

# Cleveland Office Market Overview

# Market Observations



- Total nonfarm payroll employment increased in November 2023 by 1.5% year over year. The national total payroll employment number was up by 1.8% year over year in November.
- The seasonally-adjusted unemployment rate for the Cleveland-Elyria-Mentor Metro was down to 3.7% in November 2023 after rising to 3.8% in October. The United States unemployment rate for November was also 3.7%, down after rising to 3.9% in October 2023.
- The number of office-using jobs as of November 2023 was approximately 241,000, up from October and August, but lower than September. Recent numbers are still much better than they were during the heart of the pandemic from April 2020 to the first quarter of 2021, yet were up and down all through 2023.



- There were a number of notable leases within the Cleveland market in the fourth quarter of 2023. There were at least three of note over 15,000 SF.
  - Oswald Companies will relocate from its current headquarters at 1100 Superior Ave. to the Flats East Bank in the first half of 2024. The move includes changing the name of 950 Main Ave. from the former Ernst & Young Tower to Oswald Tower.
  - VE Solutions will relocate its headquarters to 16501 Rockside Rd. in Maple Heights from 8700 Brookpark Rd. in Brooklyn to accommodate a company expansion.
  - Nicola, Gudbranson & Cooper LLC will relocate from the Landmark Office Towers in 1Q24 to the 28th and 29th floors of the iconic Terminal Tower.



## Leasing Market Fundamentals

- Leasing activity in 2023 after adding in the fourth quarter total of 306,940 SF, was 1.54 million SF, the second lowest yearly total since 2007.
- The Cleveland office market stayed flat with 32,476 SF of negative absorption in the fourth quarter of 2023, giving the market six of the last 10 quarters in the negative. The negligible negative absorption caused the vacancy rate to remain flat at 21.7% in the fourth quarter of 2023. For the year 2023, the market gave back 448,210 SF, significantly better than 2022's 947,519 SF of negative absorption, but an accrual in the negative for the third year in a row.
- The overall average asking rental rate increased to \$19.65/SF in the fourth quarter. As a result, the 2023 year-to-date average asking rent total rose by \$0.19/SF to \$19.14/SF once the fourth quarter average was factored in, and the year-over-year asking rent growth rate rose from 1.4% to 2.4% to end 2023.



## Outlook

- With macroeconomic conditions and world volatility continuing as 2023 closed, the Cleveland office market still saw some positives, as the vacancy rate stayed flat and several leases were signed that should occupy in the next couple of quarters.
- All of the Cleveland office market's submarkets experienced an uptick in average asking rental rates year over year in the fourth quarter, while the market overall had a 5.0% jump in asking rent year over year. This affirms that demand exists for office.
- One issue that continued to plague the Cleveland and national office landscape was mortgage loan originations continuing to decline and landlords being unable to renegotiate terms with lenders. As a result, office building sales in the Cleveland market were anemic in the fourth quarter.

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# Economy

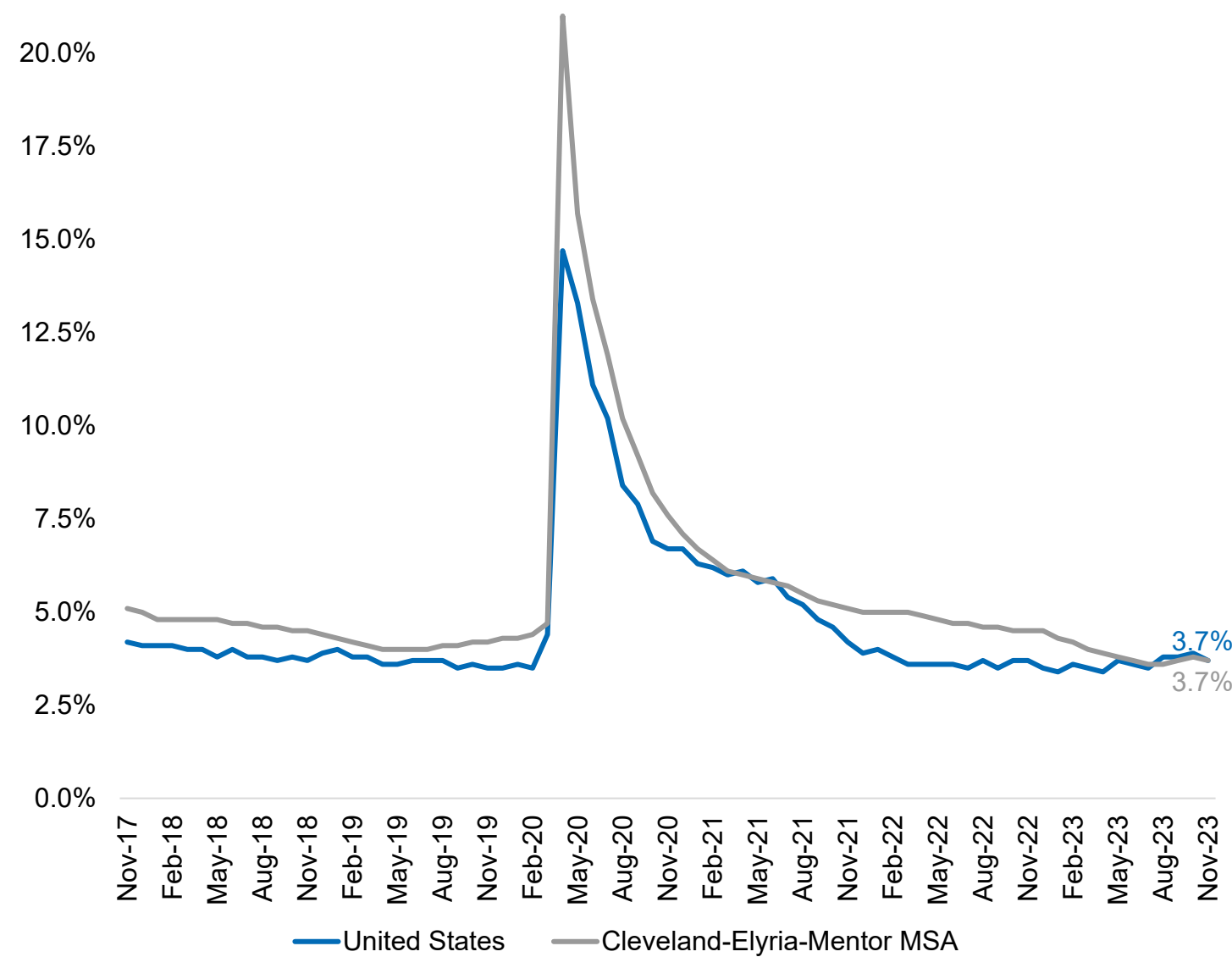




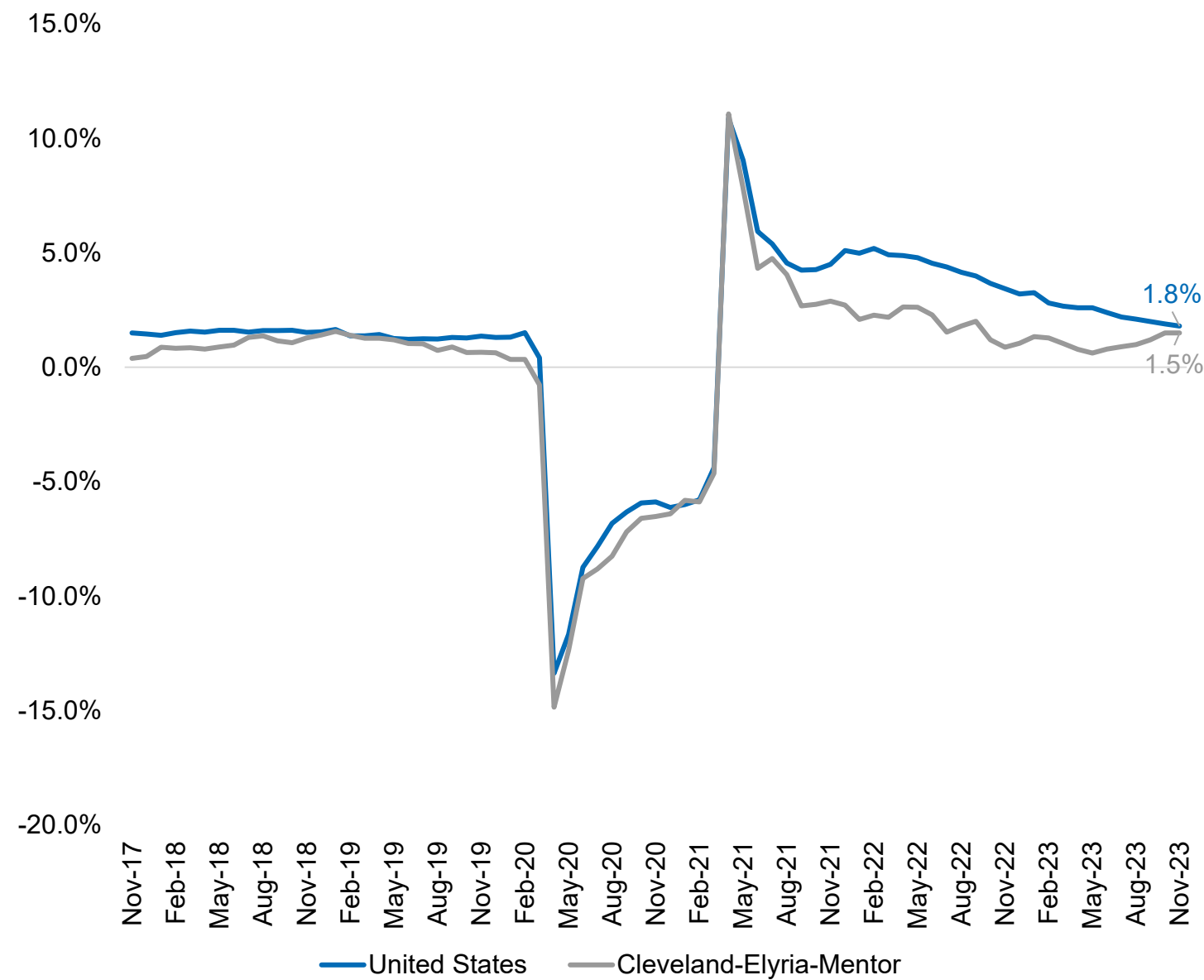
# Cleveland and United States Employment Trends

The Cleveland-Elyria-Mentor Metro’s economy once again gained back a modest number of jobs in the fourth quarter of 2023, as total nonfarm payroll employment increased in November 2023 by 1.5% year over year. The national total payroll employment number was up by 1.8% year over year in November. The seasonally-adjusted unemployment rate for the Cleveland-Elyria-Mentor Metro was down to 3.7% in November 2023 after rising to 3.8% in October. The United States unemployment rate for November was also 3.7%, down after rising to 3.9% in October 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



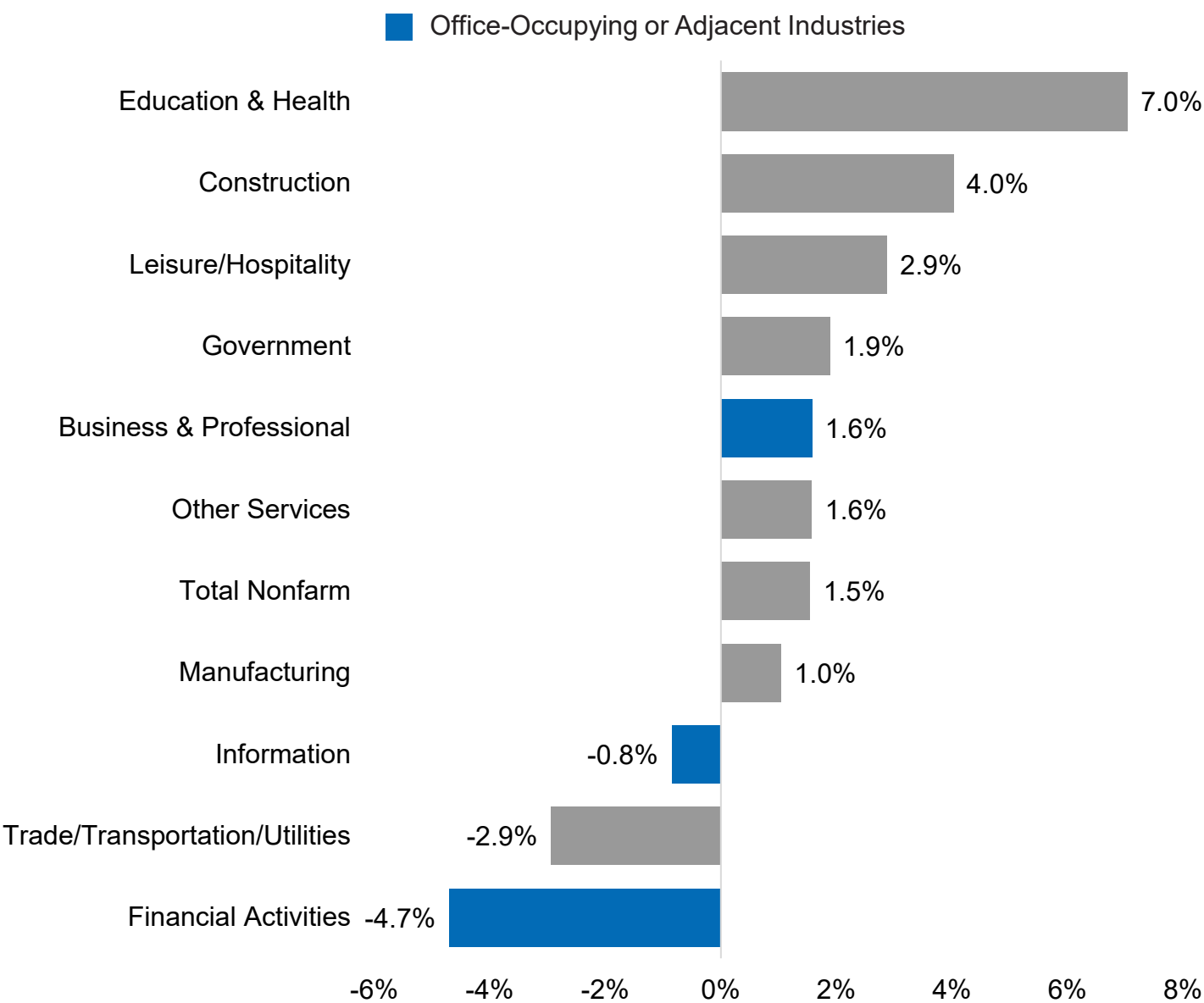
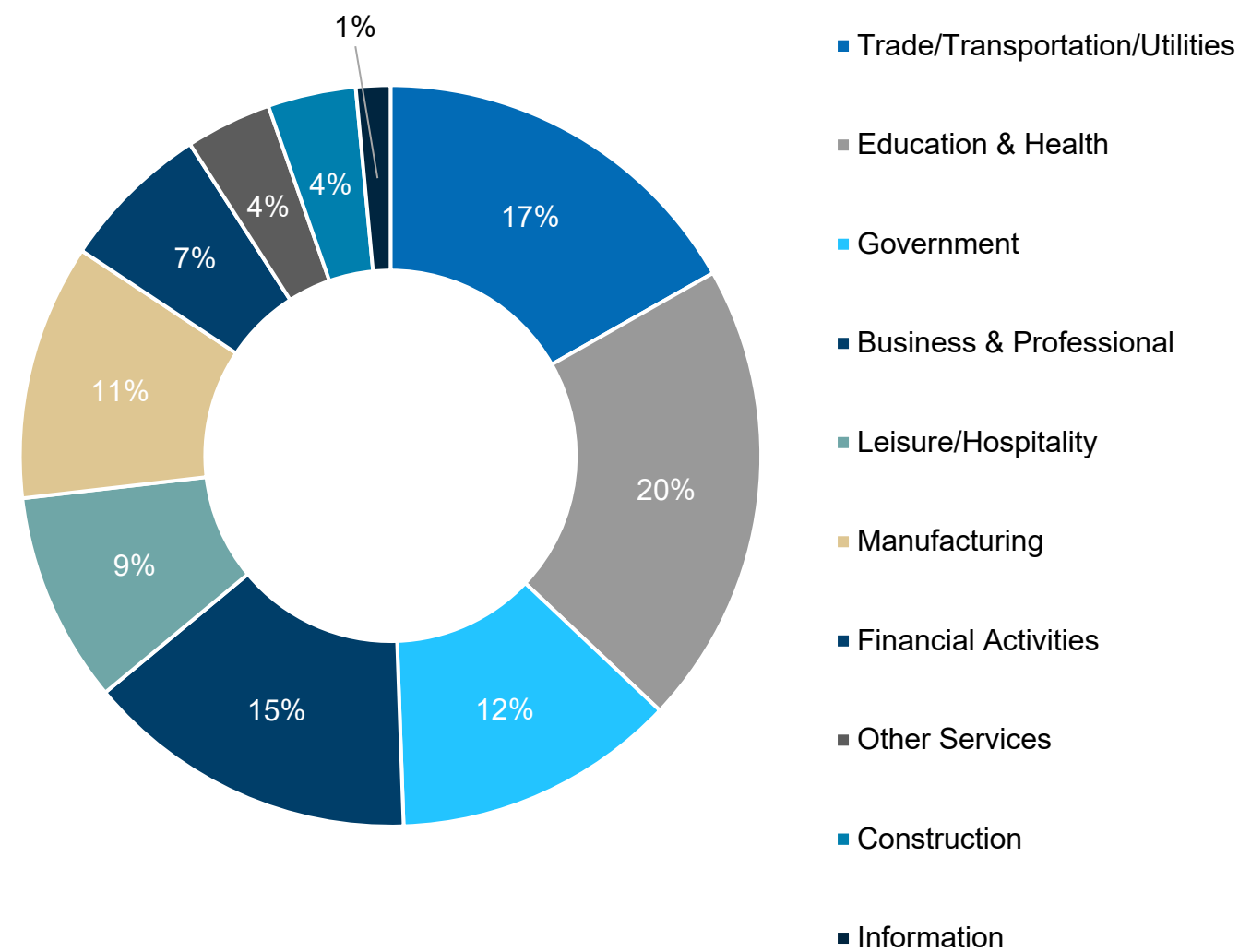
Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

# Job Losses in Two of Three Office-Occupying or Adjacent Industries

Eight industry sectors in the Cleveland market saw employment gains, according to year-over-year numbers from the Bureau of Labor Statistics, from November 2022 to November 2023. Two of three office-occupying or adjacent industries saw annual job losses, the information sector and the financial activities sector. The trade/transportation/utilities sector was the other that saw job losses. The business and professional sector, the other office-occupying or adjacent industry, saw growth of 1.6% from November 2022 to November 2023, which is a rebound from its negative return in the third quarter.

Employment by Industry, November 2023

Employment Growth by Industry, 12-Month % Change, November 2023

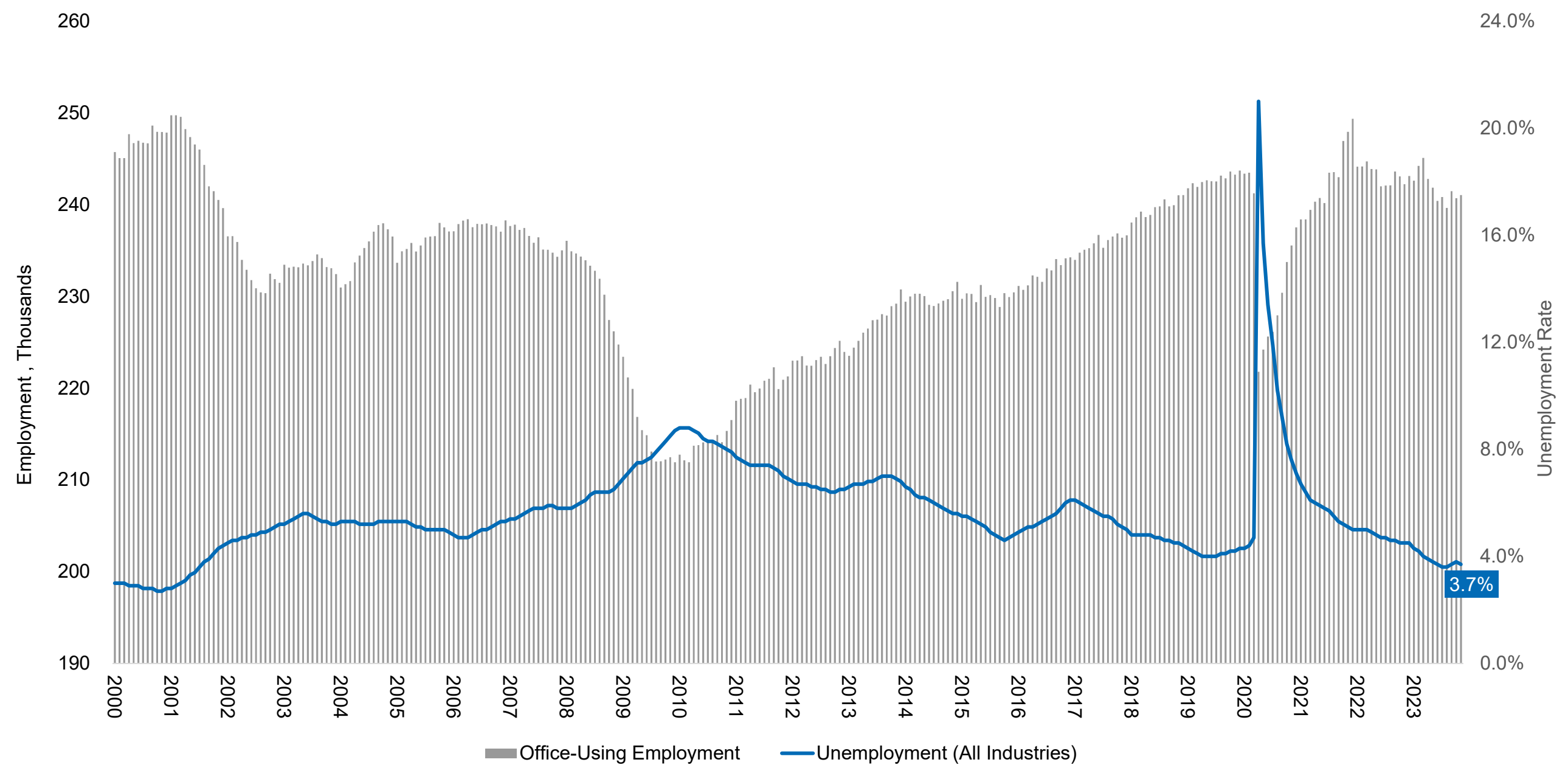


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

# Office-Using Employment a Roller Coaster in 2023

The number of office-using jobs as of November 2023 was approximately 241,000, up from October and August, but lower than September. Recent numbers are still much better than they were during the heart of the pandemic from April 2020 to the first quarter of 2021, but fluctuated through all of 2023.

Office-Using Employment\* and Unemployment Across All Industries, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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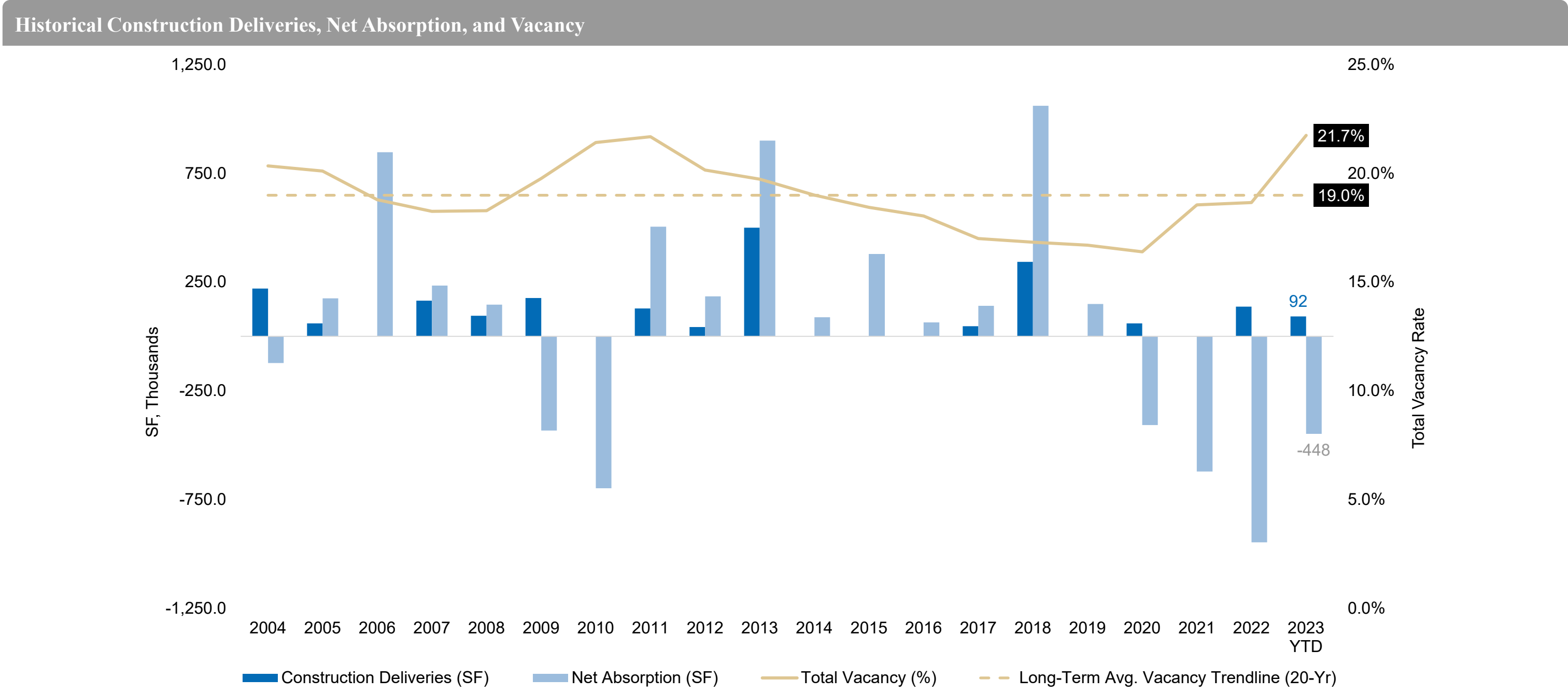
# Leasing Market Fundamentals





# Office Market Accrues Yearly Total of Negative Absorption For Third Year in a Row

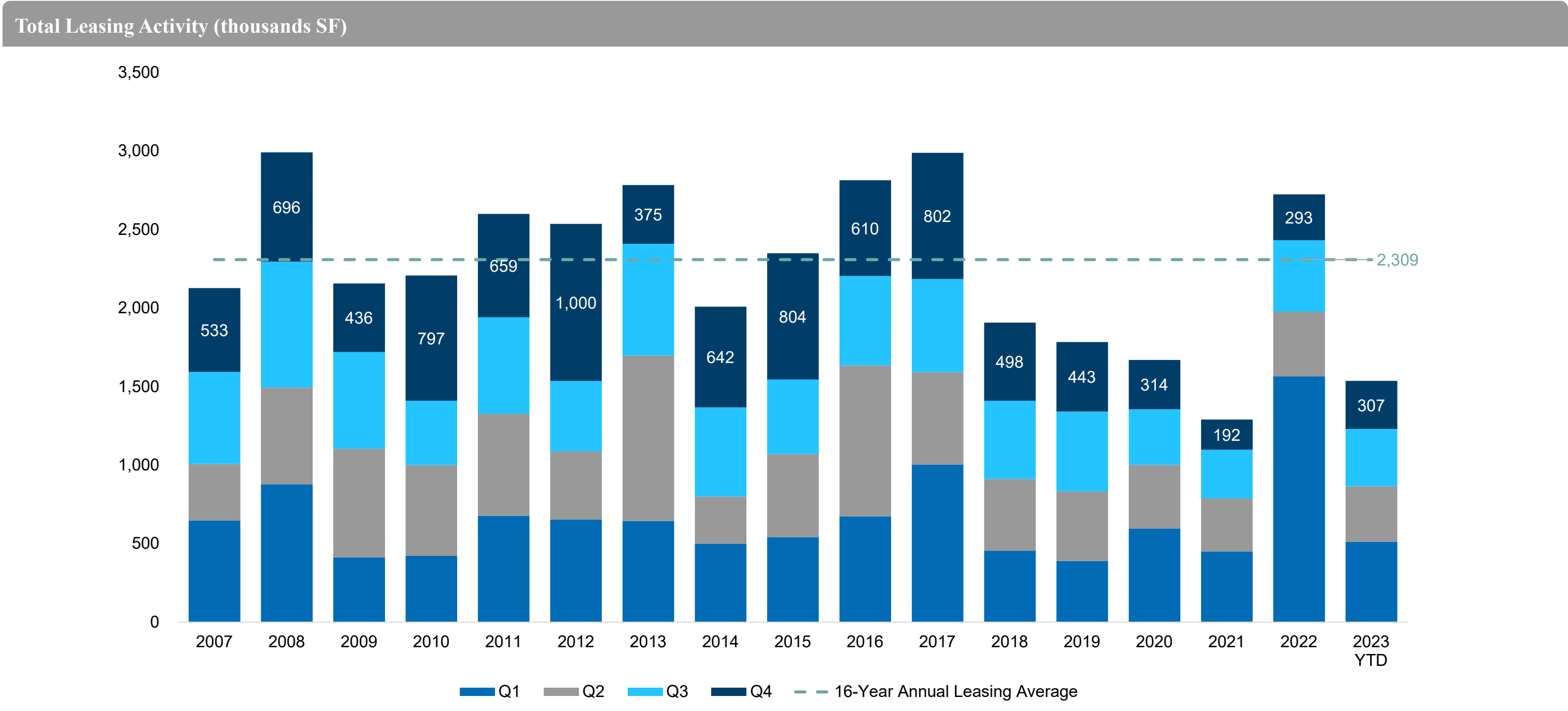
The Cleveland office market stayed flat with 32,476 SF of negative absorption in the fourth quarter of 2023, giving the market six of the last 10 quarters in the negative. The negligible negative absorption caused the vacancy rate to remain flat at 21.7% in the fourth quarter of 2023. For the year 2023, the market gave back 448,210 SF, significantly better than 2022's 947,519 SF of negative absorption, but an accrual in the negative for the third year in a row. In fact, since the onset of Covid in the second quarter of 2020, the Cleveland office market has a total of nearly 2.5 million SF of negative absorption. The total vacancy percentage for 2023 was 21.7% (which matched both the third and fourth quarter of 2023), up significantly from 18.7% for the year 2022. The long-term 20-year average vacancy trendline is 19.0%.



Source: Newmark Research

# Leasing Activity for 2023 Second Lowest Since 2007

Total leasing activity for non-owner-occupied office buildings measuring 10,000 SF and greater in the Cleveland market was 1.54 million SF, the second lowest yearly total since 2007. Total leasing activity for the four quarters of 2023 were as follows: 511,097 SF in the first quarter; 354,191 SF in the second quarter; 364,606 SF in the third quarter; and 306,940 SF in the fourth quarter (the fourth quarter was slightly higher than the fourth quarters of 2022 and 2021, but lower than all other quarters since 2007). The 16-year annual leasing activity average was 2,308,779 SF.

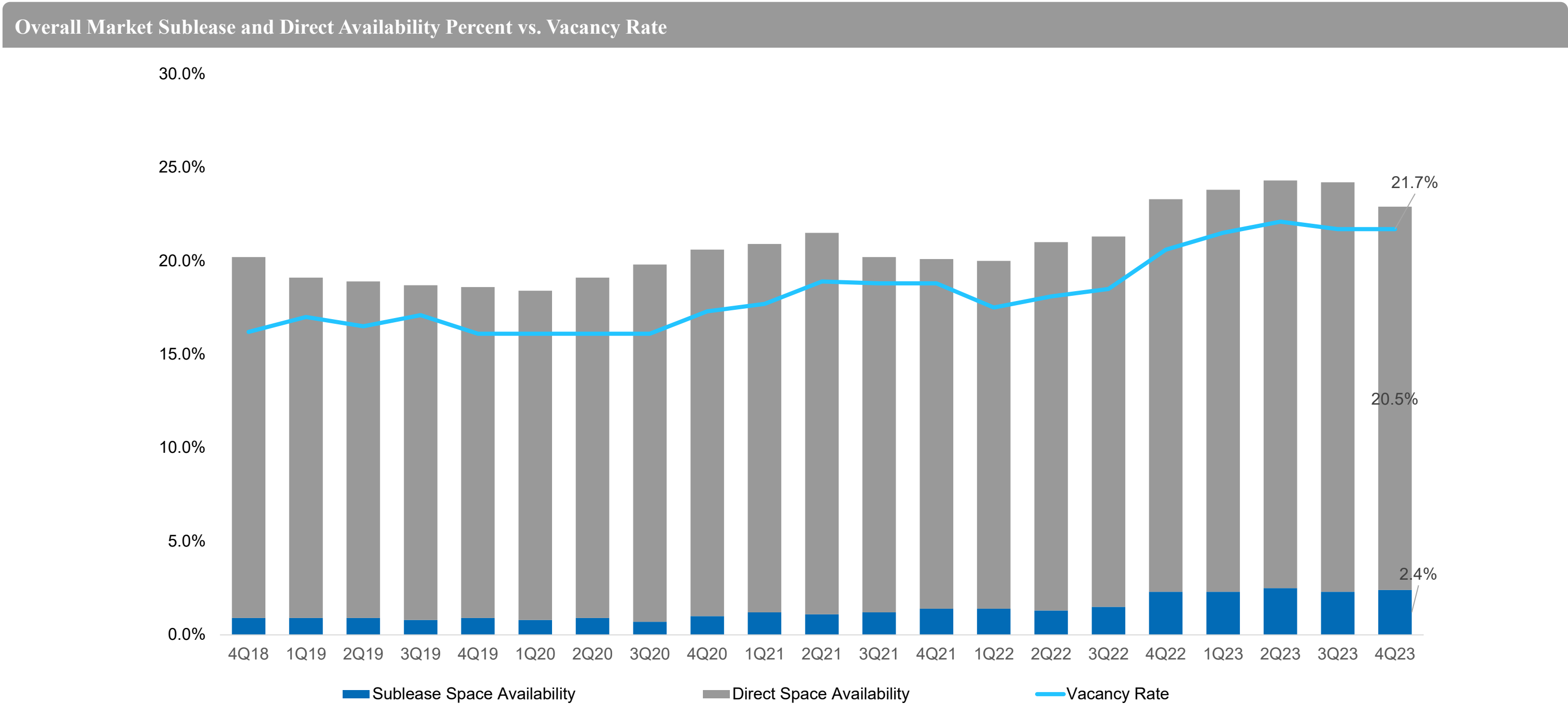


Source: Newmark Research, CoStar



# Direct and Sublease Availability Numbers Go In Different Directions

Direct space availability dipped as the fourth quarter of 2023 ended, decreasing by 140 basis points from the third quarter to 20.5%, while sublease space availability increased slightly, by 10 basis points from the prior quarter to 2.4%. Overall market vacancy for the fourth quarter remained unchanged from the third quarter at 21.7%.

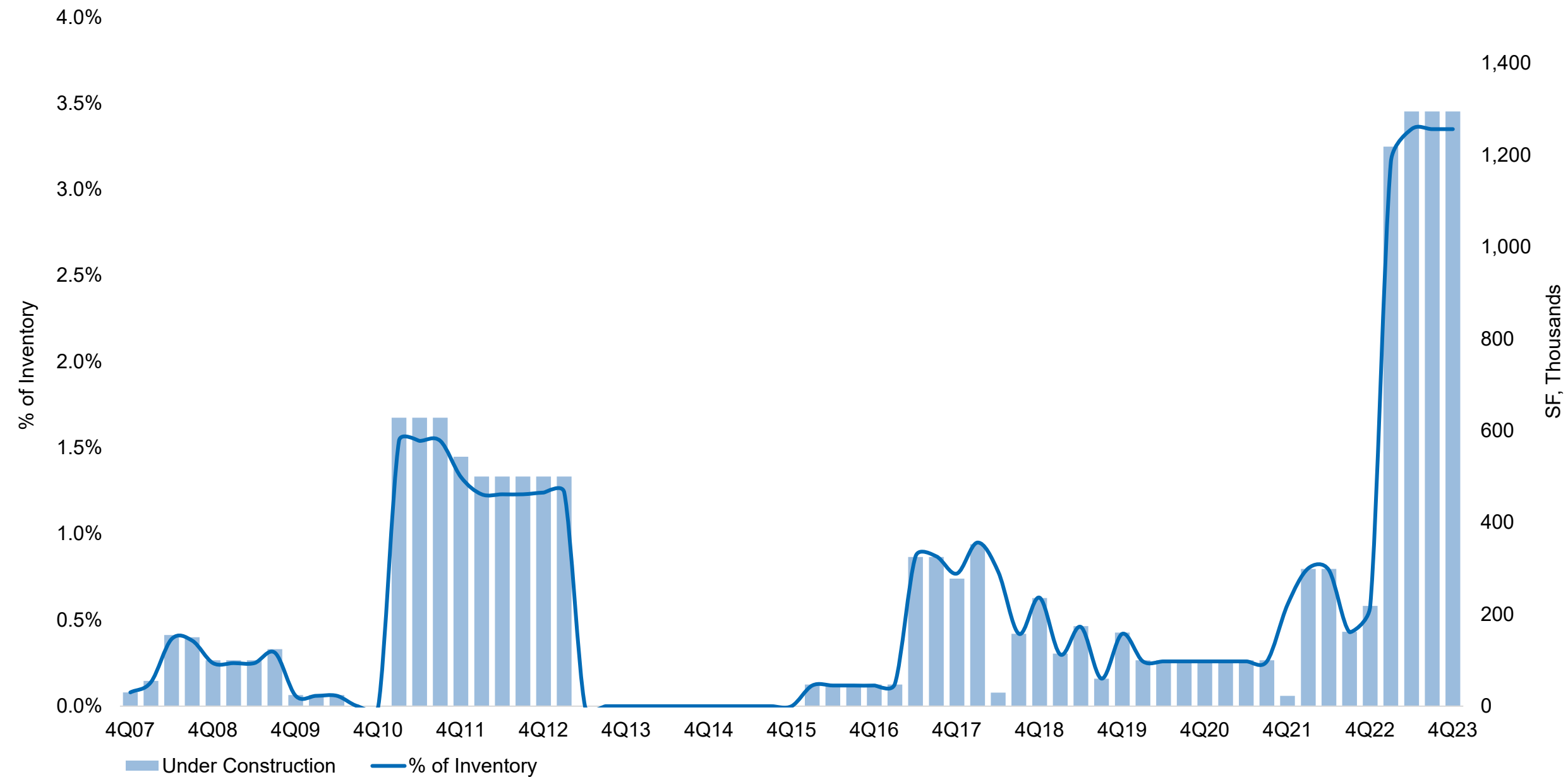


Source: Newmark Research

# Office Construction Activity Remains Unchanged

Office construction in the Cleveland market in recent years has been minimal. As with the last two quarters, the 1.0 million SF Sherwin-Williams headquarters project in the CBD is the largest development the market has seen and makes up the majority of the 1,295,000 SF of office construction in the market as of the end of 2024. This construction activity is 3.4% of inventory.

Office Under Construction and % of Inventory

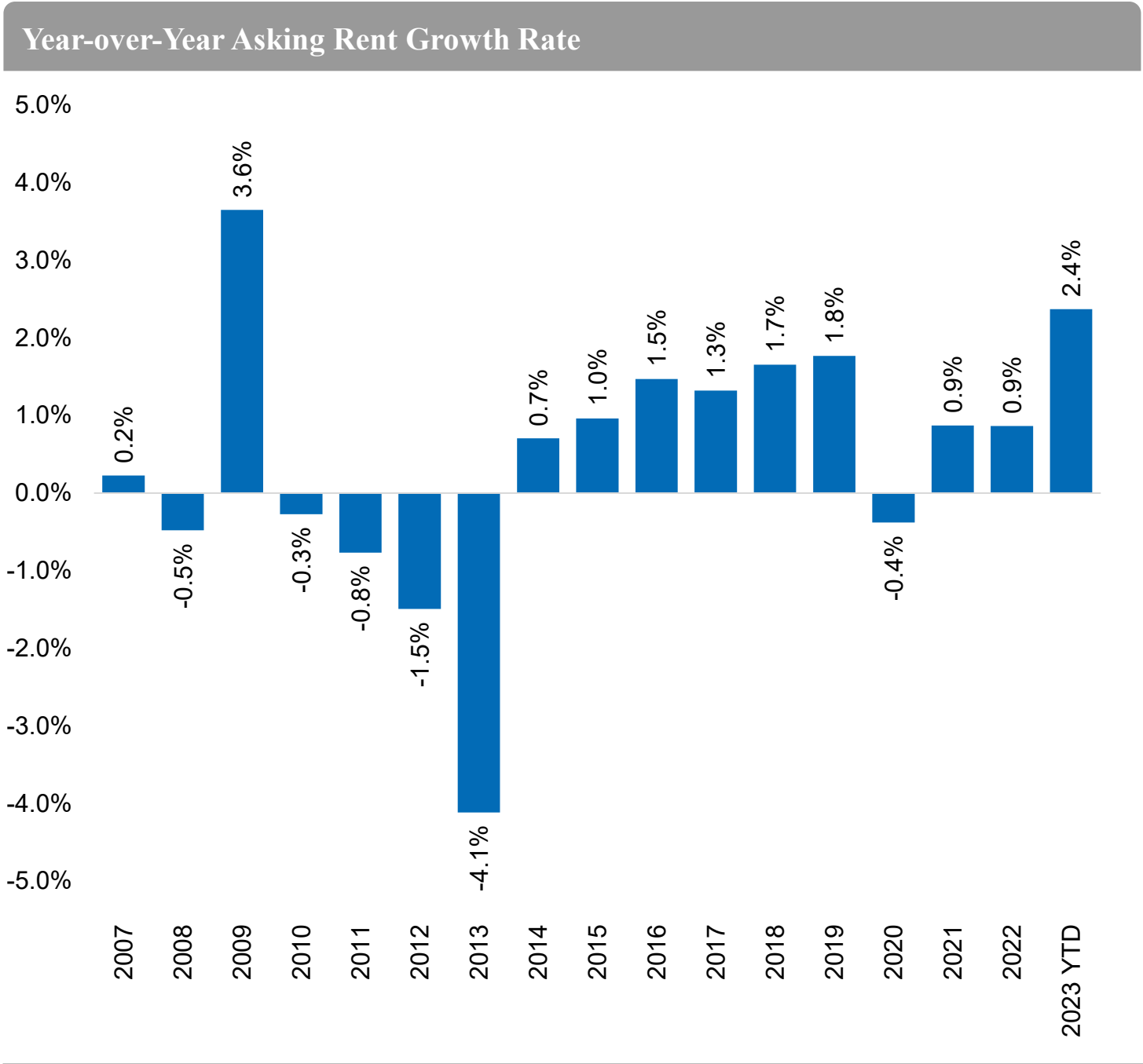
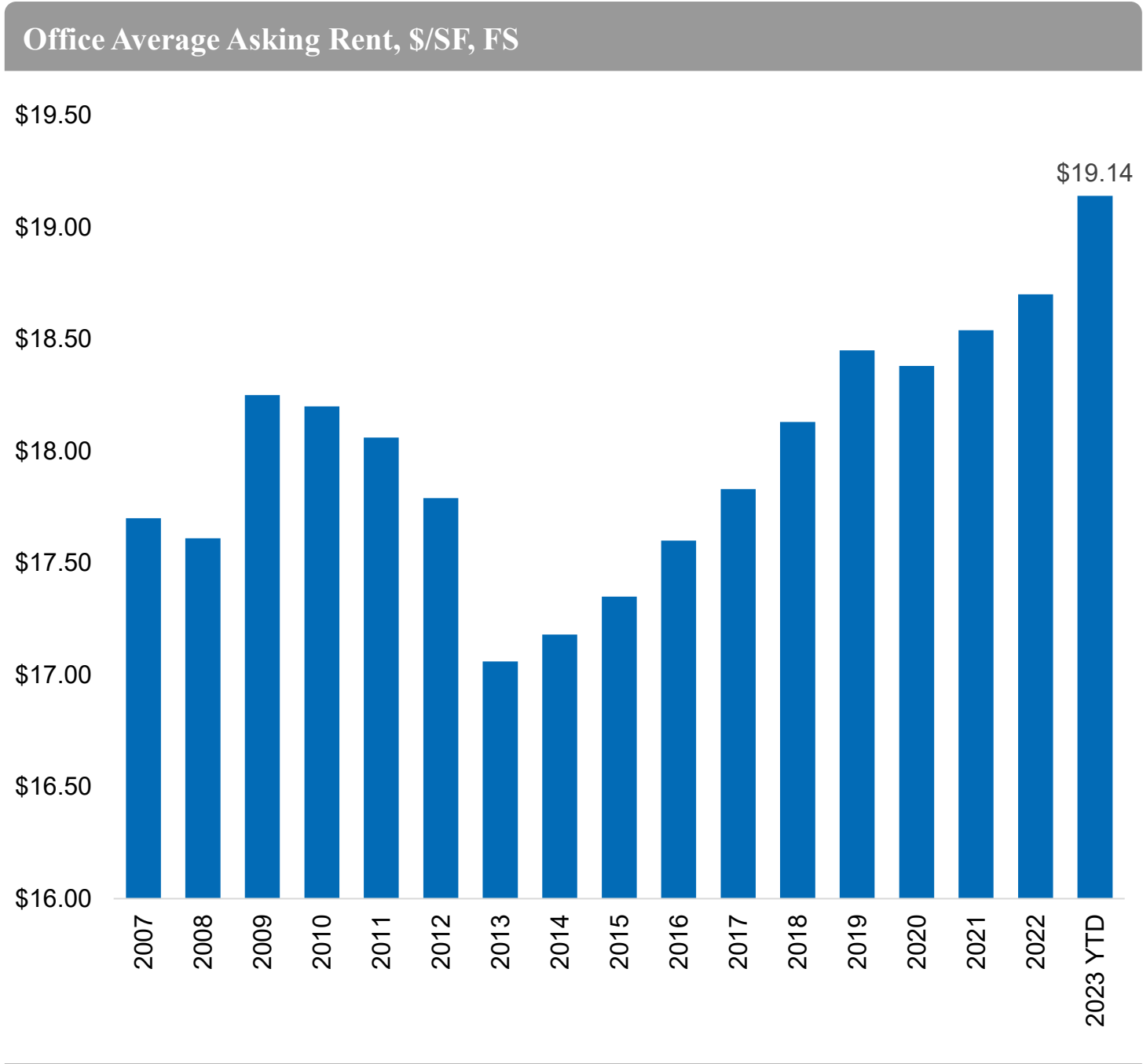


Source: Newmark Research



# Recent Overall Rents Continue to Increase Year to Year

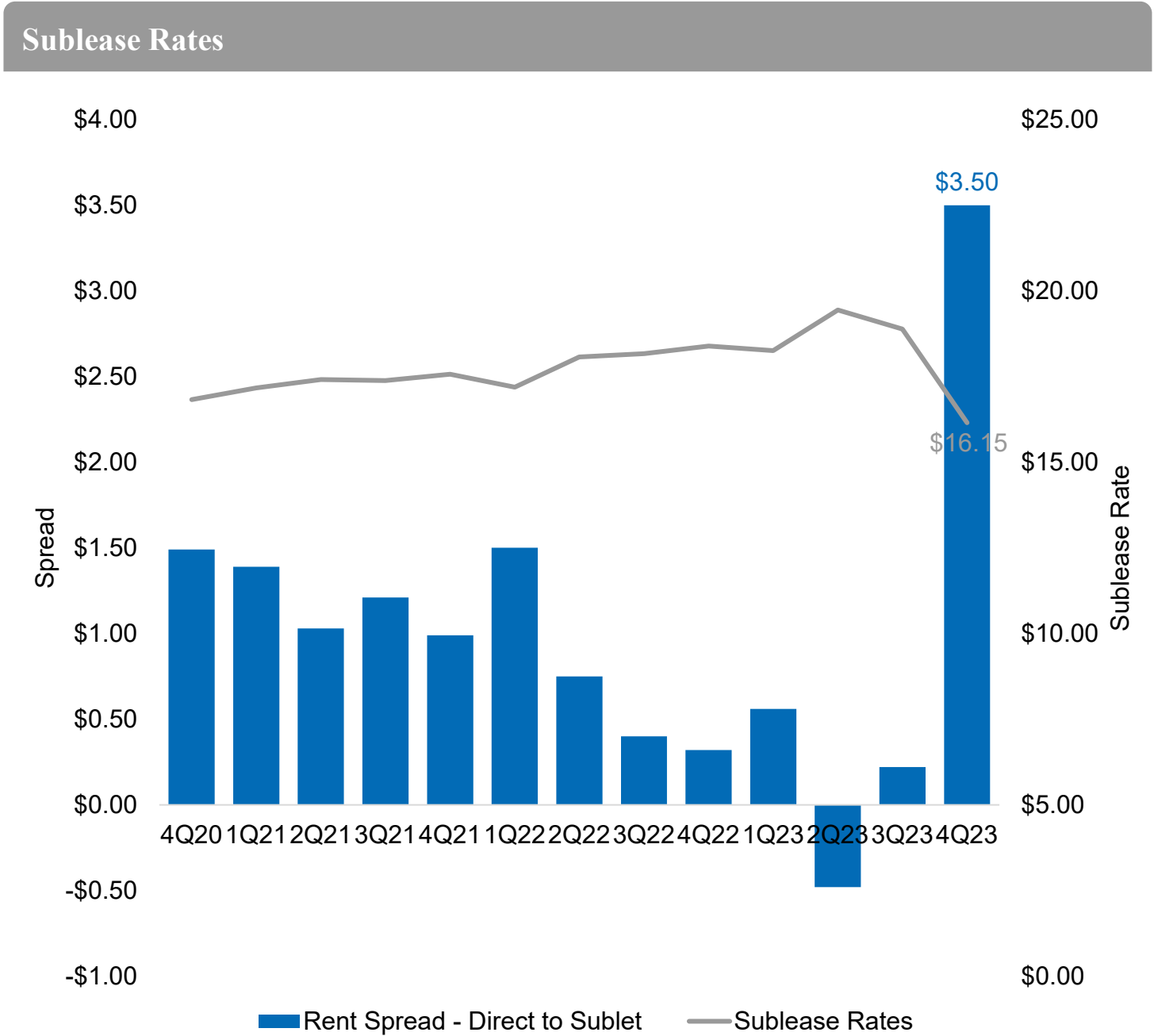
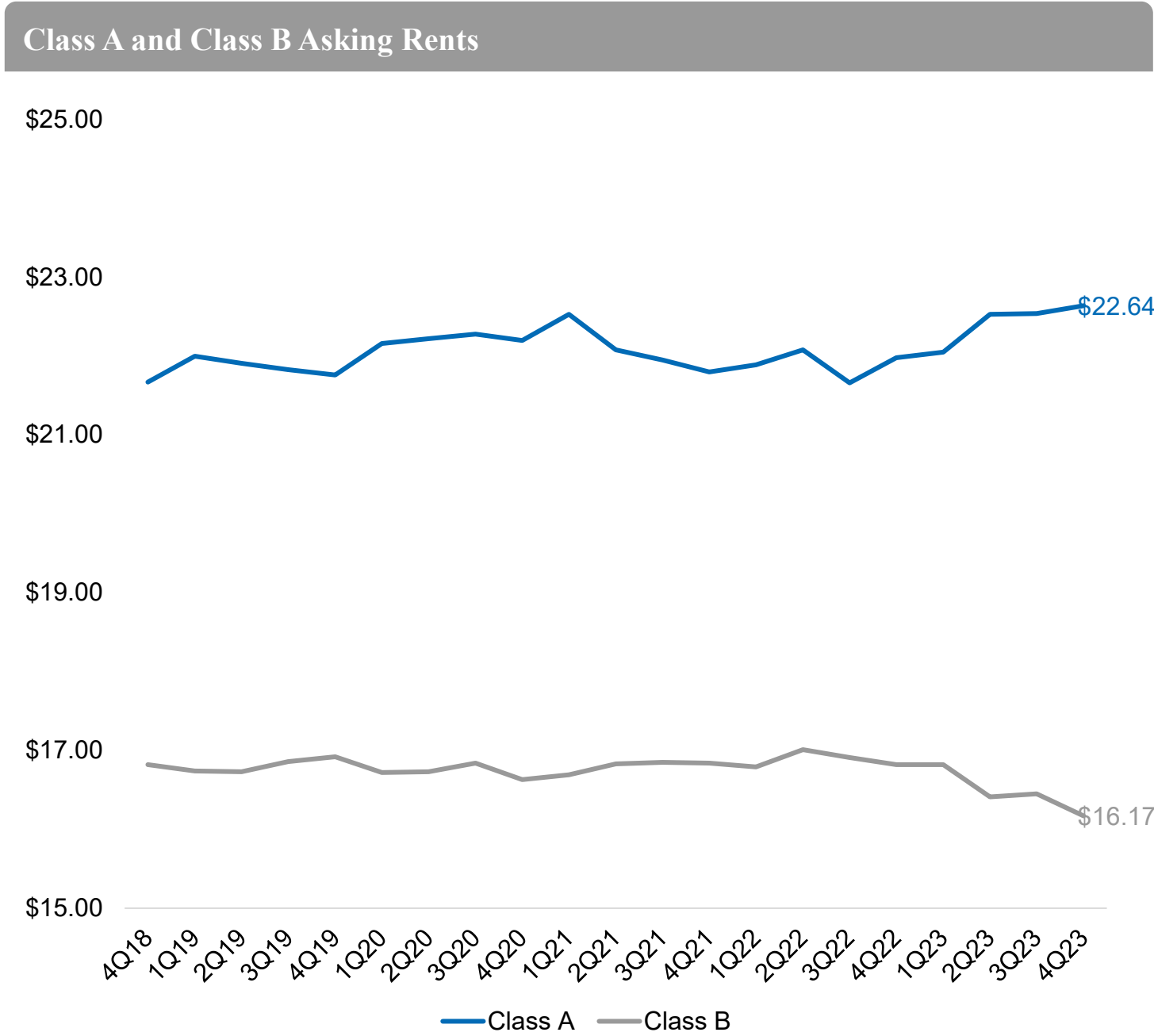
The Cleveland office market’s overall average asking rental rate increased by \$0.54/SF from the third quarter of 2023 to \$19.65/SF in the fourth quarter. As a result, the 2023 year-to-date average asking rent total rose by \$0.19/SF to \$19.14/SF once the fourth quarter average was factored in, and the year-over-year asking rent growth rate rose from 1.4% to 2.4% to end 2023. 2023’s 2.4% year-over-year rent growth was the most since 2009. Nine of the last 10 years (the exception being 2020 as the pandemic took hold) have all seen year-over-year asking rental rate growth, and that trend continued through the end of 2023.



Source: Newmark Research

# Class A Asking Rents Up, While Class B Rents Dip; Sublease Rates Down Sharply

The overall market's Class A average asking rental rate of \$22.64/SF was an increase of \$0.10/SF from the third quarter of 2023, and the Class B average asking rental rate decreased by \$0.28/SF to \$16.17/SF, further widening the gap between Class A and Class B rents. The fourth quarter average sublease rate came down significantly, by \$2.74/SF to \$16.15/SF from the previous quarter. This raised the direct to sublet rent spread to \$3.50/SF.



Source: Newmark Research



# Notable Leases in 4Q23

Notable leases within the Cleveland market took place in several key office buildings.

Select 4Q23 Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Oswald Companies <i>This insurance brokerage firm will relocate from its current headquarters and namesake building at 1100 Superior Ave. to this Class A building on the Flats East Bank in the first half of 2024. The move includes changing the name of 950 Main Ave. from the former Ernst &amp; Young Tower to Oswald Tower.</i>	950 Main Ave.	CBD	Direct New	~100,000
VE Solutions <i>This company will be relocating its headquarters to Maple Heights from 8700 Brookpark Rd. in Brooklyn to accommodate a company expansion but will retain its Brooklyn location.</i>	16501 Rockside Rd.	East	Direct New	~41,000
Nicola, Gudbranson & Cooper LLC <i>This Downtown Cleveland law firm will relocate from the Landmark Office Towers in 1Q24 to the 28th and 29th floors of the iconic Terminal Tower, a move that is essentially to the building next door.</i>	50 Public Square	CBD	Direct New	16,870
Keyence Corporation of America <i>A global leader in the industrial automation industry with a worldwide network of 240 offices in 46 countries, this company extended its lease at this Class A office building in Broadview Heights.</i>	9150 S. Hills Blvd.	South	Extension	8,792
Skylight Financial <i>This Ohio City finance firm will consolidate its office space in this move to the Scranton Peninsula in the Flats.</i>	1956 Carter Rd.	CBD	Direct New	8,250

Source: Newmark Research, CoStar

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## South Submarket Once Again Posts Highest Vacancy

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## Asking Rents Up Year Over Year

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# Appendix





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## Submarket Overview



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## Cleveland - Submarket Map

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## Additional Market Statistics



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