



Cleveland Office Market

Office Leasing and Occupation Down in 3Q22

The Greater Cleveland office market's vacancy increased in the third quarter of 2022, as leasing and occupation struggled to maintain equilibrium. The market gave back negative 130,105 square feet of space, which prompted the vacancy rate to jump to 18.5%, an increase of 60 basis points from the prior quarter, after two straight quarters at 17.9%.

Prior to this past quarter, the overall market had thus far accrued positive absorption, but the amount of space given away in the third quarter of 2022 dropped the office market's year-to-date 2022 total absorption to negative 37,521 square feet. Eight of the last 10 and 12 of the last 21 quarters saw negative absorption.

The momentum of leasing prior to the onset of the pandemic at the end of 2019 and early 2020 hasn't returned, and demand for office space was tepid as occupiers and tenants continued to partake in a hybrid of office-versus-home work scenario. In one example, the United States government announced that it is looking to pare down its office space across the country as it cuts down on its number of leases or square footage over the next three years.

The Cleveland office market's overall average asking rental rate increased by \$0.01/SF from the second quarter of 2022 to \$18.58/SF, again the highest since the fourth quarter of 2003's \$18.67/SF. Despite this and a decade's worth of office space conversions to mixed-use, which removed 7.1 million square feet, office rents haven't kept up with inflation or increased incrementally.

Current Conditions

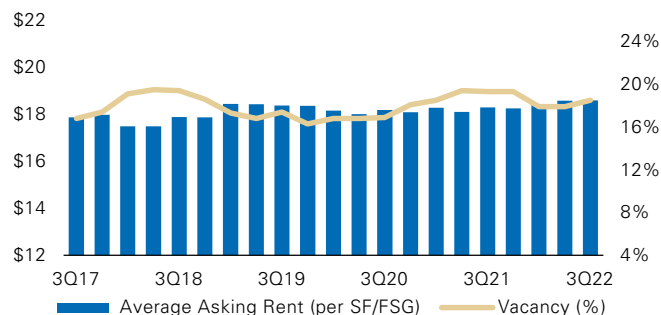
- The office market tallied 130,105 square feet in negative absorption.
- The vacancy rate increased to 18.5% for the third quarter.
- The average asking rental rate increased by \$0.01/SF from the second quarter to \$18.58/SF, once again the highest mark since the fourth quarter of 2003's \$18.67/SF.
- Sublease availability is at its highest level in over nine years.
- Leasing momentum and occupation have slowed, as three out of the five submarkets gave back space. Though employers began to use more decisive language toward encouraging office reoccupation after Labor Day, sentiment for the sector remains a mixed bag for the remainder of 2022.

Market Summary

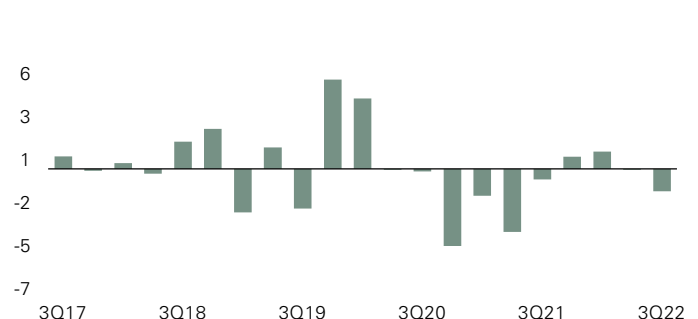
| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 38M | 38M | 39M | → |
| Vacancy Rate | 18.5% | 17.9% | 19.3% | → |
| Quarterly Net Absorption (SF) | (130,105) | (6,515) | (62,486) | ↑ |
| Average Asking Rent/SF | \$18.58 | \$18.57 | \$18.29 | ↑ |
| Under Construction (SF) | 226,900 | 343,900 | 145,000 | ↑ |
| Deliveries (SF) | 137,000 | 0 | 0 | → |

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, Hundred Thousands)



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The Class A average asking rental rate of \$21.66/SF decreased by \$0.45/SF from the second quarter of 2022, and the Class B average asking rental rate increased by \$0.37/SF to \$16.85/SF.

The Central Business District

The Central Business District led all submarkets in negative net absorption, as it gave back 67,500 square feet in the third quarter of 2022, bringing down the net total space gained in the CBD year-to-date to 29,270 square feet. The occupancy loss for the quarter caused the CBD's vacancy rate to increase by 40 basis points to 19.7%, the second highest vacancy in the market.

In this submarket, Osborn Engineering signed an approximate 35,250-square-foot lease at 1111 Superior Ave., in a relocation of its headquarters from the neighboring 1100 Superior Ave., where the company occupied around 5,000 square feet less space.

Also in the CBD, professional services firm Novogradac & Company LLP signed a 10,826-square-foot lease for space on the ninth floor of 1300 E. 9th St., a property that has had leasing success in recent years due to building improvements. Novogradac will be relocating from the CBD's 1100 Superior Ave. by the end of the year.

Additional leases of note in the CBD were: Wade Trim leasing 8,625 square feet in Playhouse Square's Keith Building, located at 1621 Euclid Ave.; and Flack Global Metals inking a 6,835-square-foot lease at 55 Public Square, which is currently undergoing a partial mixed-use renovation to multi-family and office.

The overall asking rent in the CBD decreased by \$0.20/SF to \$19.56/SF, though the submarket remained the highest average in the market. The Class A average asking rent in the CBD decreased by \$0.38/SF to \$23.85/SF, while the Class B asking rent increased by \$0.23/SF to \$17.84/SF.

One significant CBD office building sale that took place this past quarter was the 16,290-square-foot Ohio City building located at 1956-1958 W. 25th St. The property transferred to Great Lakes Brewing Company, which has space in the building and operates its brewery and restaurant next door for \$2.24 million, or \$137.51/SF.

Additional notable news developments in the CBD in the third quarter of 2022 included: Gray Television purchasing 3.2 acres of land in the South submarket, with the intention of building a new office building with studio space to move its local television networks out of the CBD to suburban Independence; and an announcement by Sabor Group and Renew Partners LLC, owners of the well-known Agora complex of office space and theatre and ballroom space, that they intend to convert the 92,000-square-foot office component of the complex located at 5000 Euclid Ave. to apartments.

Suburban Submarkets

The East submarket's vacancy rate increased by 60 basis points to 13.7% this past quarter, yet was the tightest submarket in the area. The average asking rental rate in the East was \$18.73/SF in the third quarter of 2022, down \$0.32/SF from the previous quarter. The Class B asking rental rate stood at \$16.71/SF, down by \$0.23/SF. The Class A rate decreased by \$0.13/SF to \$22.07/SF. 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 gave back 56,622 square feet in negative absorption, the most out of the suburban submarkets and second to the CBD for all submarkets in the third quarter of 2022. Year-to-date, the East has accumulated 10,972 square feet in the positive.

One noteworthy office sale took place in the East in the past quarter: the 42,922-square-foot Marcus Thomas headquarters building located at 4781 Richmond Rd., which sold to private investor VFXSH LLC for \$13.1 million, or \$305.20/SF, as part of a 1031 exchange. This was the second-biggest sale of the past quarter in terms of price per square foot and had a 7.0% cap rate.

The market's second-largest submarket in terms of inventory, the South submarket, gained the most space of any submarket in the third quarter of 2022, with 18,998 square feet of absorption. The South's vacancy stood at 22.2% as the quarter ended, the highest of any submarket. The South's year-to-date space loss of 95,596 square feet over the first three quarters is the most square footage given up by any submarket so far this year.

News of note in the South was the wrap-up of the construction for the 137,000-square-foot Welty Development Class A office project at 6200 Rockside Woods Blvd. in Independence. Professional services firm CBIZ intends to anchor approximately 50,000 square feet and make the building its new headquarters by the first half of 2023.

The largest sale in the third quarter of 2022 was the \$21.0-million transfer of the 47,000-square-foot 4781 Hinckley Industrial Pkwy. Built in 2021 in the South submarket, an affiliate of Boyd Watterson Asset Management LLC purchased the building where the Cleveland Strike Force is located for \$446.81/SF.

A pair of buildings in the South's Rockside Corridor transferred to Realife Real Estate Group. 4807 Rockside Rd., an 88,200-square-foot property, sold for \$5.0 million, or \$56.69/SF, and the 35,049-square-foot 5000 Rockside Rd. was purchased for \$1.85 million, or \$52.78/SF.

Also in the South submarket was a 10,615-square-foot lease extension by ComDoc, Inc. at 9100 South Hills Blvd.

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The Southwest submarket lost 41,065 square feet in negative net absorption, prompting the vacancy rate to increase by 310 basis points to 15.8%. With the smallest amount of inventory in the market at approximately 1.34 million square feet, the impact of absorption on the vacancy rate was significant. Over the course of the first three quarters, this submarket has filled the most space at 79,189 square feet in positive absorption.

Moving to the West, this submarket netted 16,084 square feet of absorption and finished the quarter with a vacancy rate of 18.3%, down 50 basis points from the previous quarter. The West finished the first three quarters of 2022 with a year-to-date total of negative 61,356 square feet in absorption.

A sale of note in the West was the two LA Centre office buildings, located at 25651 and 25777 Detroit Rd. in Westlake. The pair makes up a combined 137,743 square feet and sold to JDI Realty, LLC for \$7.3 million, or \$53.00/SF.

Office space for sublease played a major factor in the market's dynamics, as sublet availability ended the quarter at 1.5%, up 20 basis points from the second quarter of 2022, marking the eighth straight quarter with 1.0% or more availability and amounting to the largest sublease availability percentage since the first quarter of 2013. 567,269 square feet of sublet space was available as the third quarter of 2022 closed. Sublease space was more prevalent

in the suburbs, as those submarkets had 406,111 square feet available compared to 161,158 square feet in the CBD.

The suburban office submarkets saw a vacancy increase of 80 basis points from last quarter to 17.6%. The overall average asking rental rate for the suburban submarkets increased by \$0.10/SF to \$17.63/SF. The suburban submarket with the highest overall asking rent was the East. The South's overall asking rent was up \$0.91/SF to \$17.85/SF from the prior quarter, while the West's rent decreased by \$0.22/SF to \$16.38/SF. The lowest rental rate in the market once again came in the Southwest, which had an increase of \$0.23/SF to \$14.37/SF.

Looking Ahead

The Cleveland office market in the third quarter of 2022 ended up telling a similar tale of negative absorption between the CBD and the suburbs. The two gave back similar amounts of space, as the CBD netted 67,500 square feet in negative absorption, while the suburban submarkets in total lost 62,605 square feet. Leasing momentum and occupation slowed, as three out of the five submarkets gave back space. Though employers began to use more decisive language toward encouraging office reoccupation after Labor Day, sentiment for the sector remains a complex mixed bag for the remainder of 2022. This period of uncertainty is likely to carry over into 2023.

Select Lease/User Transactions

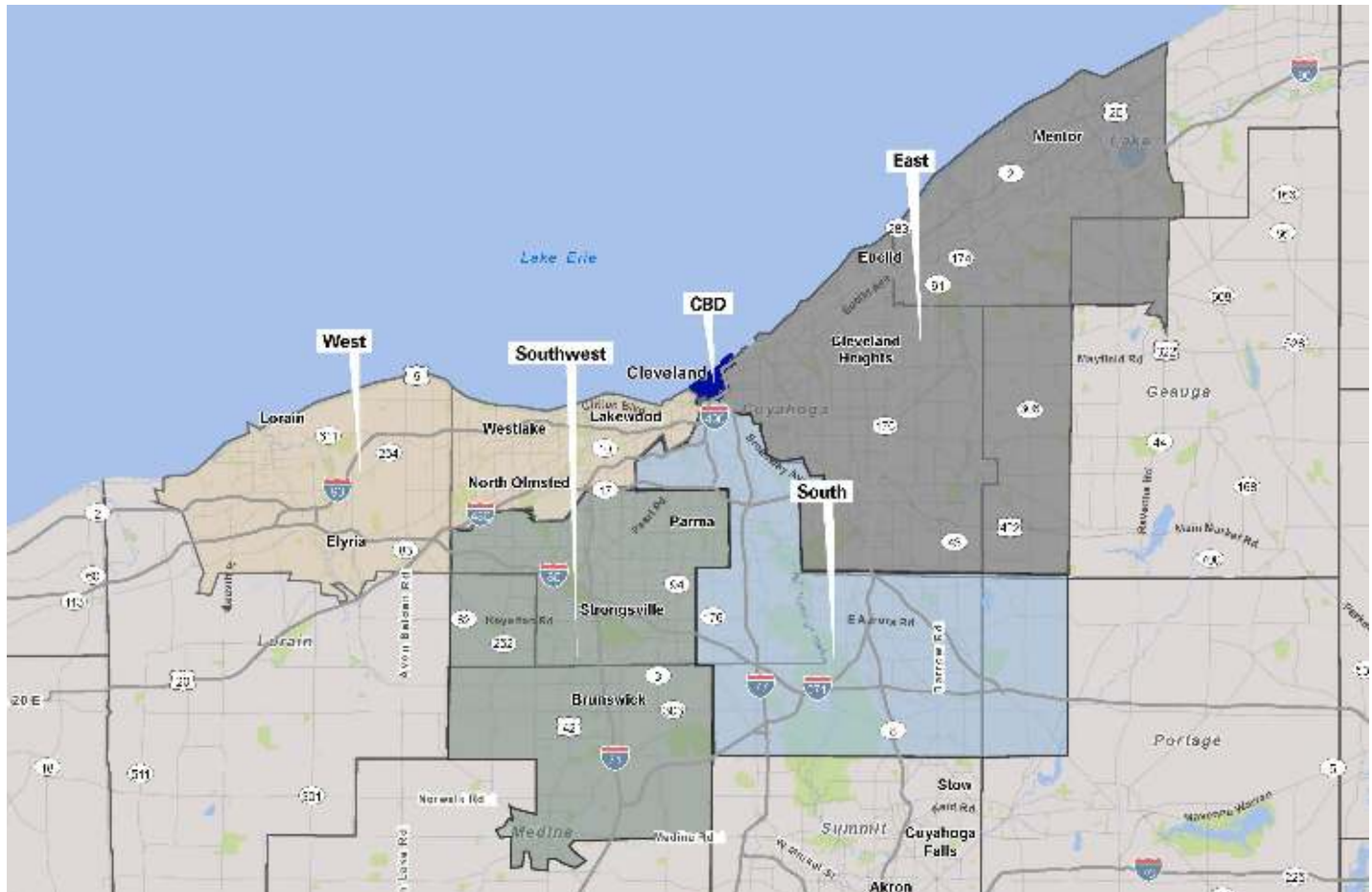
| Tenant | Building/Address | Submarket | Type | Square Feet |
|--------------------------|------------------------|-----------|-----------|-------------|
| Osborn Engineering | 1111 Superior Ave. | CBD | New | 35,250 |
| Novogradac & Company LLP | 1300 E. 9th St. | CBD | New | 10,826 |
| ComDoc, Inc. | 9100 South Hills Blvd. | South | Extension | 10,615 |
| Wade Trim | 1621 Euclid Ave. | CBD | New | 8,625 |
| Flack Global Metals | 55 Public Sq. | CBD | New | 6,835 |

Select Sale Transactions

| Building/Address | Submarket | Sale Price | Price/SF | Square Feet |
|--------------------------------|-----------|--------------|----------|-------------|
| 4781 Hinckley Industrial Pkwy. | South | \$21,000,000 | \$446.81 | 47,000 |
| 4781 Richmond Rd. | East | \$13,100,000 | \$305.20 | 42,922 |
| 1956-1958 W. 25th St. | CBD | \$2,240,000 | \$137.51 | 16,290 |
| 4807 Rockside Rd. | South | \$5,000,000 | \$56.69 | 88,200 |
| 25651 & 25777 Detroit Rd. | West | \$7,300,000 | \$53.00 | 137,743 |

| 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 | 19.7% | (67,500) | 29,270 | \$23.85 | \$17.84 | \$19.56 |
| East | 8,957,080 | 0 | 13.7% | (56,622) | 10,972 | \$22.07 | \$16.71 | \$18.73 |
| South | 7,525,832 | 0 | 22.2% | 18,998 | (95,596) | \$20.25 | \$15.84 | \$17.85 |
| Southwest | 1,344,084 | 20,000 | 15.8% | (41,065) | 79,189 | \$14.63 | \$14.58 | \$14.37 |
| West | 3,591,246 | 161,900 | 18.3% | 16,084 | (61,356) | \$19.43 | \$13.38 | \$16.38 |
| Suburban Total | 21,418,242 | 181,900 | 17.6% | (62,605) | (66,791) | \$20.18 | \$15.83 | \$17.63 |
| Market Total | 37,978,970 | 226,900 | 18.5% | (130,105) | (37,521) | \$21.66 | \$16.85 | \$18.58 |

Cleveland Office Submarkets



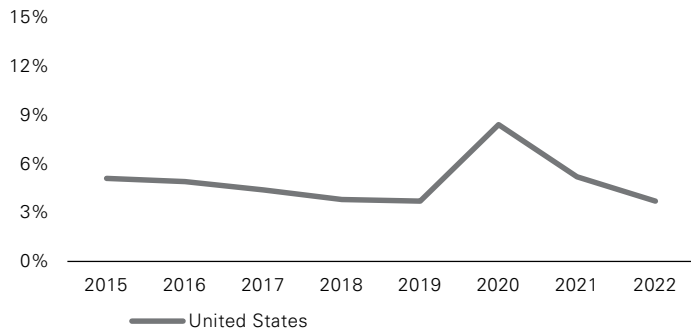
Economic Conditions

The Greater Cleveland economy gained back jobs in the third quarter of 2022, as total payroll employment increased in August by 2.2% year-over-year. The national total payroll employment number was also up in August, by 3.8% year-over-year. The Consumer Price Index for Cleveland was up 8.0% year-over-year in August.

Three industry sectors in the Cleveland market saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics, from August 2021 to August 2022: financial activities at negative 2.8%; professional and business services at negative 1.1%; and education and health services at negative 0.9%. All other sectors saw an increase from the past year. The leisure and hospitality industry gained the most, by 12.7%; followed by other services at 10.6%; information at 3.7%; mining/logging/construction at 3.7%; government at 3.7%; manufacturing at 3.1%; and trade/transportation/utilities at 0.7%.

Unemployment Rate

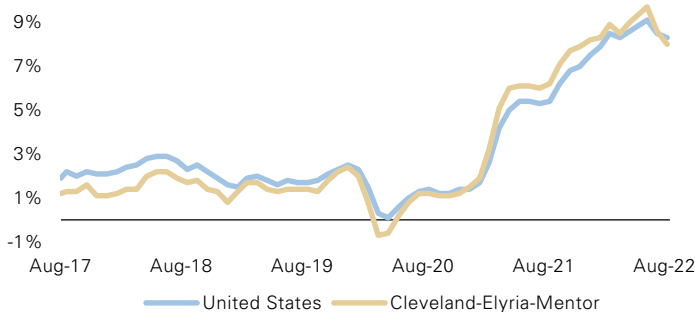
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

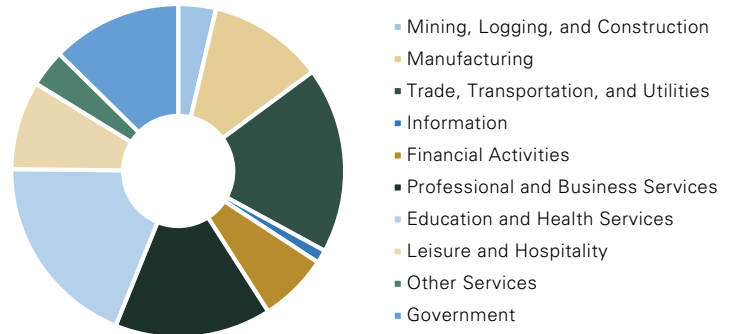
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

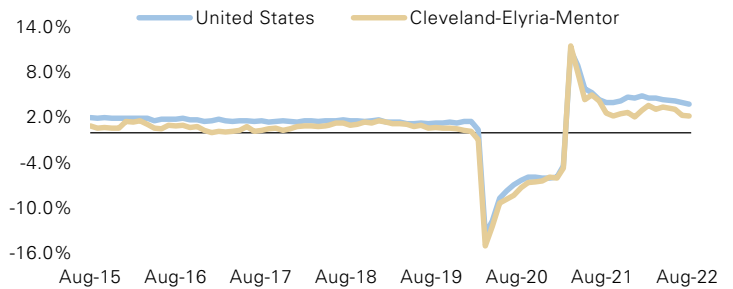
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

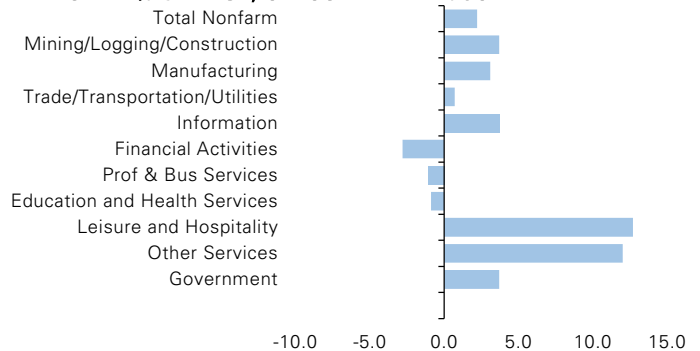
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics

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For more information:

Cleveland

1300 East 9th Street, Suite 105
Cleveland, OH 44114
t 216-453-3027

Matthew Orgovan

Research and Marketing Manager
matthew.orgovan@nmrk.com

nmrk.com

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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