



Cleveland Office Market

Leasing Improvement and Removal of Obsolete Space Prompt Vacancy Decline as Office Market Normalizes

The Greater Cleveland office market entered into normalization mode in the first quarter of 2022, as the market absorbed 96,114 square feet of space. This was the second straight quarter that the market achieved positive absorption after six straight quarters that saw space loss.

The positive absorption, combined with the removal of obsolete Central Business District office space from the overall inventory, most of which will soon be redeveloped or converted either fully or partially, decreased the market's vacancy rate by 140 basis points this past quarter, to 17.9% for all office properties.

The market's overall average asking rental rate increased by \$0.11/SF from the fourth quarter of 2021 to \$18.36/SF, tied for the highest mark since the fourth quarter of 2019. The Class A average asking rental rate of \$21.95/SF increased by \$0.15/SF from the fourth quarter of 2021, though the Class B average asking rental rate decreased by \$0.02/SF to \$16.46/SF.

Net absorption by class in the first quarter statistically backed up the anecdotal story that has emerged throughout and in the wake of the pandemic: a flight to quality. Class A office buildings had 85,948 square feet of positive net absorption, while Class B properties netted 57,427 square feet. Class C properties gave back 47,261 square feet. Overall, tenants have shown a preference for quality amenitized space and have been willing to pay higher rents, even if they are adjusting their overall footprints.

Current Conditions

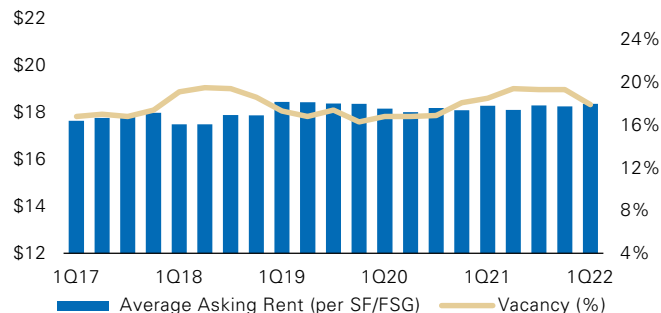
- The office market tallied 96,114 square feet in positive absorption, the most since the first quarter of 2020. This gave the market a positive return for the second straight quarter.
- The vacancy rate decreased by 140 basis points to 17.9%, the result of positive absorption combined with the removal of obsolete office space, most of which is being redeveloped.
- “Zombie” – or obsolete space – within CBD buildings earmarked for or already undergoing either full or partial redevelopment or conversions has been removed from inventory, allowing for more normalization of the market.
- The average asking rental rate increased by \$0.11/SF from the fourth quarter of 2021 to \$18.36/SF, tied for the highest mark since the fourth quarter of 2019.

Market Summary

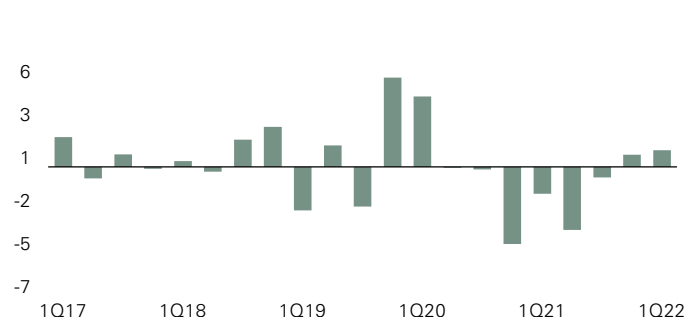
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	38M	39M	39M	→
Vacancy Rate	17.9%	19.3%	18.5%	↓
Quarterly Net Absorption (SF)	96,114	69,262	(156,110)	↑
Average Asking Rent/SF	\$18.36	\$18.25	\$18.27	↑
Under Construction (SF)	331,900	270,000	100,000	↑
Deliveries (SF)	0	0	0	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, Hundred Thousands)



Office Conversions and Other CBD News

Office redevelopment/adaptive reuse projects in the Central Business District impacted the overall market like never before, as property sales, tax credits and the start of projects prompted the removal of a large chunk of trackable inventory, which brought the overall and CBD vacancy down greatly and helped normalize the market.

For example, the long-vacant 45 Erieview Plaza, which was awarded \$5.0 million in state tax credits in the previous quarter and had been under contract for quite some time, officially sold to Bluelofts, Inc. for \$21.25 million, or \$42.84/SF. The new ownership group is converting the 16-story, 496,040-square-foot building into a live-work apartment complex, which necessitated this “zombie” building’s removal from inventory.

Another example of a building where a large chunk of inventory was removed is the landmark 740,000-square-foot Tower at Erieview, located at 1301 E. 9th St. The ownership group is planning an approximate \$90.0-million mixed-use redevelopment for the 40-story building, including a 210-room luxury W Hotel, 200-plus apartments and an elevated restaurant concept on the top floor, with approximately 300,000 square feet of office space remaining in trackable inventory.

Other recently-announced or in-process partial or full redevelopments in the CBD that impacted the market’s inventory and vacancy are: 55 Public Square (a 427,279-square-foot building of which the majority will be remade into apartments and retain approximately 145,355 square feet of office space); the Rockefeller Building, located at 614 W. Superior Ave. (the majority of this 256,000-square-foot building will be converted to apartments); and the two-building 1835-1849 Prospect Ave. E., where new ownership intends to renovate the office buildings into residential units to appeal to Cleveland State University students and Downtown workers.

Ohio’s \$100.0-million first round of the long-awaited TMUD program was awarded to 13 projects from 42 applications statewide for this initial round. The 1.4-million-square-foot Centennial, a \$465.0-million reimagining of the former Union Trust/Huntington Building at 925 Euclid Ave. by owner The Millennia Companies was awarded \$40.0 million from the program, the largest request in the state. Millennia intends to transform this former office building into over 800 affordable apartments, a boutique hotel, a restaurant, event space and a museum.

As a result of the inventory normalization through the removal of to-be-redeveloped space, as well as 23,746 square feet in positive absorption, the CBD ended the first quarter of 2022 with a 19.8% vacancy rate, a 250-basis point drop.

On the CBD leasing front, the Benesch law firm signed a 164,000-square-foot lease at Key Tower, located at 127 Public Square. This is one of the largest, most high-profile leases in several years. The company intends to relocate to eight floors in Key Tower from nearby 200 Public Square by the middle of 2023.

In another large lease transaction, McDonald Hopkins signed an approximate 84,428-square-foot long-term lease renewal at Fifth Third Center, located at 600 Superior Ave. E. Other leases in the CBD included a 58,568-square-foot lease by Reminger Co. at 200 Public Square, a 7,000-square-foot lease by Lockton at 1300 East 9th St. and a 4,923-square-foot sublease by Perez Morris at 1215 S. Superior Ave.

The overall asking rent in the CBD increased by \$0.14/SF to \$19.62/SF and remained the highest average in the market. The CBD Class A asking rent ended the quarter at \$24.10/SF, while the Class B asking rent was \$17.50/SF.

Finally in the CBD, two co-working companies made news. After announcing a 27,000-square-foot lease in the first quarter of 2020 at the Western Reserve Building, located at 1468 W. 9th St., Spaces, a subsidiary of IWG plc, opened its first Cleveland location in March. At the opposite corner of the CBD at the Tower at Erieview, co-working company Industrious announced a partnership agreement to open a 20,000-square-foot operation at this location, its first in Cleveland.

Suburban Submarkets Stay Solid

The East submarket has performed strongly in recent quarters, and it was no different in the first quarter of 2022. The East’s vacancy rate decreased by 70 basis points to 13.2% this past quarter, the third-largest drop in vacancy, and remained the tightest submarket in the area. Absorption-wise, the East gained the most amount of space for the third quarter in a row, with 63,315 square feet of positive absorption.

Rental rates increased in the East to \$18.69/SF, up \$0.18/SF from the previous quarter. The Class B asking rental rate stood at \$17.10/SF, up by \$0.31/SF for the biggest Class B gain in the market, while the Class A rate rose by \$0.20/SF to \$21.78/SF. The overall Class A and Class B asking rental rates in the East still all remained second in the market behind the CBD.

Two significant sales took place in the East: the 34,363-square-foot Beachwood building located at 3601 Green Rd., which sold to Progress Management, LLC for \$2.75 million, or \$80.03/SF; and Chagrin North III, located at 35000 Chardon Rd., a 16,506-square-foot building that transferred to Metropark Corporate Center Ltd.

RESEARCH Q1 2022

Leases of note in the East submarket were: a 41,564-square foot lease by Kichler Lighting at 30455 Solon Rd. in Solon; the 18,888-square-foot lease by Legend Treatment Center of Cleveland of the former Remington College building located at 14445 Broadway Ave. in Maple Heights; and AIPSO's 17,772-square-foot lease at 5875 Landerbrook Dr. in Mayfield Heights. This will be the first Cleveland area location for AIPSO, a management organization and service provider to insurance industry groups.

The Southwest submarket netted 11,507 square feet of positive absorption, prompting the vacancy rate to decrease by 90 basis points to 20.8%, which amounted to the largest drop in the suburban submarkets for the quarter. The Southwest still had the largest vacancy percentage of any submarket.

The West submarket netted 2,603 square feet of positive absorption and finished the quarter with a vacancy rate of 16.5%, a decrease of 10 basis points. The Class A average asking rental rate increased by \$1.57/SF to \$19.77/SF.

The South was the only submarket in the first quarter of 2022 to show negative absorption, giving back 5,057 square feet. This prompted a 10-basis-point increase in vacancy to 19.5%.

In the South, Josiah's House, Inc. signed a 4,549-square-foot lease extension at 981 Keynote Circle in Brooklyn Heights, and Universal Services of America, LP signed a 4,390-square-foot lease at 6200 Oak Tree Blvd. in Independence.

Also in the South submarket was the transfer of the 16,843-square-foot property located at 8180 Brecksville Rd. in Brecksville to Damm Holdings LLC, for \$1.35 million, or \$80.00/SF.

The suburban office submarkets saw a vacancy decrease of 40 basis points from last quarter to 16.4%, due to 72,368 square feet in positive absorption for the first quarter of 2022.

The overall average asking rental rate for the suburban submarkets increased by \$0.10/SF to \$17.22/SF. As the first quarter ended, the suburban submarkets had an overall Class A asking average rental rate of \$20.24/SF and Class B average asking rental rate of \$15.62/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 \$16.79/SF from the prior quarter, while the West's rent increased \$0.80/SF to \$16.53/SF, the largest increase for any submarket. The lowest rental rate in the market came in the Southwest, which had a decrease of \$0.04/SF to \$14.97/SF from the prior quarter.

Select Lease/User Transactions

Tenant	Building/Address	Submarket	Type	Square Feet
Benesch	127 Public Square	CBD	New	164,000
McDonald Hopkins	600 Superior Ave.	CBD	Renewal	84,428
Reminger Co.	200 Public Square	CBD	New	58,568
Kichler Lighting	30455 Solon Rd.	East	New	41,564
Legend Treatment Center of Cleveland	14445 Broadway Ave.	East	New	18,888

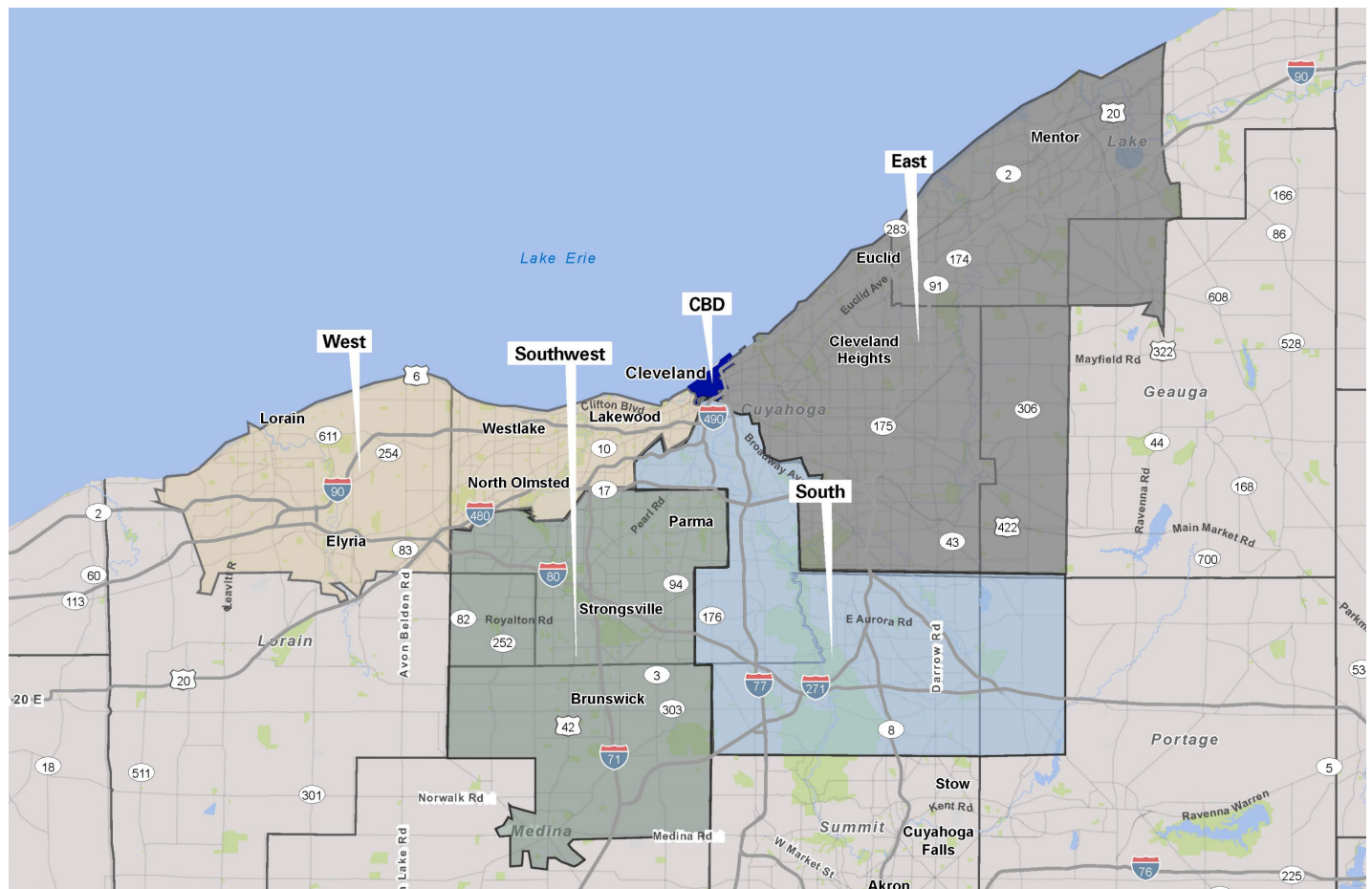
Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
3601 Green Rd.	East	\$2,750,000	\$80.03	34,363
8180 Brecksville Rd.	South	\$1,347,500	\$80.00	16,843
16530 Commerce Ct.	Southwest	\$4,820,000	\$64.31	12,750
35000 Chardon Rd.	East	\$800,000	\$48.47	16,506
45 Erieview Plaza	CBD	\$21,250,000	\$42.84	496,040

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	16,560,728	45,000	19.8%	23,746	23,746	\$24.10	\$17.50	\$19.62
East	8,957,080	0	13.2%	63,315	63,315	\$21.78	\$17.10	\$18.69
South	7,388,832	125,000	19.5%	(5,057)	(5,057)	\$20.08	\$14.87	\$16.79
Southwest	1,344,084	0	20.8%	11,507	11,507	\$14.19	\$15.57	\$14.97
West	3,591,246	161,900	16.5%	2,603	2,603	\$19.77	\$13.77	\$16.53
Suburban Total	21,281,242	286,900	16.4%	72,368	72,368	\$20.24	\$15.62	\$17.22
Market Total	37,841,970	331,900	17.9%	96,114	96,114	\$21.95	\$16.46	\$18.36

Cleveland Office Submarkets



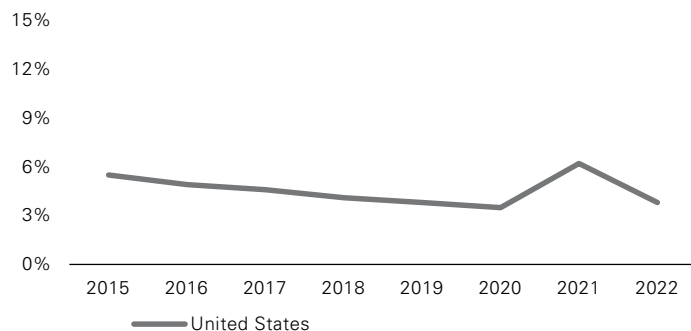
Economic Conditions

The Greater Cleveland economy gained back a modest number of jobs in early 2022, as total payroll employment increased in January by 2.3% year-over-year. The national total payroll employment number was also up in January, by 4.6% year-over-year. The Consumer Price Index for Cleveland was up 8.3% year-over-year in February.

Only two industry sectors saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics, from January 2021 to January 2022: education and health services at -1.0% and professional and business services at -0.1%. All other sectors saw an increase from the past year. The leisure and hospitality industry gained the most, by 10.3%; followed by the information sector at 8.8%; mining/logging/construction at 8.3%; other services at 5.9%; manufacturing at 3.6%; financial activities at 3.0%; trade/transportation/utilities at 2.1%; and government at 0.9%.

Unemployment Rate

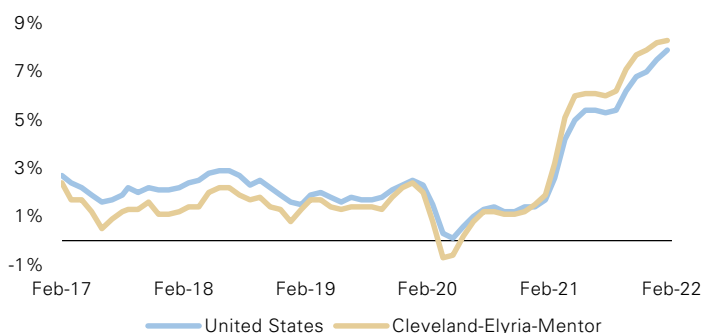
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

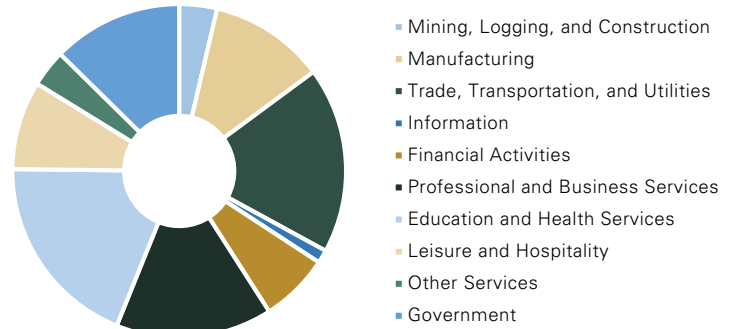
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

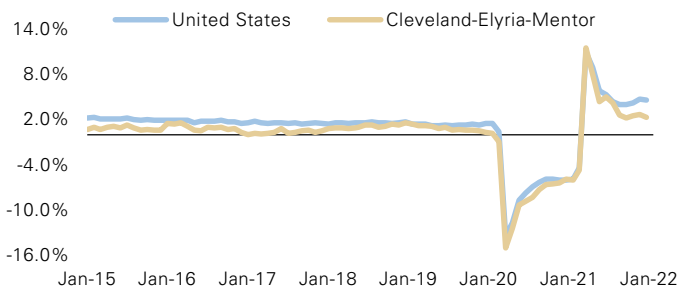
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

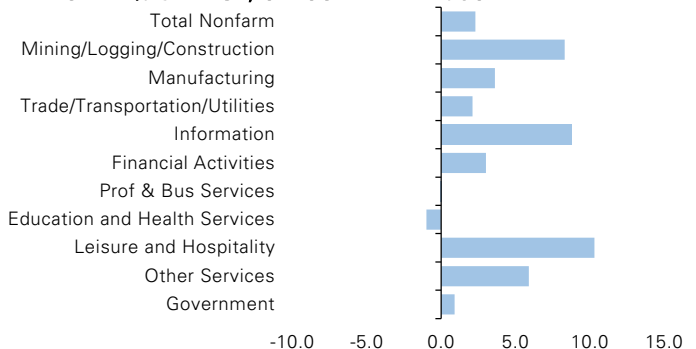
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics

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