



Cleveland Office Market

Negative Absorption for the Quarter and Entire Year

The Greater Cleveland office market's vacancy increased in the fourth quarter of 2022, with leasing and occupation continuing to slow as the year came to a close. The market gave back negative 606,389 square feet of space in the fourth quarter of 2022, the largest negative absorption total in 20 years, which prompted the vacancy rate to jump to 19.8% from an 18.2% mark in the prior quarter.

The overall market also gave back more space than it filled in 2022, accruing 648,046 square feet of negative absorption for the year. Eight of the last 10 quarters, including the last three in a row, saw negative absorption.

The fourth quarter of 2022 was impacted heavily by a large amount of sublease space coming to the market. This was paced by American Greetings offering 250,000 square feet of sublet space at its Westlake headquarters, located at 1 American Blvd. in the West submarket. The market's sublet vacancy tallied 1.8%, representing 690,785 square feet of unoccupied space, the largest totals in at least 18 years. Sublet availability came in at 849,226 square feet, a total of 2.2% of the market's overall 22.9% availability rate.

The Cleveland office market's overall average asking rental rate increased by \$0.22/SF from the third quarter of 2022 to \$18.82/SF, the highest since the second quarter of 2003's \$18.95/SF. The Class A average asking rental rate of \$21.98/SF was an increase of \$0.31/SF from the third quarter of 2022, and the Class B average asking rental rate increased by \$0.03/SF to \$16.89/SF.

Current Conditions

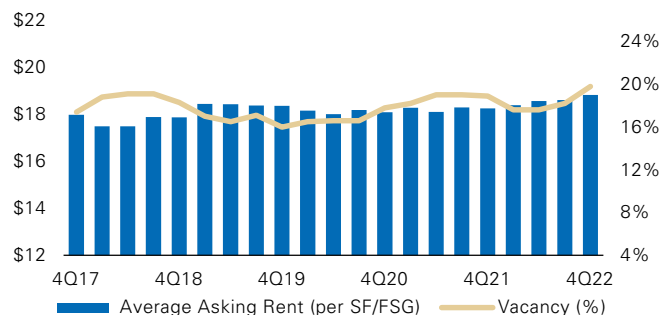
- The office market tallied 606,389 square feet in negative absorption in the fourth quarter, leading to a 648,046-square-foot deficit for the year.
- The vacancy rate increased to 19.8% for the fourth quarter.
- The average asking rental rate increased by \$0.22/SF from the third quarter to \$18.82/SF, the highest mark since the second quarter of 2003's \$18.95/SF.
- Sublet vacancy tallied 1.8%, representing 690,785 square feet of unoccupied space.
- Leasing momentum and occupation struggled, due in part to hybrid and remote work, which are here to stay.

Market Summary

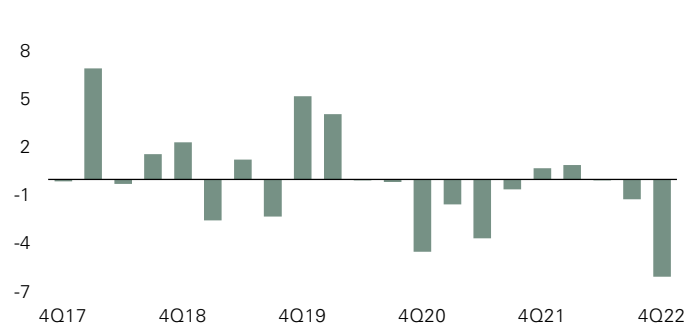
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	38M	38M	39M	→
Vacancy Rate	19.8%	18.2%	18.9%	→
Quarterly Net Absorption (SF)	(606,389)	(124,241)	69,262	→
Average Asking Rent/SF	\$18.82	\$18.60	\$18.25	↑
Under Construction (SF)	256,900	226,900	270,000	→
Deliveries (SF)	0	137,000	0	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, Hundred Thousands)



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The Central Business District

The Central Business District generated the second largest amount of negative net absorption of the submarkets, as it gave back 179,980 square feet in the fourth quarter of 2022, bringing the net total space lost in the CBD for the year to negative 165,410 square feet. The occupancy loss for the quarter caused the CBD's vacancy rate to increase by 120 basis points to 21.0%, the second-highest vacancy in the market.

In this submarket, Dix & Eaton signed a 22,000-square-foot lease at the Bulkley Building, 1501 Euclid Ave., for a planned relocation of its headquarters to the Playhouse Square neighborhood from 200 Public Square, where the company occupies around 25,000 square feet. With a couple more years left on its 200 Public Square lease, the communications firm is evaluating the timetable of its relocation.

Also in the CBD's Playhouse Square neighborhood, the City Club of Cleveland signed a 14,600-square-foot lease for space on the first floor of 1317 Euclid Ave., in a move that will increase capacity and visibility for the debate forum institution. The City Club will be relocating down the street from its namesake building, located at 850 Euclid Ave., by the third quarter of 2023.

Additional leases of note in the CBD were: Dollar Bank subleasing 14,647 square feet in EY Tower, located at 950 Main Ave.; and EO Cleveland inking a 4,700-square-foot lease at 1020 Bolivar Rd.

The overall asking rent in the CBD increased by \$0.44/SF to \$19.96/SF, and the submarket remained the highest average in the market. The Class A average asking rent in the CBD increased by \$0.77/SF to \$24.62/SF, and the Class B asking rent increased by \$0.06/SF to \$17.90/SF.

One of the most newsworthy developments in the fourth quarter of 2022 took place in the Public Square neighborhood of the CBD near the end of December, as a 90.0% stake in the under-construction 1.0-million-square-foot headquarters of Sherwin-Williams was sold in a long-term sale-leaseback deal to Benderson Development Co. for \$210.0 million, or \$210.00/SF. Sherwin-Williams retained a 10.0% stake in the property, which is due to deliver by the end of 2024.

Also making headlines was the announcement that Medical Mutual plans to move its CBD employees from its long-time headquarters located at 2060 E. 9th St. to its Brooklyn operations center, located in the South submarket, in 2023. Known as the Rose Building, Medical Mutual is considering its options regarding the 381,000-square-foot building that is at a prominent CBD location at the corner of E. 9th St. and Prospect Ave.

Additional notable news developments in the CBD in the fourth quarter of 2022 included: the City of Cleveland picking the

262,847-square-foot ArtCraft Building (former garment factory, office building and artist studio community) as its likely new police headquarters; owners New York Community Bancorp listing the 333,343-square-foot Ohio Savings Plaza (1801 E. 9th St.) and the 124,253-square-foot Park Plaza (1111 Chester Ave.) for sale; the 40-story Tower at Erieview, located at 1301 E. 9th St., being selected for both a \$13.0-million transformational mixed use tax credit from the Ohio Tax Credit Authority and a \$5.0-million state historic tax credit, paving the way for a 2023 start for its conversion to a W Hotel, apartments, restaurant and reduced office footprint; K&D Group receiving more than \$4.6 million in state brownfield grant money for the abatement and interior demolition of the 134,517-square-foot former United Church of Christ headquarters at 700 Prospect Ave., to pave the way for conversion to 120 apartments and first-floor retail space; an announcement that Sabor Group and Renew Partners LLC, owners of the well-known Agora complex of office space and theatre and ballroom space, were awarded \$242,800 in state historic tax credits, in addition to becoming the first project in the United States to access CIRRUS low carbon financing, for the conversion of the 92,000-square-foot office component of the complex located at 5000 Euclid Ave. to apartments, restaurant space and a reduced amount of office space; and developer Bedrock, in partnership with the City of Cleveland and architect David Akjaye, unveiling its 35-plus-acre Cuyahoga Riverfront Masterplan that includes 2,000 residential units, 850,000 square feet of office space, parking public space and the prospect of future retail, entertainment and hospitality options.

Suburban Submarkets

The East submarket's vacancy rate decreased by 10 basis points to 14.1% this past quarter and stayed the tightest submarket in the area. The average asking rental rate in the East was \$18.85/SF in the fourth quarter of 2022, up \$0.14/SF from the previous quarter. The Class A rate increased by \$0.20/SF to \$22.77/SF, and the Class B asking rental rate stood at \$16.74/SF, an increase of \$0.01/SF.

Absorption-wise, the East netted 6,843 square feet in positive absorption, the only submarket to not lose space in the fourth quarter of 2022. For the year, the East accumulated 19,482 square feet in the negative.

Two sales of note in the East were: the purchase of the 70,118-square foot Beachwood building, located at 3659 S. Green Rd., by JMR Commercial Real Estate for \$3.525 million, or \$50.27/SF; and the \$1.1-million, or \$24.33/SF, acquisition of the 45,204-square-foot building at 35350 Curtis Blvd. by Smartland.

One noteworthy office lease took place in the East in the past quarter: the 6,379-square-foot CareSource Management Group lease at 5900 Landerbrook Dr., located in Mayfield Heights.

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The market's second-largest submarket in terms of inventory, the South submarket, lost the second most amount of space of any submarket in the fourth quarter of 2022, with 153,979 square feet of negative absorption, prompting a 200-basis-point vacancy rate increase to 24.3% as the quarter ended. This vacancy rate was the highest of any submarket. The South's space loss of 260,691 square feet for the year was the second most square footage given up by any submarket.

News of note in the South was the announcement of a proposed 95,600-square-foot speculative office building named Snowville Business Center 3 at the southeast corner of Snowville and Barr Roads in Brecksville by developer Ray Fogg Building Methods.

Also in the South submarket was a 4,158-square-foot lease extension by Focus Groups of Cleveland, Inc. at 2 Summit Park Dr., as well as a 3,960-square-foot lease by MediQuant at 6200 Oak Tree Blvd., both in Independence.

The Southwest submarket lost 364 square feet of space in the fourth quarter of 2022 and held its vacancy rate at 15.6%. Over the course of the year, this submarket filled the most space at 81,104 square feet in positive absorption, making the Southwest the only submarket to finish in the positive for 2023.

One small sale in the Southwest was for the 12,000-square-foot 12301 Ridge Rd. in North Royalton. This property transferred to Encore Real Estate Partners LLC for \$975,000, or \$81.25/SF

Moving to the West, this submarket netted 278,909 square feet of negative absorption and finished the quarter with a vacancy rate of 20.7%, up 660 basis points from the previous quarter. This market-leading negative total was, in large part, a result of the sublease space brought to market by American Greetings.

A sale of note in the West was the 15,000-square-foot building at 23821-23887 Lorain Rd. in North Olmsted, which transferred to Cleve RE Investment Grp., LLC for \$950,000, or \$63.33/SF.

The suburban office submarkets saw a combined vacancy increase of 190 basis points from last quarter to 18.9%. The overall average asking rental rate for the suburban submarkets decreased by \$0.02/SF to \$17.68/SF. The suburban submarket with the highest overall asking rent was the East. The South's overall asking rent was down \$0.26/SF to \$17.59/SF from the prior quarter, while the West's rent increased by \$0.27/SF to \$16.96/SF. The lowest rental rate in the market came in the Southwest, which decreased by \$0.02/SF to \$14.34/SF.

Looking Ahead

The Cleveland office market, like most markets across the United States, struggled with continued hybrid and remote work, with companies reevaluating their space leasing needs as a result. Tenants have also indicated that amenities still matter, but digital connectivity has become increasingly important in the decision-making process. Leasing has also softened in buildings where landlords haven't upgraded or addressed either of these; this trend will remain in 2023.

Office building sales were also lukewarm in the fourth quarter of 2022; that will likely continue for most of 2023. Traditional investment transfers will likely remain tepid in 2023, though some office buildings in the Cleveland market could be sold for partial or full mixed-use redevelopments, a trend that has been prevalent in the CBD office submarket for nearly a decade.

Select Lease/User Transactions

Tenant	Building/Address	Submarket	Type	Square Feet
Sherwin-Williams	Frankfort Ave.	CBD	New	1,000,000
Dix & Eaton	1501 Euclid Ave.	CBD	New	22,000
Dollar Bank	950 Main Ave.	CBD	Sublease	14,647
City Club of Cleveland	1317 Euclid Ave.	CBD	Sublease	14,600
CareSource Management Group	5900 Landerbrook Dr.	East	New	6,379

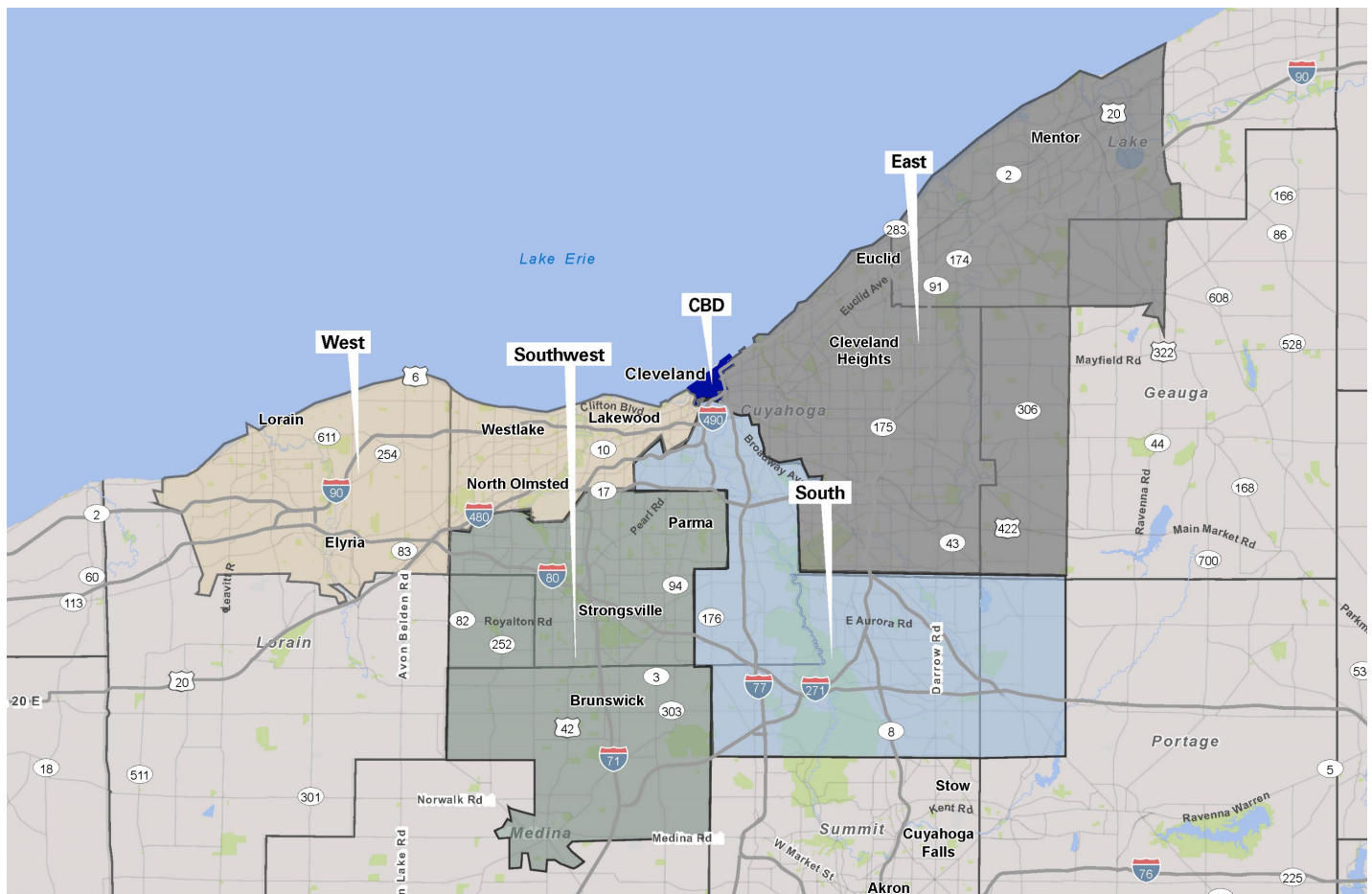
Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
Sherwin-Williams Under-Construction Global Headquarters/Frankfort Ave.	CBD	\$210,000,000 (90% stake)	\$210.00	1,000,000
12301 Ridge Rd.	Southwest	\$975,000	\$81.25	12,000
23821-23887 Lorain Rd.	West	\$950,000	\$63.33	15,000
3659 S. Green Rd.	East	\$3,525,000	\$50.27	70,118
35350 Curtis Blvd.	East	\$1,100,000	\$24.33	45,204

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	16,468,728	45,000	21.0%	(179,980)	(165,410)	\$24.62	\$17.90	\$19.96
East	8,957,080	30,000	14.1%	6,843	(19,482)	\$22.27	\$16.74	\$18.85
South	7,525,832	0	24.3%	(153,979)	(260,691)	\$19.68	\$15.93	\$17.59
Southwest	1,344,084	20,000	15.6%	(364)	81,104	\$14.62	\$14.51	\$14.34
West	4,251,246	161,900	20.7%	(278,909)	(283,567)	\$19.50	\$13.37	\$16.96
Suburban Total	22,078,242	211,900	18.9%	(426,409)	(482,636)	\$20.04	\$15.86	\$17.68
Market Total	38,546,970	256,900	19.8%	(606,389)	(648,046)	\$21.98	\$16.89	\$18.82

Cleveland Office Submarkets



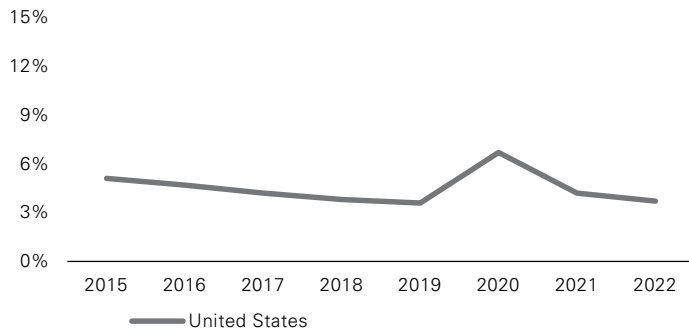
Economic Conditions

The Greater Cleveland economy gained back some jobs in the fourth quarter of 2022, as total payroll employment increased in November by 2.0% year-over-year. The national total payroll employment number was also up in November, by 3.2% year-over-year. The Consumer Price Index for Cleveland was up 6.9% year-over-year in November.

Three industry sectors in the Cleveland market saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics, from November 2021 to November 2022: trade/transportation/utilities at negative 1.8%; financial activities at negative 1.4%; and professional and business services at negative 0.5%. All other sectors saw an increase from the past year. The other services industry gained the most, by 14.0%; followed by leisure and hospitality at 9.8%; mining/logging/construction at 5.2%; information at 4.4%; government at 2.3%; manufacturing at 2.1%; and education and health services at 1.8%.

Unemployment Rate

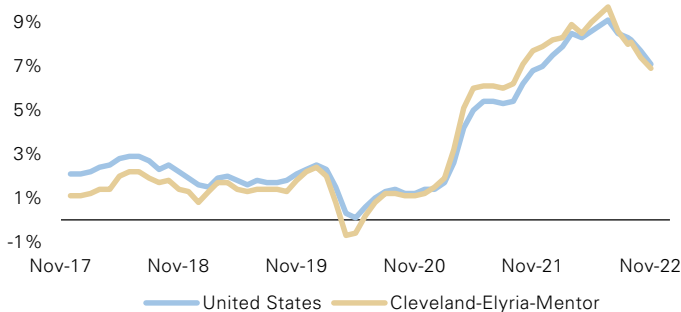
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

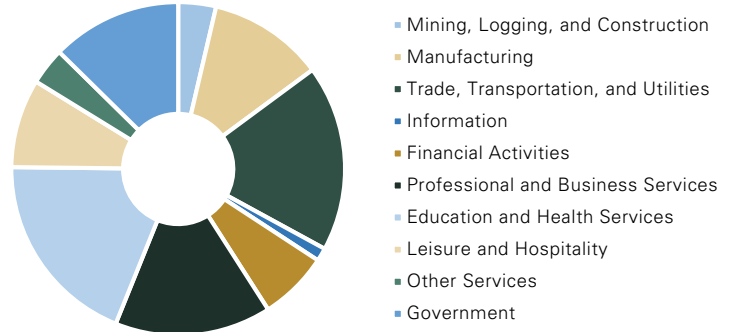
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

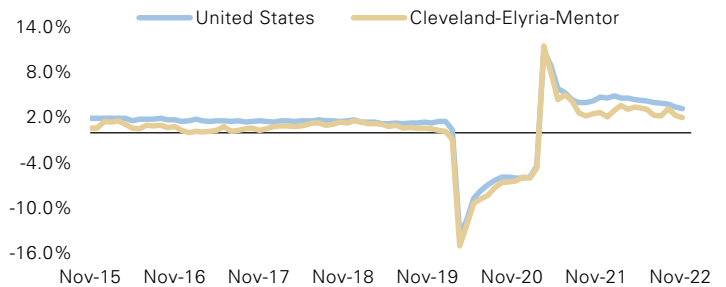
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

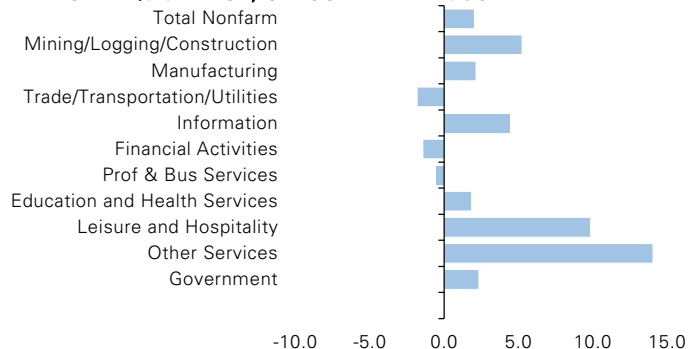
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

CLEVELAND-ELYRIA-MENTOR, November 2022 (preliminary), 12-MONTH % CHANGE, SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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