

Cleveland Office Market

Office Market in Recovery Mode; Vacancy Remained Flat

The Greater Cleveland office market's vacancy remained flat in the second quarter of 2022 as it continued in recovery mode. The market absorbed a modest net positive 4,570 square feet of space and held its vacancy rate at 17.9% for the second quarter in a row. The market year-to-date has accrued positive net 103,669 square feet in absorption. This was the third straight quarter that the market achieved positive absorption after six straight quarters that saw space loss.

The average asking rental rate increased by \$0.18/SF from the first quarter of 2022 to \$18.56/SF, the highest mark since the fourth quarter of 2003's \$18.67/SF.

The Class A average asking rental rate of \$22.12/SF increased by \$0.24/SF from the first quarter of 2022, and the Class B average asking rental rate stayed flat at \$16.45/SF.

Workers continue to slowly reoccupy office space throughout the Cleveland market, and overall demand for new space has improved over the last two quarters, though it has still not returned to the momentum of just prior to the onset of the pandemic.

Optimism continues for the Cleveland office market to trend towards its pre-pandemic upswing, though occupiers and tenants in the market face tough leasing decisions now that work-from-home and hybrid working options have become desired by a larger portion of the office-working population than ever before.

Current Conditions

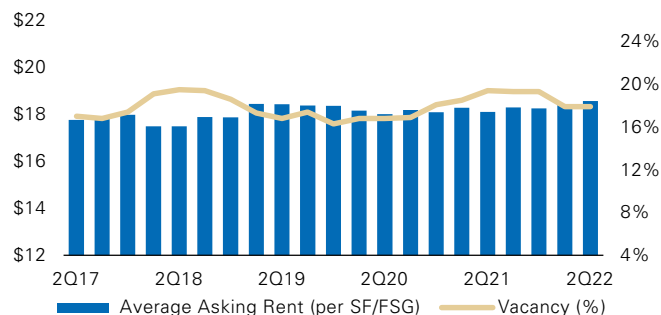
- The office market tallied 4,570 square feet in positive absorption, giving the market a positive return for the third straight quarter.
- The vacancy rate held flat at 17.9% for the second quarter.
- The average asking rental rate increased by \$0.18/SF from the first quarter of 2022 to \$18.56/SF, the highest mark since the fourth quarter of 2003's \$18.67/SF.
- Several significant office properties transferred in the second quarter, both in the CBD and the suburban submarkets.

Market Summary

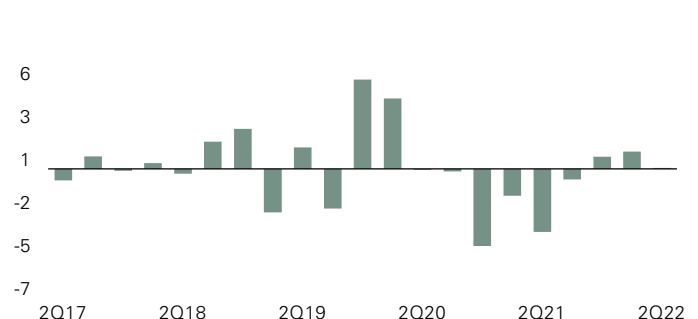
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	38M	38M	39M	→
Vacancy Rate	17.9%	17.9%	19.4%	↓
Quarterly Net Absorption (SF)	4,570	99,099	(367,290)	↑
Average Asking Rent/SF	\$18.56	\$18.38	\$18.10	↑
Under Construction (SF)	343,900	343,900	145,000	↑
Deliveries (SF)	0	0	0	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, Hundred Thousands)



The Central Business District

The Central Business District led the market in net absorption this past quarter, in a reversal of the prior quarter where the suburban submarkets carried the load, as this submarket accrued 145,097 square feet in the second quarter of 2022, bringing the net total space gained in the CBD so far this year to 96,770 square feet. The occupancy gain caused the CBD's vacancy rate to decrease by 90 basis points to 19.3%, the second highest in the market.

The Cleveland CBD remains a desirable location for prominent local, regional and national companies as they weigh space options coming out of the pandemic. For example, prestigious law firm Hahn Loeser & Parks LLP signed an approximate 64,325-square-foot lease extension for its space on the 27th and 28th floors of 200 Public Square, one of Cleveland's Class A trophy buildings.

Also in the Public Square district of the CBD, the Mid-American Conference (MAC) signed an approximate 5,800-square-foot, one-floor lease on the 30th floor of the iconic Terminal Tower, located at 50 Public Square, to relocate its headquarters from the 15th floor of neighboring 24 Public Square.

The overall asking rent in the CBD increased by \$0.15/SF to \$19.76/SF, as the submarket remained the highest average in the market. Both the Class A and the Class B asking rents in the CBD increased, the Class A by \$0.42/SF to \$24.23/SF and the Class B by \$0.11/SF to \$17.61/SF.

There were two significant CBD office building sales in the Cleveland market this past quarter. The 235,312-square-foot former Cleveland Plain Dealer headquarters building, located at 1801 Superior Ave., transferred to local developer Industrial Commercial Properties for \$12.35 million, or \$52.48/SF. This strategic purchase will allow the new owner to reposition the largely vacant property to attract either multiple users or a potential corporate headquarters tenant.

The other notable office building sale in the CBD in the second quarter of 2022 was prominent multi-family developer and owner K&D Group's confidential purchase of the 134,517-square-foot former United Church of Christ headquarters, located at 700 Prospect Ave. in Cleveland's Gateway District. The K&D Group intends to convert the nine-story office building into apartments, with ground floor retail. The United Church of Christ moved its headquarters to 1300 East 9th St. in mid-2022.

Suburban Submarkets

The East submarket's vacancy rate decreased by 20 basis points to 13.0% this past quarter and was the second tightest submarket in the area. The average asking rental rate in the East was \$19.05/SF in the second quarter of 2022, up \$0.36/SF from

the previous quarter. The Class B asking rental rate stood at \$16.80/SF, down by \$0.30/SF. The Class A rate increased by \$0.46/SF to \$22.24/SF, the largest Class A increase for any submarket. The overall Class A and Class B asking rental rates in the East still both remained the second highest in the market behind the CBD.

Absorption-wise, the East netted 9,499 square feet of positive absorption. Year-to-date, the East has accumulated 78,679 square feet in the positive.

Many noteworthy office sales took place in the East in the past quarter. In terms of price-per-square-foot, the sale of the 41,236-square-foot building located at 30455 Solon Rd., which sold to Warner Lusardi Family Trust for \$8.27 million, or \$200.54/SF, commanded the most this past quarter.

Another significant sale in the East was the two-building Class A portfolio transfer of One Chagrin Highlands, located at 2000 Auburn Dr., and Two Chagrin Highlands, located at 3000 Auburn Dr., to GLF Ohio LLC, an affiliate of Kawa Capital Group for a total of \$39.0 million. One Chagrin is a 109,413-square-foot building that transferred for \$19.5 million, or \$178.22/SF, while Two Chagrin is a 114,720-square-foot building that transferred for \$19.5 million, or \$169.98/SF.

Other notable office building sales in the East were: 33595 Bainbridge Rd., a 13,000-square-foot property that sold for \$1.1 million, or \$84.62/SF to Solon Property Management LLC; and the 49,469-square-foot 6001 Cochran Rd., which transferred for \$3.19 million, or \$64.48/SF to Solon Professional Suites LLC.

A portfolio sale that took place via auction was the transfer of Commerce Park IV and V, located at 23240 and 23250 Chagrin Blvd., respectively, to Wangard Partners Inc. for a total of \$7.36 million, or \$31.09/SF for the two buildings totaling 236,764 square feet. The 60,460-square-foot Commerce Park V will remain an office building, which the new owner intends to upgrade to attract new tenants. Commerce Park IV, which measures 176,304 square feet, has been earmarked for conversion to a 147-unit apartment building with mixed-use space on the first floor.

The suburban office submarkets saw a vacancy increase of 60 basis points from last quarter to 16.7%. The overall average asking rental rate for the suburban submarkets increased by \$0.28/SF to \$17.51/SF. The suburban submarket with the highest overall asking rent was the East. The South's overall asking rent was up \$0.14/SF to \$16.94/SF from the prior quarter, while the West's rent increased \$0.07/SF to \$16.60/SF. The lowest rental rate in the market once again came in the Southwest, which had an increase of \$0.02/SF to \$14.14/SF.

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The West submarket netted negative 80,043 square feet of absorption and finished the quarter with a vacancy rate of 18.8%. The West finished the first two quarters of 2022 with a year-to-date total of negative 77,440 square feet in absorption.

A newsworthy lease in the West was 27,400 square feet by Palmer Holland at the Tech West building, located at 1 American Blvd. in Westlake.

The South lost the most space of any submarket in the second quarter of 2022, with negative 91,112 square feet of absorption, which prompted a 130-basis-point increase in vacancy to 21.0%. This added to the South's year-to-date space loss of 114,594 square feet over the first two quarters, the most square footage given up by any submarket so far this year.

News of note in the South was the announcement of a senior construction debt and property assessed clean energy financing for the forthcoming 137,000-square-foot Welty Development Class A office project at 6200 Rockside Woods Blvd. in Independence. Upon completion, 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 a 6,520-square-foot lease renewal by Conduent at 6000 Freedom Square Dr.

The Southwest submarket's average asking rental rate increase came in combination with 21,129 square feet of positive net absorption. The vacancy rate in the Southwest decreased 160 basis points to 12.7%. Over the course of the first two quarters, this submarket has filled the most space at 120,254 square feet in positive absorption. In the second quarter of 2022, the Southwest posted the lowest vacancy rate and the lowest average asking rental rate of the suburban office submarkets and the market overall. It also has the smallest amount of inventory in the market at just under 1.35 million square feet.

A notable sale in the Southwest was the transfer of the former Vatterott College property in Broadview Heights, located at 5025 Royalton Rd., to Towlift, Inc. The 39,200-square-foot building was purchased for \$2.25 million, or \$57.40/SF.

Office space being marketed for sublease still played a factor in the market's dynamics, as sublet availability ended the quarter at 1.3%, down 10 basis points from the previous quarter, marking the seventh straight quarter with 1.0% or more availability.

The Cleveland office market in the second quarter of 2022 ended up being a story of offsetting absorption between the CBD and the suburbs. The two almost cancelled out each other to make the market flat, as the CBD netted 145,097 square feet in positive absorption, while the suburban submarkets in total lost 140,527 square feet.

Select Lease/User Transactions

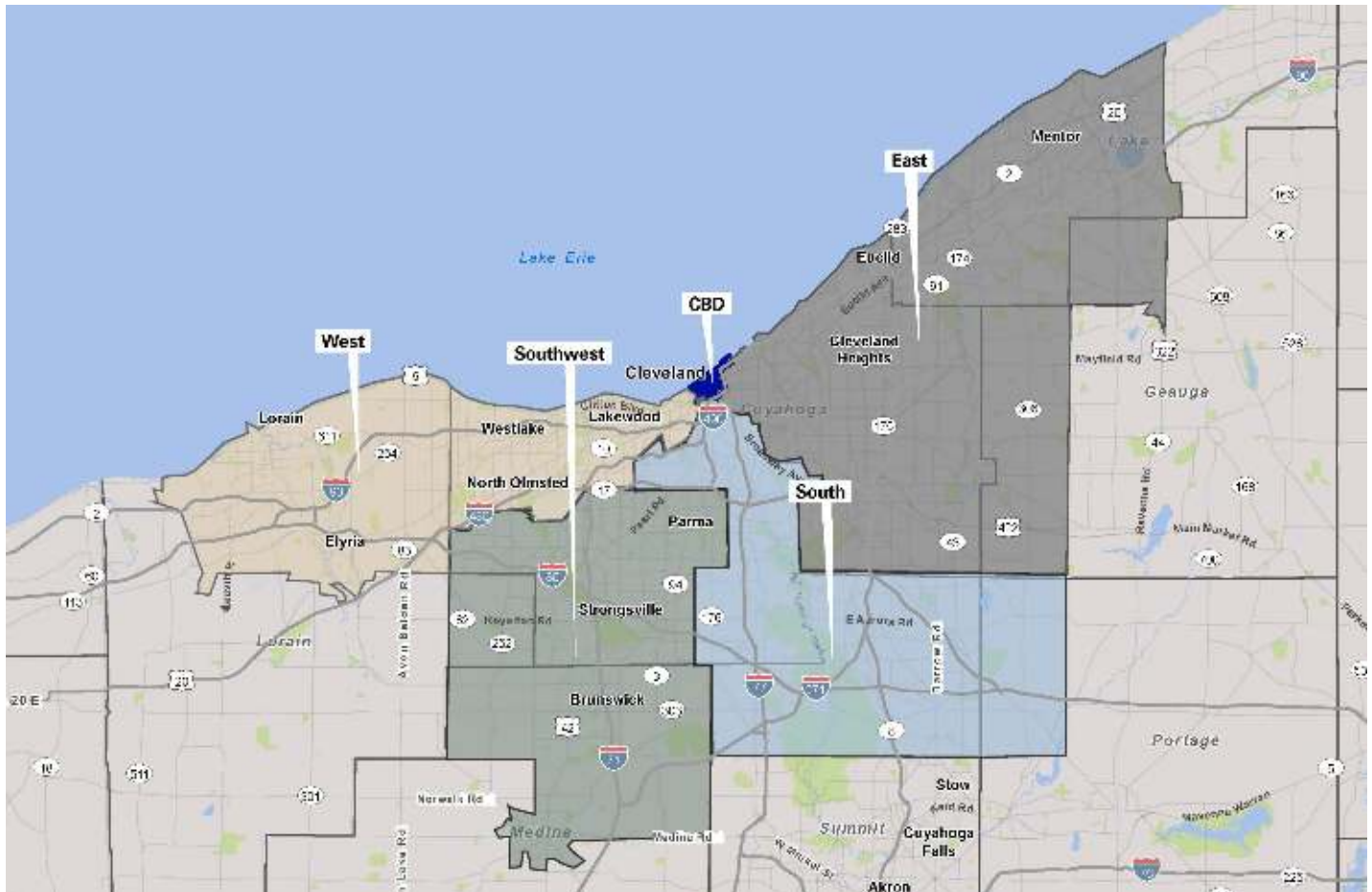
Tenant	Building/Address	Submarket	Type	Square Feet
Hahn Loeser & Parks LLP	200 Public Square	CBD	Extension	~64,325
Palmer Holland	1 American Blvd. - Tech West	West	New	27,400
GE Current	25825 Science Park Dr.	East	Sublease	21,293
Conduent	6000 Freedom Square Dr.	South	Renewal	6,520
Mid-American Conference	50 Public Square	CBD	New	5,800

Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
700 Prospect Ave.	CBD	Confidential	n/a	134,517
30455 Solon Rd.	East	\$8,269,310	\$200.54	41,236
One Chagrin Highlands/2000 Auburn Dr.	East	\$19,500,000	\$178.22	109,413
Two Chagrin Highlands/3000 Auburn Dr.	East	\$19,500,000	\$169.98	114,720
1801 Superior Ave.	CBD	\$12,350,000	\$52.48	235,312

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	19.3%	145,097	96,770	\$24.23	\$17.61	\$19.76
East	8,957,080	0	13.0%	9,499	78,679	\$22.24	\$16.80	\$19.05
South	7,388,832	137,000	21.0%	(91,112)	(114,594)	\$20.26	\$14.89	\$16.94
Southwest	1,344,084	0	12.7%	21,129	120,254	\$14.15	\$14.67	\$14.14
West	3,591,246	161,900	18.8%	(80,043)	(77,440)	\$19.60	\$13.65	\$16.60
Suburban Total	21,281,242	298,900	16.7%	(140,527)	6,899	\$20.58	\$15.50	\$17.51
Market Total	37,841,970	343,900	17.9%	4,570	103,669	\$22.12	\$16.45	\$18.56

Cleveland Office Submarkets



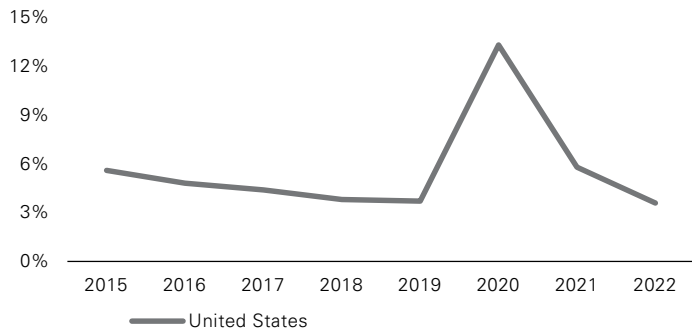
Economic Conditions

The Greater Cleveland economy gained back more jobs in the second quarter of 2022, as total payroll employment increased in May by 3.5% year-over-year. The national total payroll employment number was also up in May, by 4.5% year-over-year. The Consumer Price Index for Cleveland was up 9.0% year-over-year in May.

Only two industry sectors saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics, from May 2021 to May 2022: education and health services at -0.5% and financial activities at -1.0%. All other sectors saw an increase from the past year. The leisure and hospitality industry gained the most, by 13.6%; followed by other services at 10.6%; information at 6.9%; mining/logging/construction at 6.8%; professional and business services at 4.2%; manufacturing at 3.9%; government at 2.3%; and trade/transportation/utilities at 2.1%.

Unemployment Rate

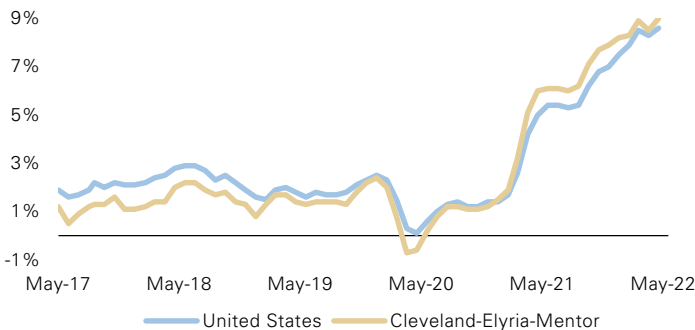
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

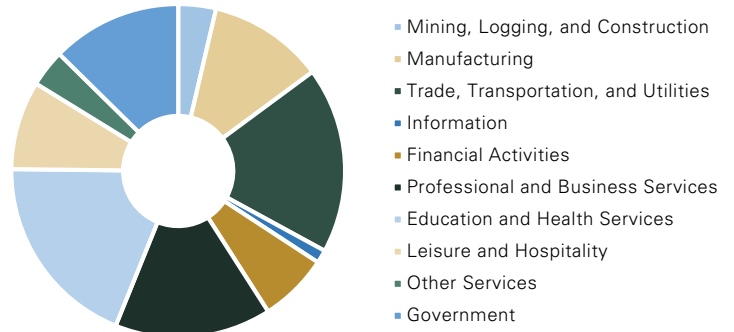
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

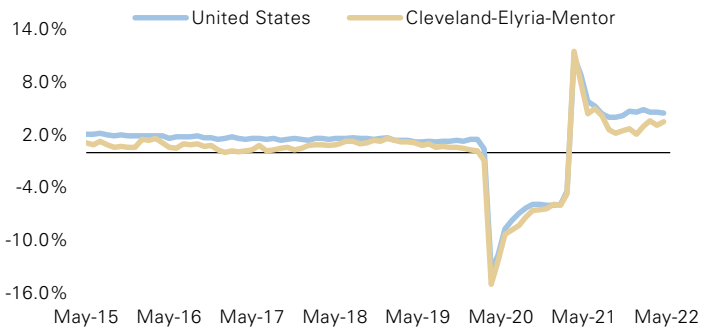
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

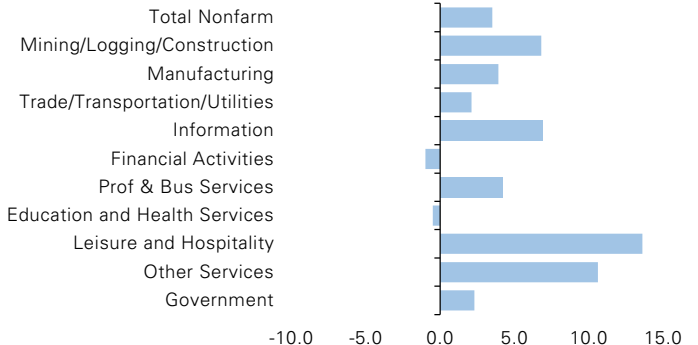
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics

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