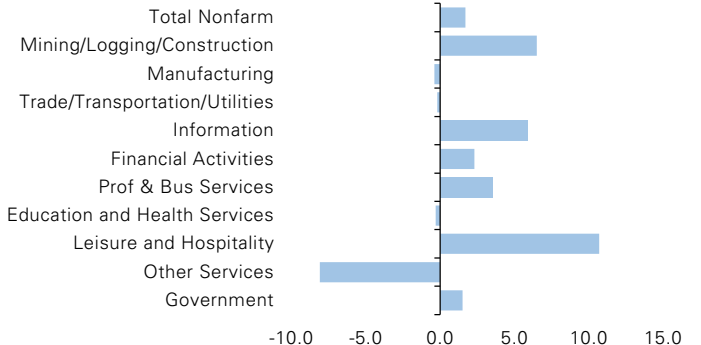
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

CLEVELAND-ELYRIA-MENTOR, Aug. 2021 (preliminary), 12-MONTH % CHANGE, SEASONALLY ADJUSTED



Source: Source: U.S. Bureau of Labor Statistics

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