

1Q24

Cleveland Office Market Overview

NEWMARK



Market Observations

Economy

- The Cleveland-Elyria-Mentor Metro’s economy gained back a modest number of jobs in the first quarter of 2024, as total nonfarm payroll employment increased in February 2024 by 0.6% year over year. The seasonally-adjusted unemployment rate for the Cleveland-Elyria-Mentor Metro was up to 3.8% in both January and February 2024 after sitting at 3.7% from September to December of 2023.
- All three office-occupying or adjacent industries saw annual job losses, the business and professional sector, the information sector, and the financial activities sector.
- The number of office-using jobs as of February 2024 was approximately 236,315, the lowest it has been since November 2020’s 235,915.

Major Transactions

- The first quarter of 2024 did not see a large, notable lease over 25,000 SF that was signed. In fact, the majority of movement in the first quarter was a result of small lease transactions or occupations from previous quarter leases.
- Perhaps the biggest news of 2024 so far came as the first quarter came to a close – the sale of one of the Central Business District’s most prominent skyscrapers, 200 Public Square. The 1.27-million-square-foot property sold for \$54 million, or \$42.53/SF to Namdar Realty Group LLC in a deal that was widely considered deeply discounted resulting from persistent pandemic fallout, as well as the continuing decline of mortgage loan originations and landlords both locally and nationally being unable to renegotiate terms with lenders. The property last sold in the fourth quarter of 2018 for an estimated \$187 million, or \$147/SF. At the time, the adjoining parking garage was part of the deal. However, in February of this year, the 757-space 200 Public Square parking garage sold in a separate transaction to an affiliate of national parking operator InterPark Holdings for \$31.25 million, or \$41,281/space.

Leasing Market Fundamentals

- Leasing activity was 307,875 SF in the first quarter of 2024, the fourth lowest quarterly total in at least the last 24 years (the fourth quarter of 2021 had the lowest leasing activity in recent history at 191,907 SF).
- The Cleveland office market accrued 176,680 SF of negative absorption in the first quarter of 2024. Negative absorption caused vacancy to increase to 23.4%, up 50 basis points from the fourth quarter of 2023.
- Since 2020, the Cleveland market has emptied a total of nearly 2.4 million SF of office space due to negative absorption.
- The overall average asking rental rate increased by \$0.04/SF from the fourth quarter of 2023 to \$19.99/SF in the first quarter of 2024. 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.

Outlook

- Macroeconomic conditions and world volatility persisted, while interest rate cuts are unlikely due to ongoing inflation. This further complicates office building owners’ ability to renegotiate terms with lenders or obtain favorable loans to invest in office properties. The Cleveland market has seen the fruition of these conditions in the deeply-discounted sale of 200 Public Square and the lower-than-typical asking price of 1100 Superior Avenue, which came to market in the first quarter.
- All Cleveland office submarkets experienced an uptick annual asking rental rates, while the overall market jumped by 5.8%. However, office market growth throughout 2024 will likely be restrained.

1. Economy
2. Leasing Market Fundamentals
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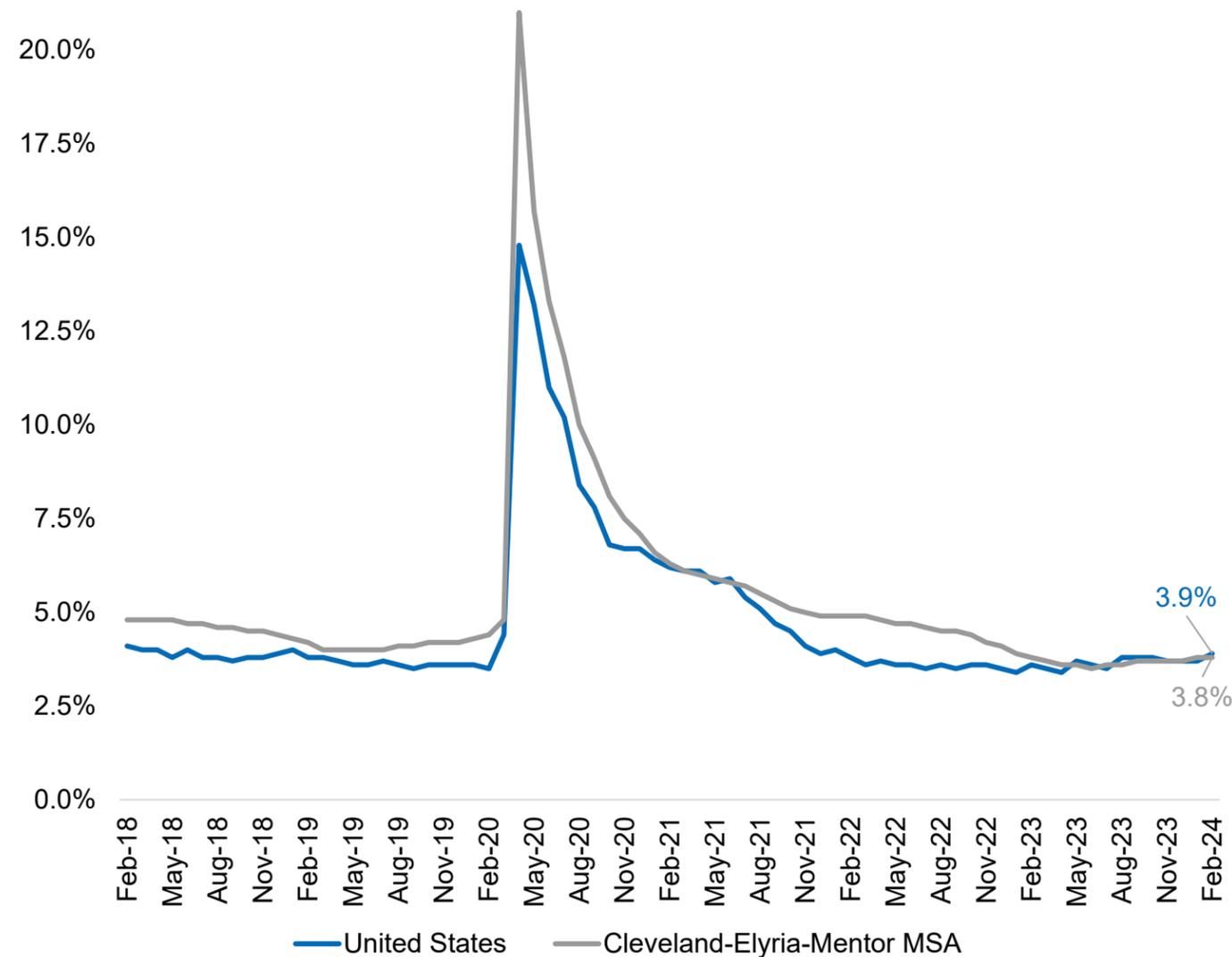
Economy



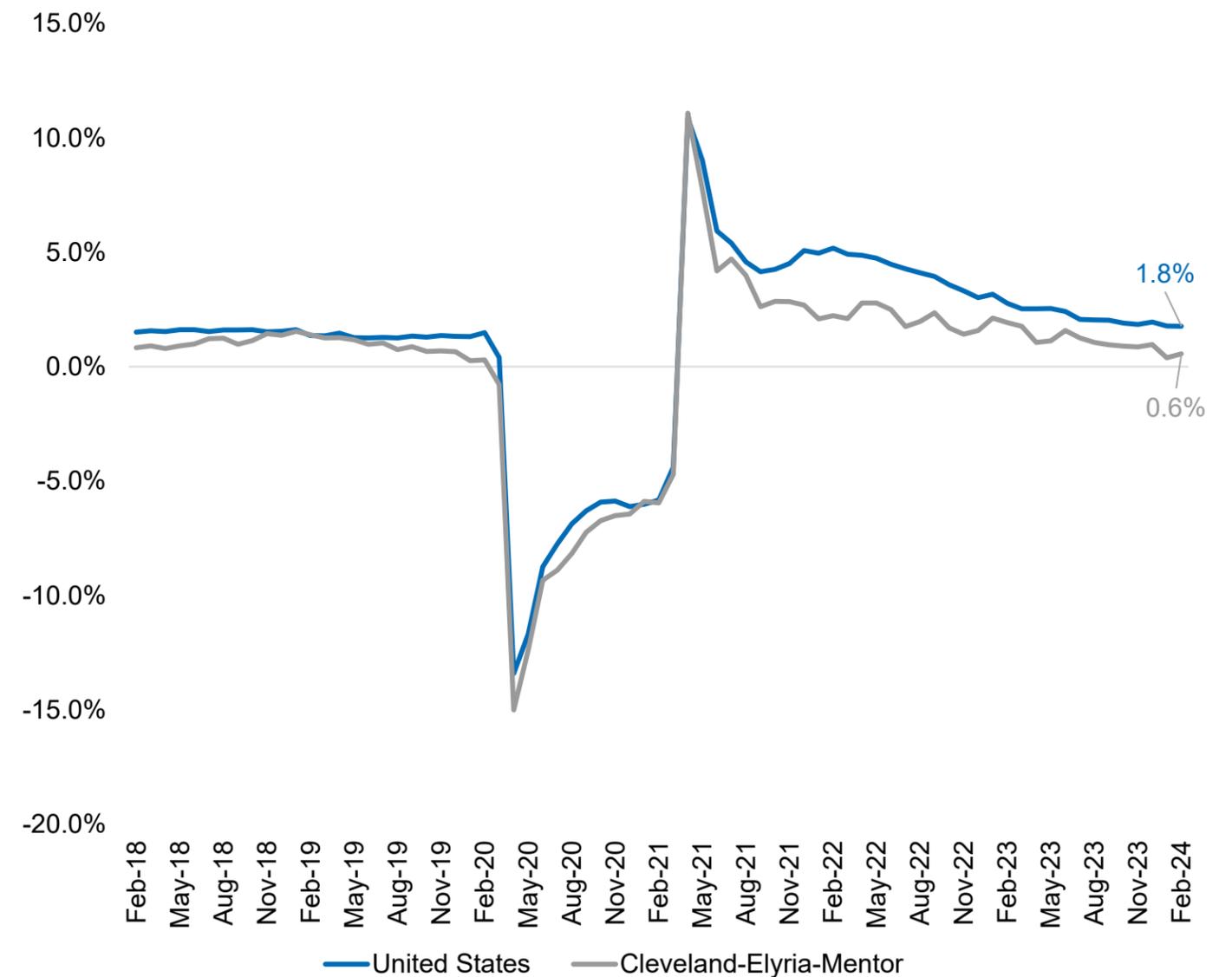
Cleveland and United States Unemployment and Employment Trends

The Cleveland-Elyria-Mentor Metro's economy gained back a modest number of jobs in the first quarter of 2024, as total nonfarm employment increased annually by 0.6% in February. By contrast, national nonfarm employment increased by 1.8%. The unemployment rate for the Cleveland-Elyria-Mentor Metro rose to 3.8% in both January and February 2024 after sitting at 3.7% from September to December of 2023. The national unemployment rate decreased to 3.9% after three consecutive months at 3.7%.

Unemployment Rate, Seasonally Adjusted



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



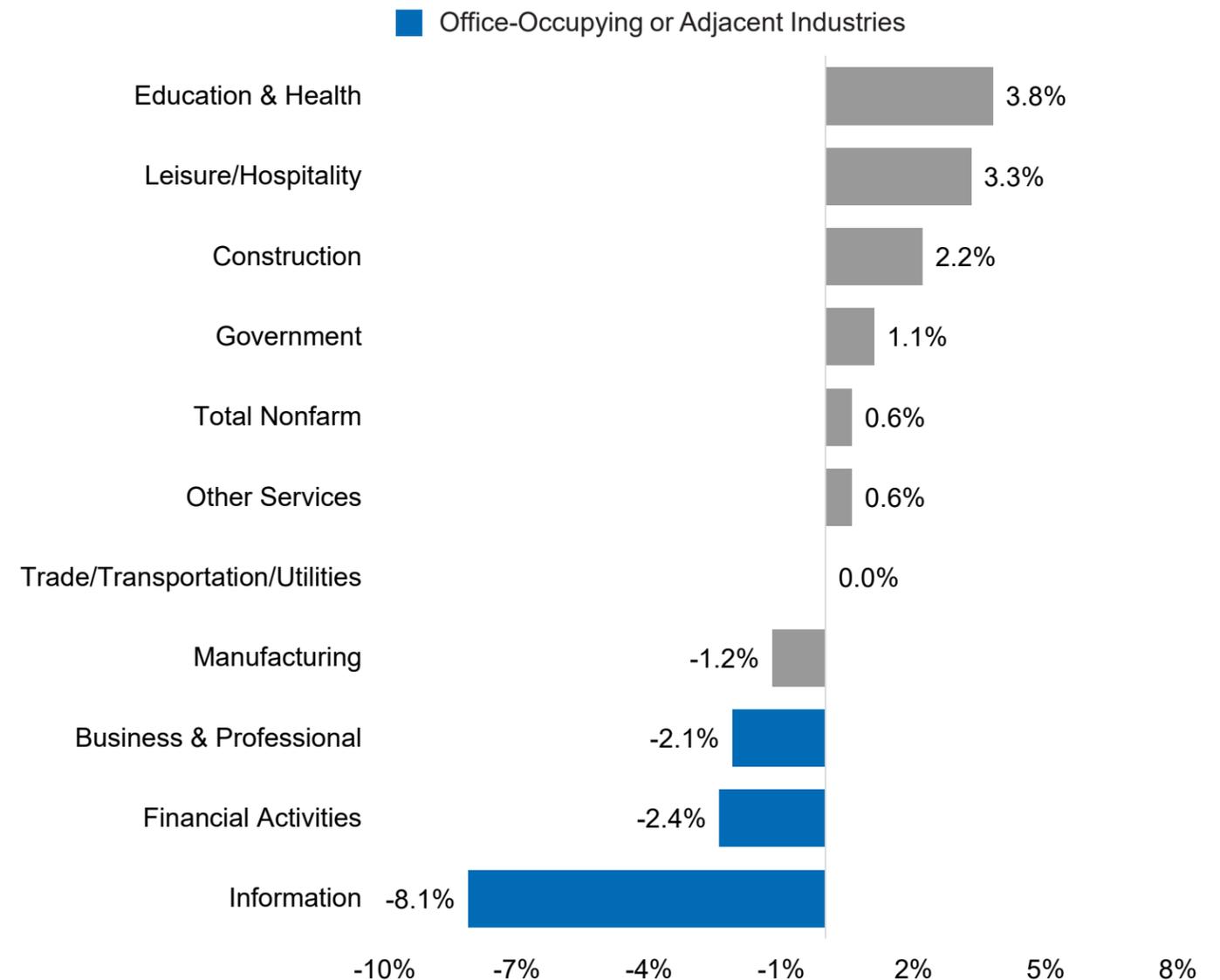
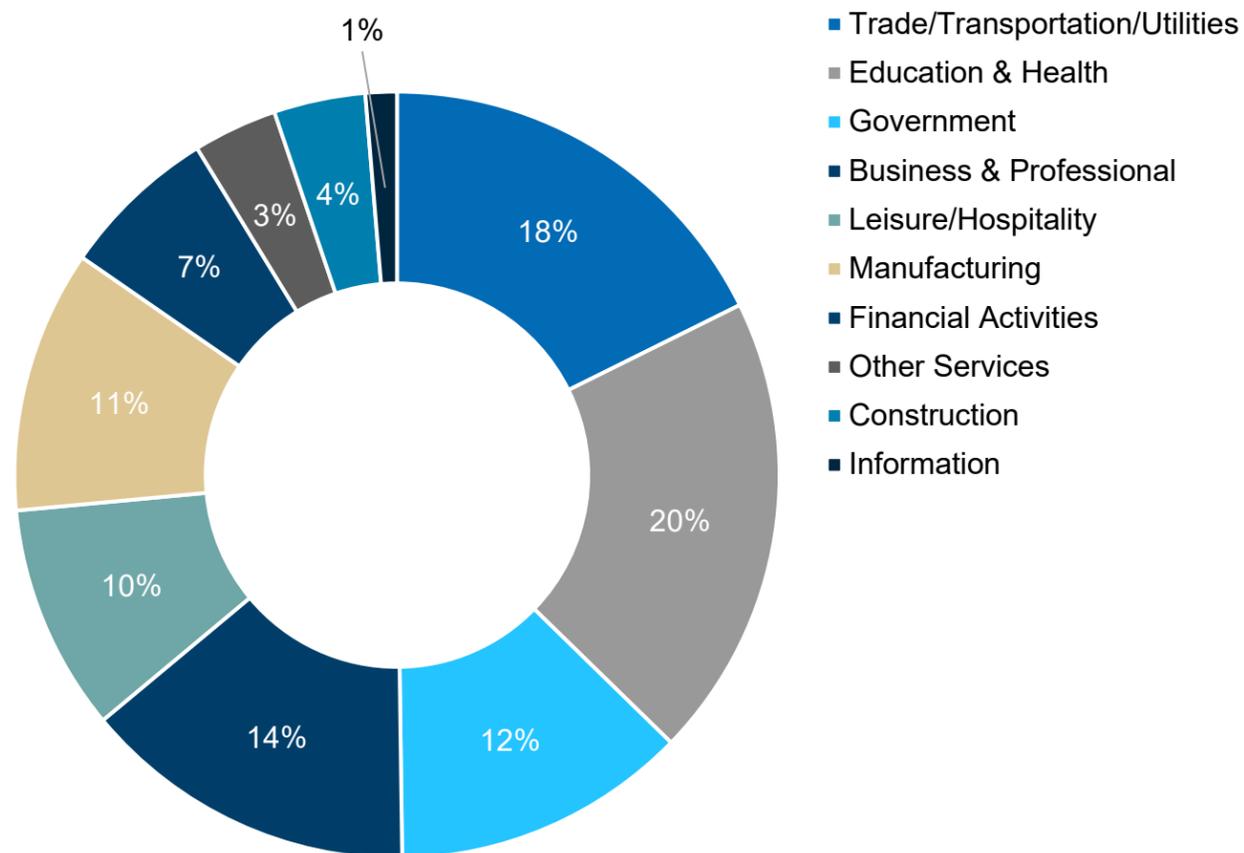
Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

Job Losses in All Three Office-Occupying or Adjacent Industries

Six industry sectors in the Cleveland market saw employment gains from February 2023 to February 2024. All three office-occupying industries saw annual job losses. The education and health sector saw the biggest gain from February 2023 to February 2024 at 3.8%.

Employment by Industry, February 2024

Employment Growth by Industry, 12-Month % Change, February 2024

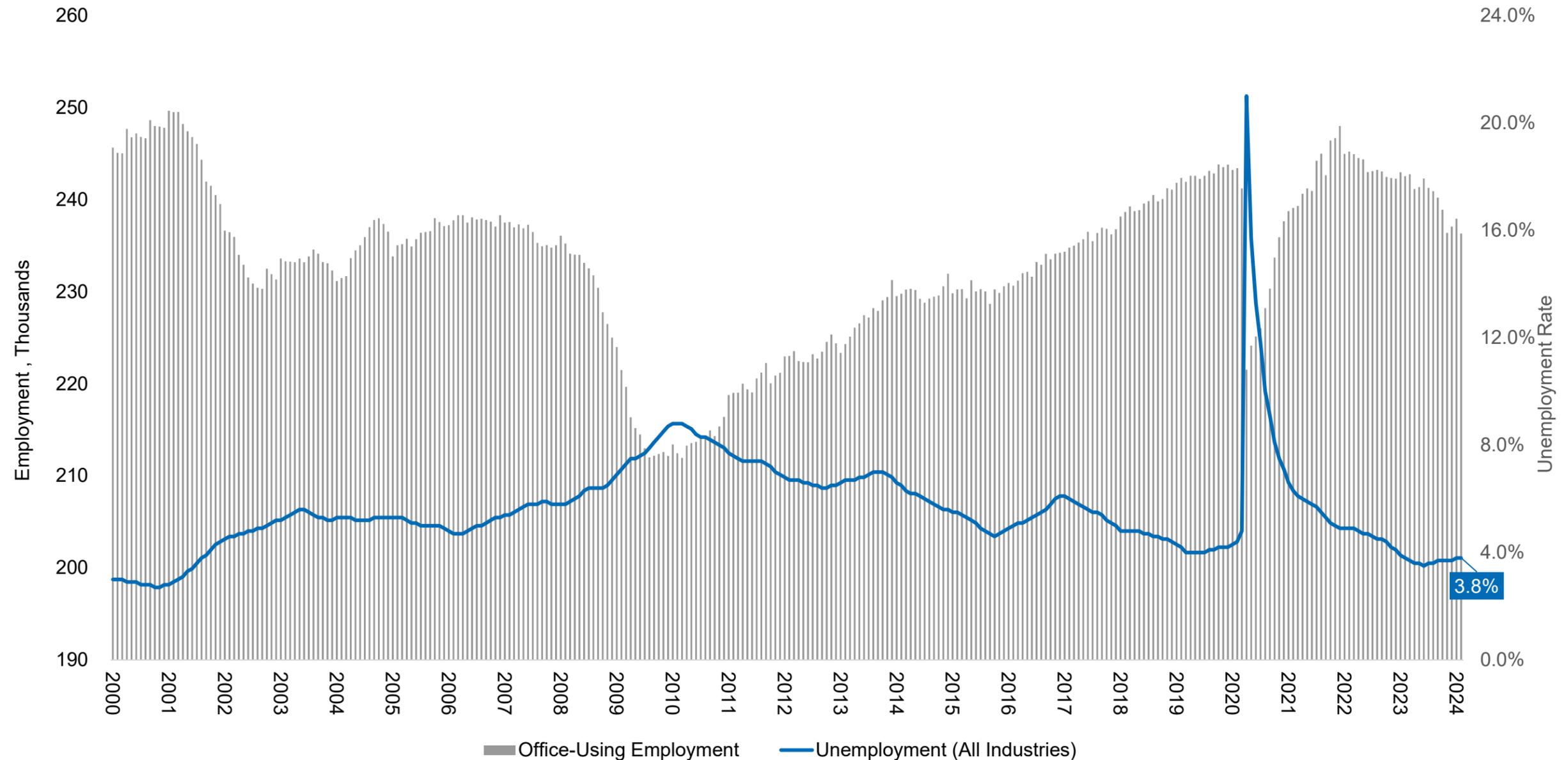


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

Office-Using Employment Down to Lowest Number Since Late-2020

The number of office-using jobs in the Cleveland market as of February 2024 was approximately 236,315, the lowest since November 2020's 235,915.

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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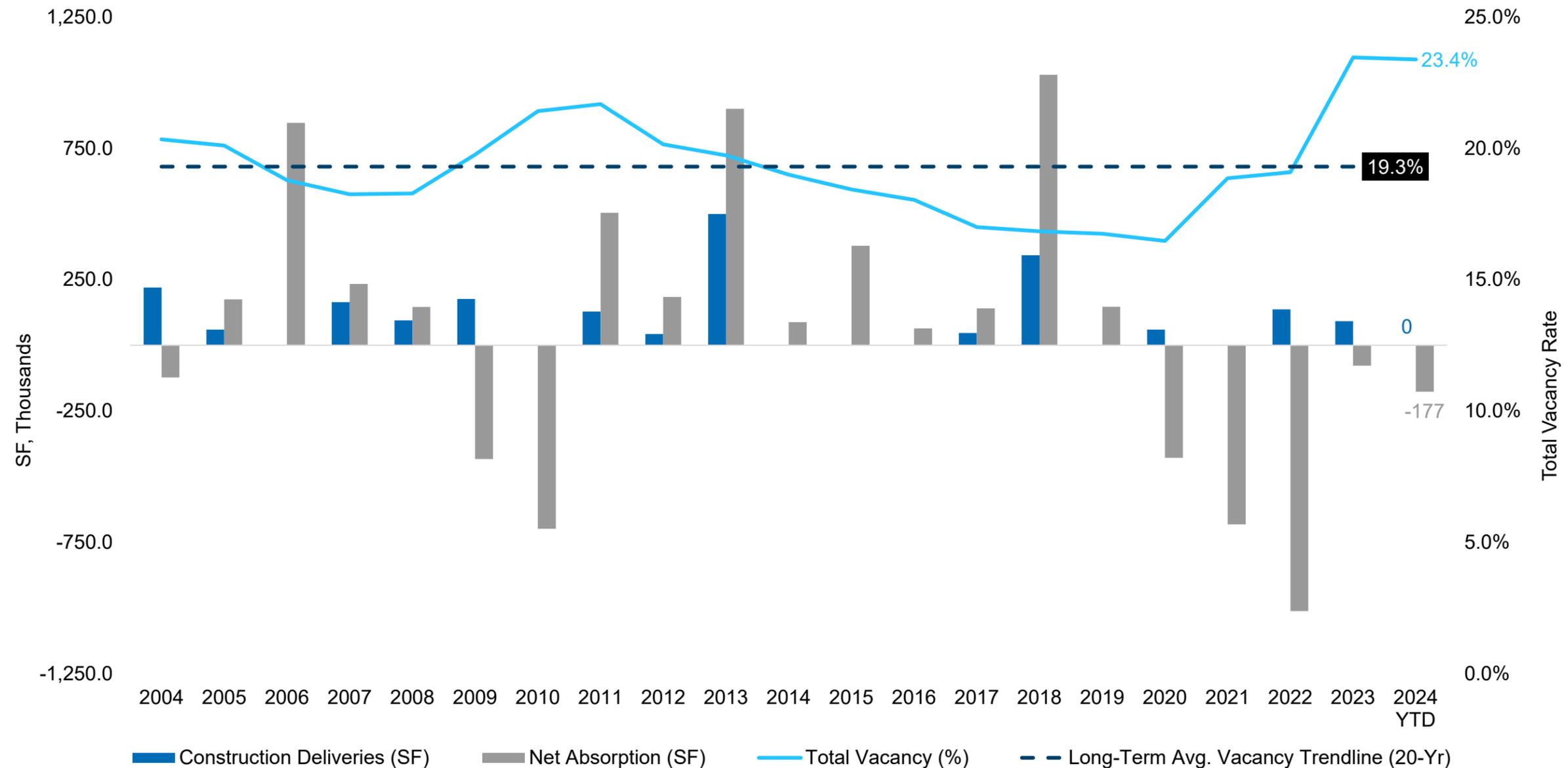
Leasing Market Fundamentals



Negative Absorption to Start the Year

The Cleveland office market negatively absorbed 176,680 SF in the first quarter of 2024, after a yearly total of negative 77,534 SF in 2023. The market has experienced negative absorption in six of the past 10 quarters and annually in the past four years. Vacancy increased to 23.4%, up 50 basis points from the fourth quarter. Since 2020, the market has emptied nearly 2.4 million SF of office space. In 2023, vacancy was 23.5%, the highest in at least 20 years. Vacancy decreased by just 10 basis points in the first quarter of 2024. The 20-year vacancy average increased to 19.3%.

Historical Construction Deliveries, Net Absorption, and Vacancy

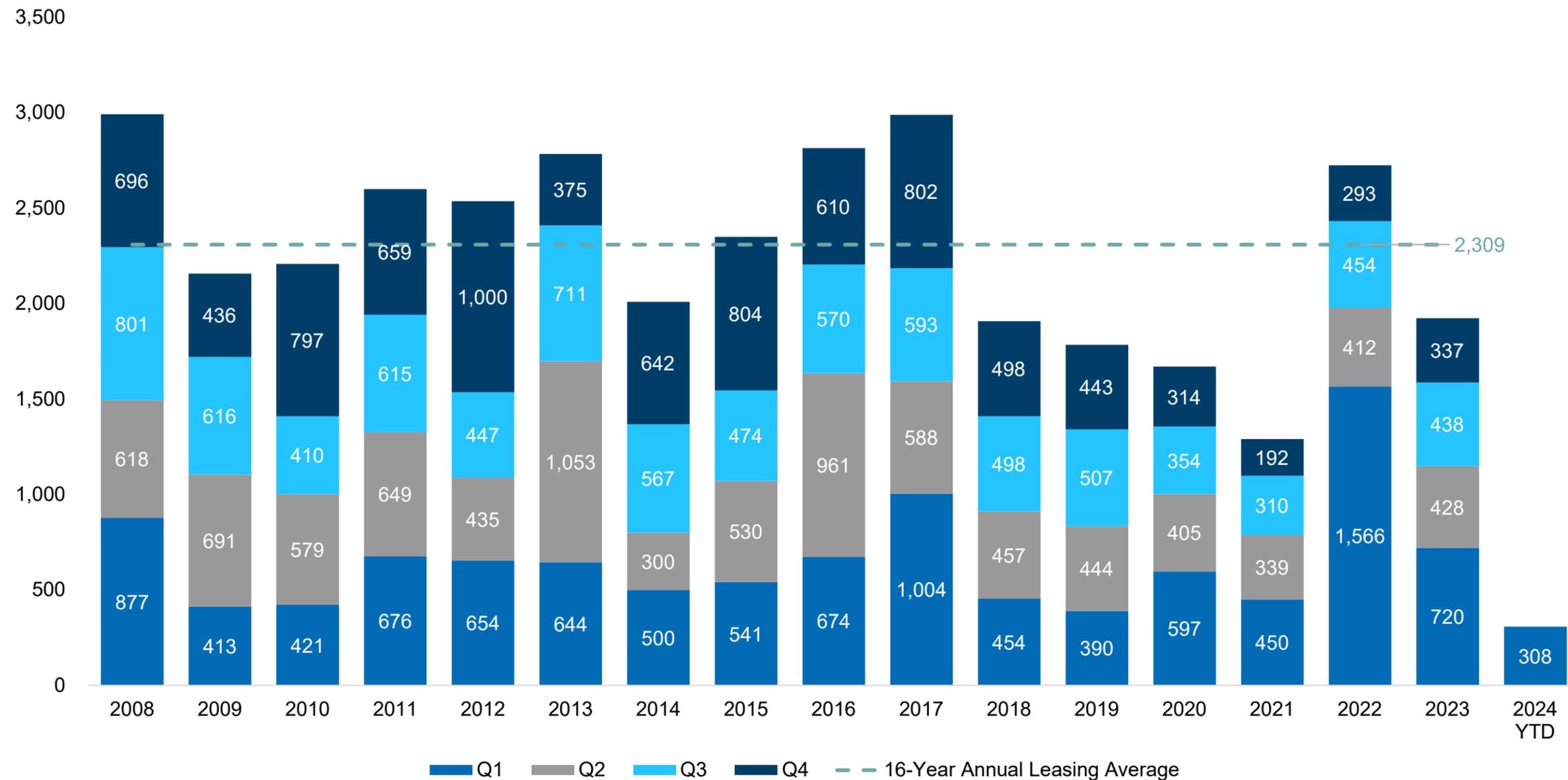


Source: Newmark Research

Quarterly Leasing Activity Fourth Lowest in Recent History

Total leasing was 307,875 SF in the first quarter of 2024, the fourth lowest quarterly total in at least 24 years (the fourth quarter of 2021 had the lowest activity in recent history at 191,907 SF). The 16-year leasing activity average was 2,308,779 SF from 2008 to 2023.

Total Leasing Activity (thousands SF)

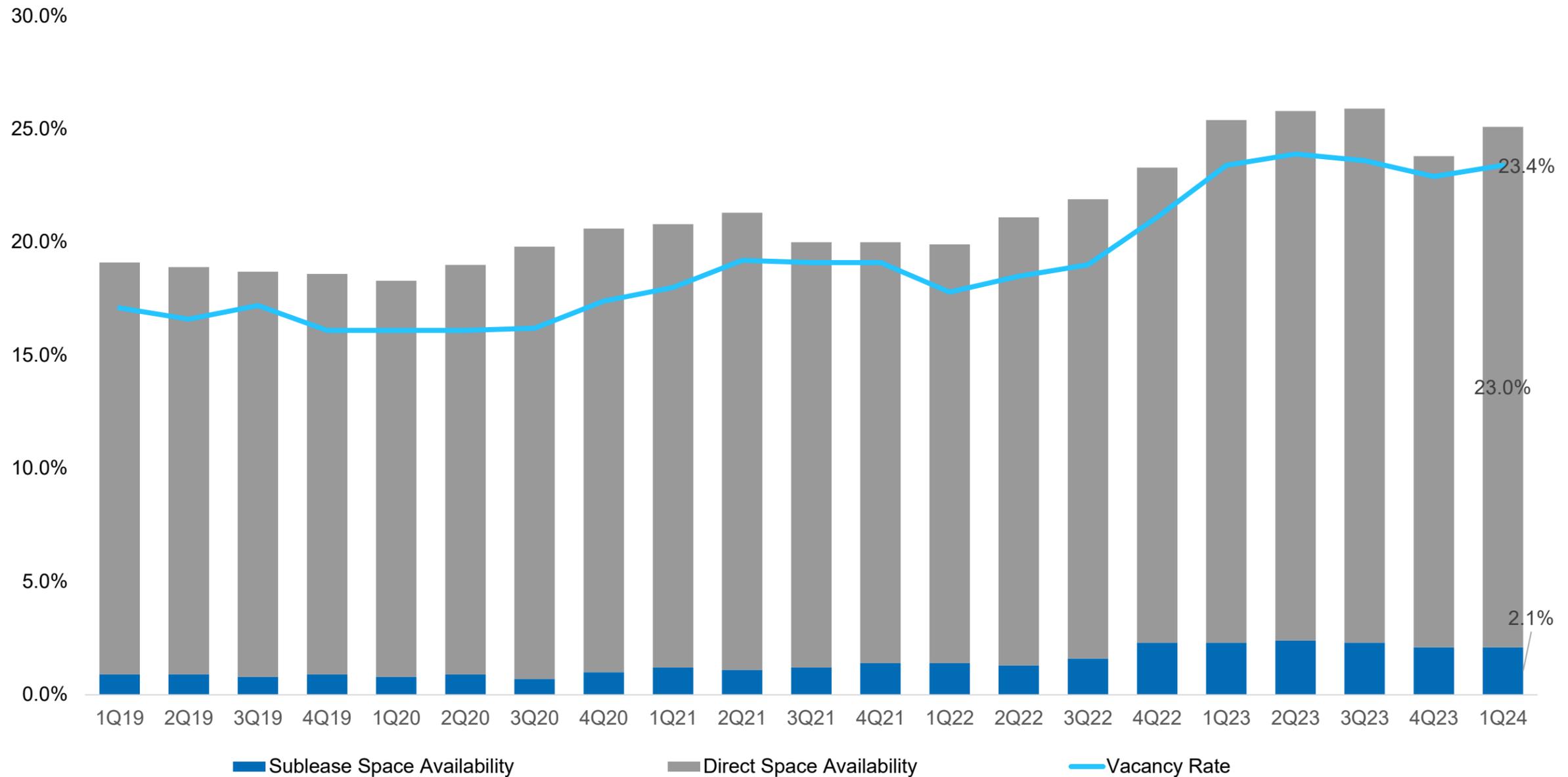


Source: Newmark Research, CoStar

Direct Availability Rises While Sublease Availability Stabilizes

Direct space availability ticked up in the first quarter of 2024 by 130 basis points from the fourth quarter of 2023 to 23.0%, while sublease space availability remained flat at 2.1%. Overall vacancy increased to 23.4%, up 50 basis points from the fourth quarter of 2023.

Available Space as Percent of Overall Market

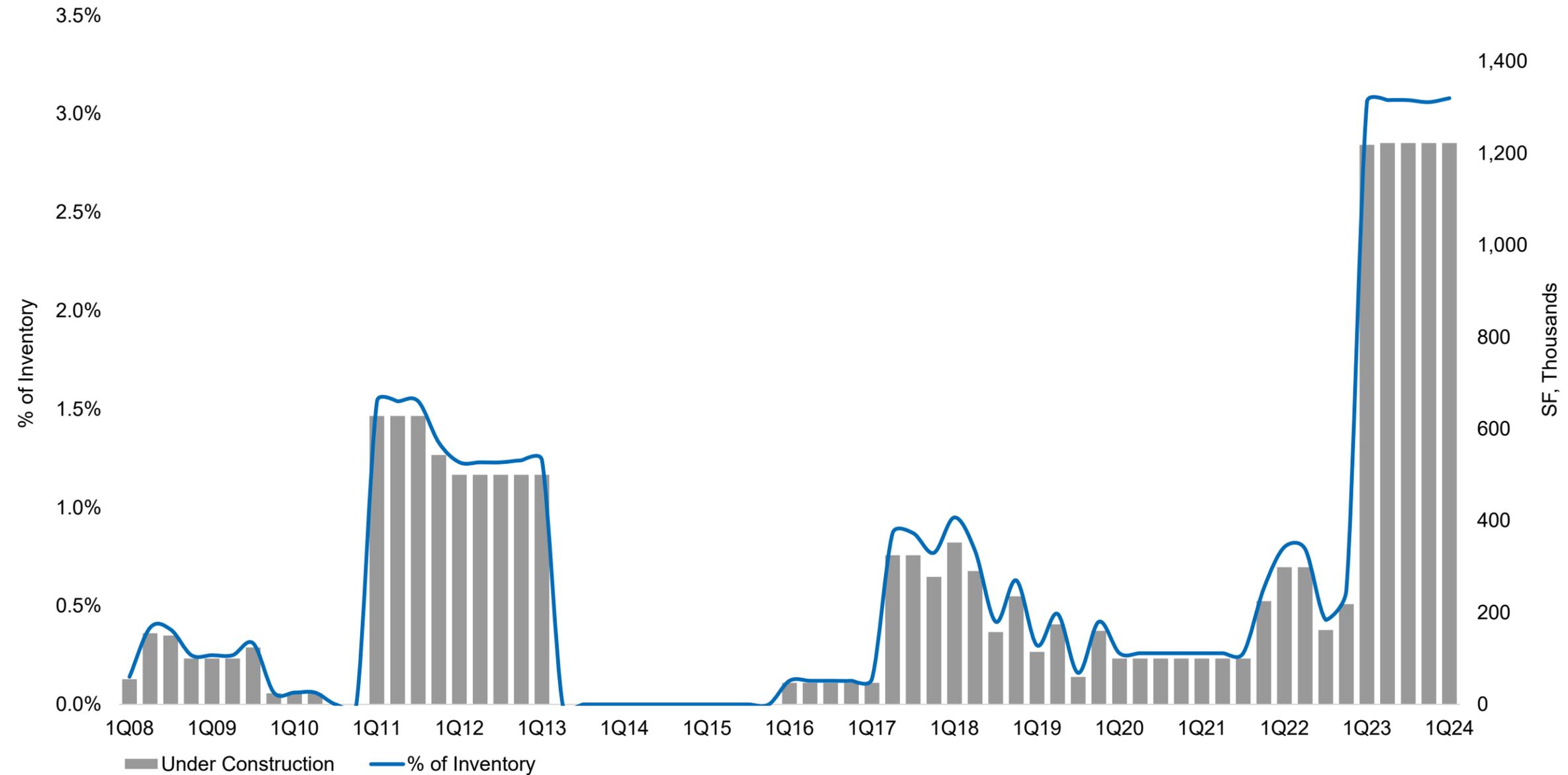


Source: Newmark Research

Office Construction Activity Remains Unchanged

Office construction in recent years has been minimal; the 1.0 million SF Sherwin-Williams headquarters project in the CBD is the largest development and makes up the majority of the 1.2 million SF of office construction in the market as of the first quarter of 2024. Construction activity has been 3.1% of inventory since the first quarter of 2023.

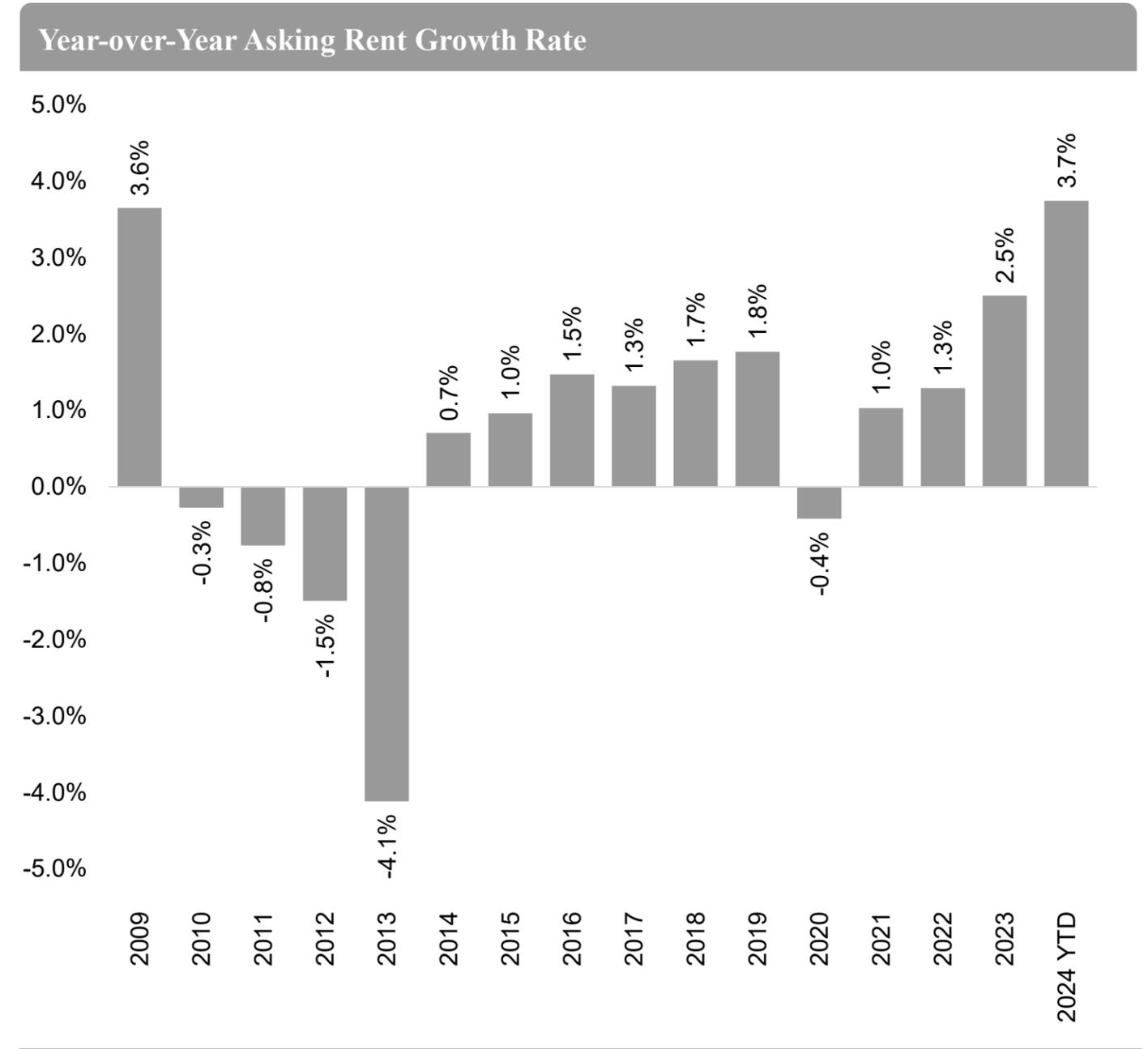
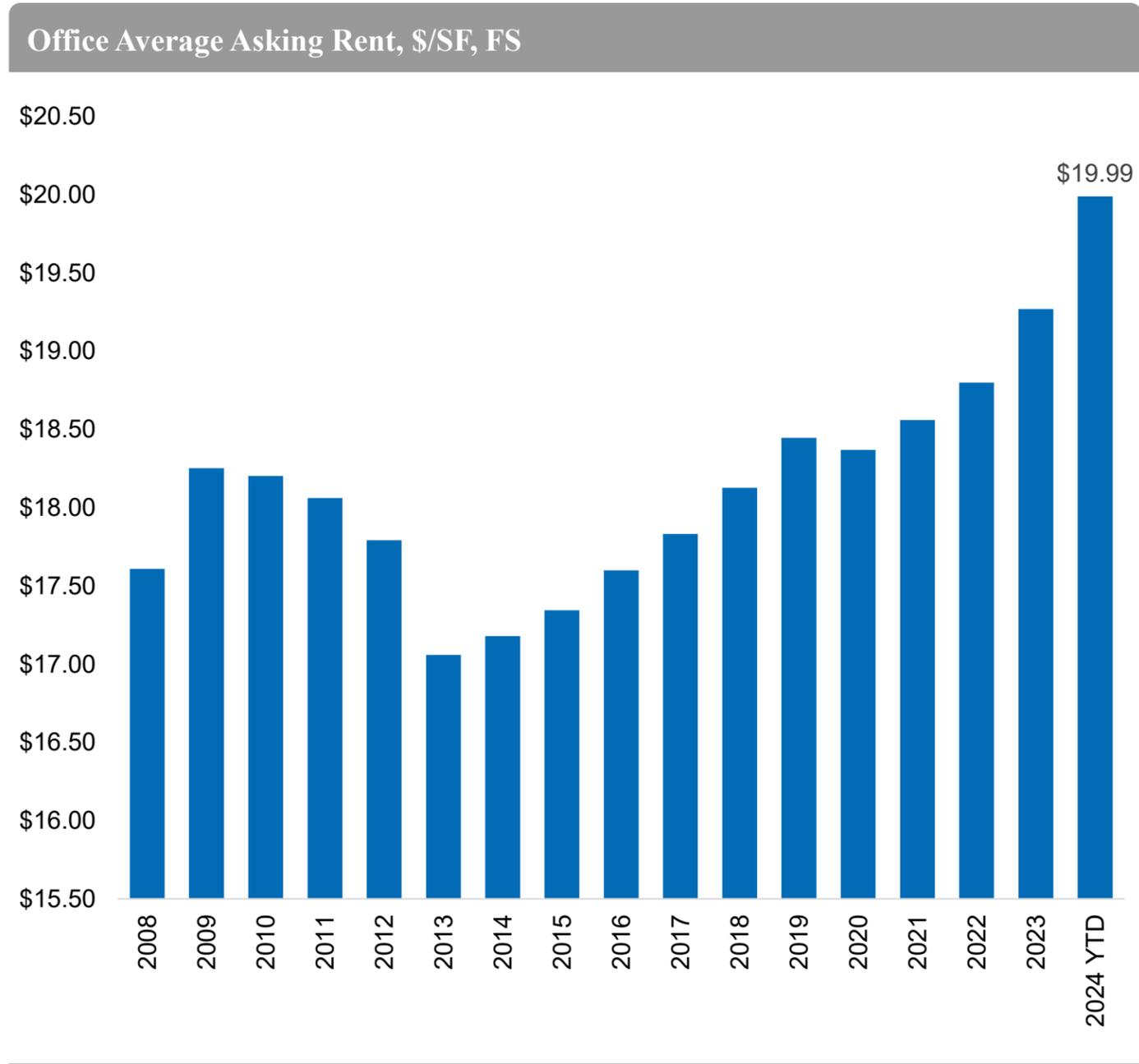
Office Under Construction and % of Inventory



Source: Newmark Research

Overall Rents Continue to Increase

Average asking rental rates increased by \$0.04/SF from the fourth quarter of 2023 to \$19.99/SF in the first quarter of 2024. The overall 2023 average asking rental was \$19.27/SF. Nine of the last 10 years (with the exception of 2020 as the pandemic took hold) have seen asking rental rate growth, continuing through 2023 and into 2024.

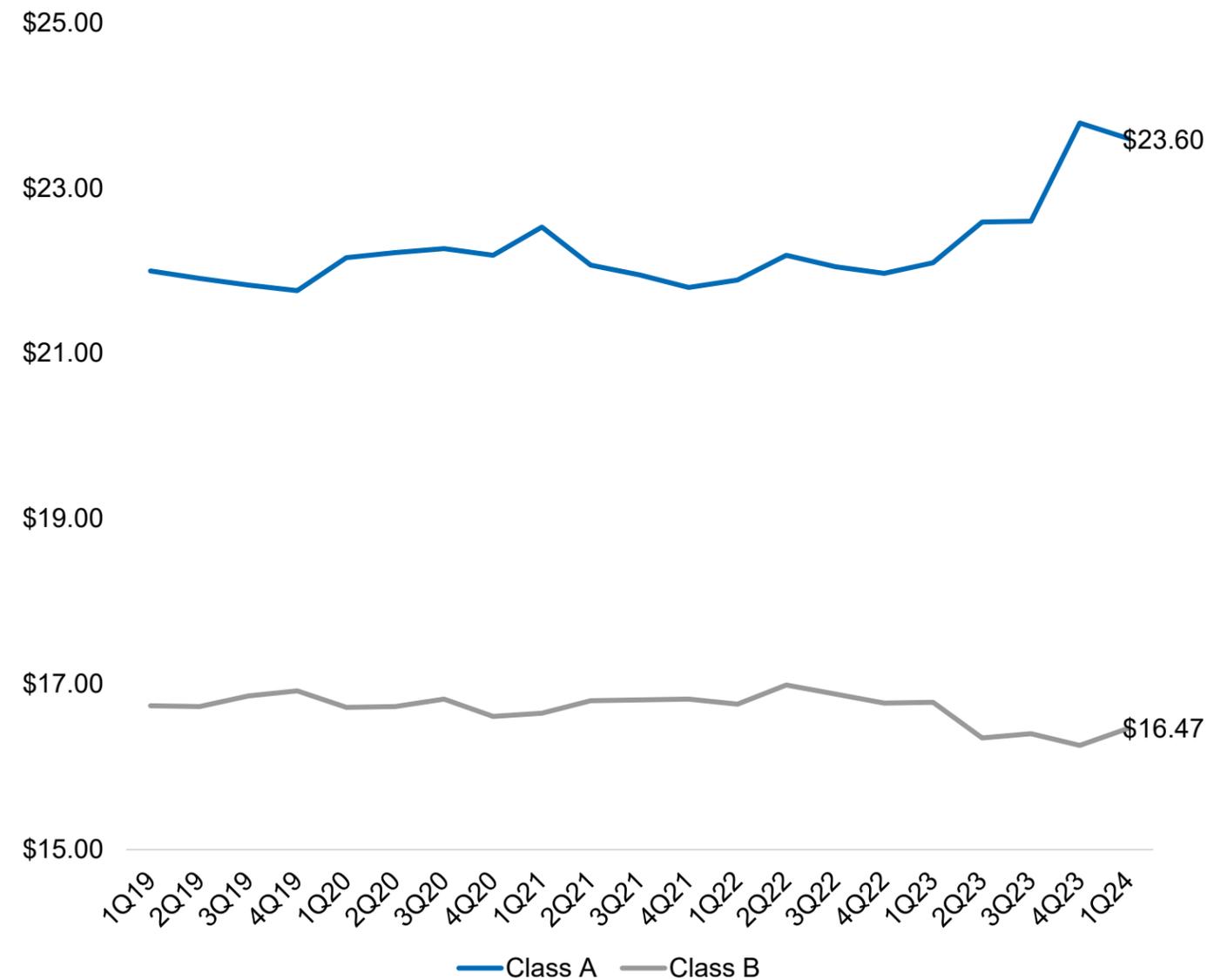


Source: Newmark Research

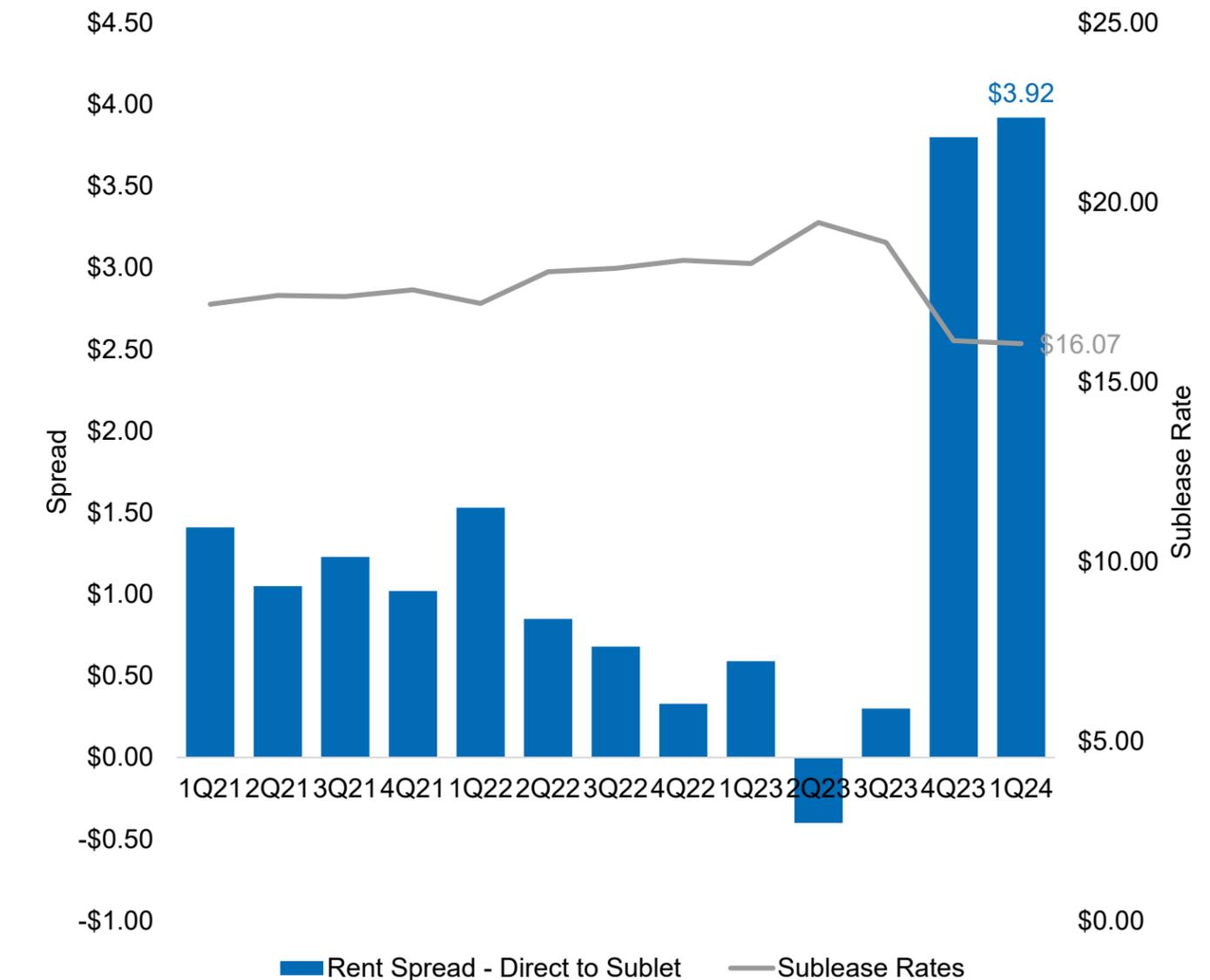
Class A Asking Rents Dip, While Class B Rents Up; Sublease Rates Down Slightly

Class A average asking rental rates decreased by \$0.19/SF in the fourth quarter of 2023 to \$23.60/SF, and Class B rates increased by \$0.21/SF to \$16.47/SF, which slightly decreased the gap between Class A and B rents to \$7.13/SF from \$7.53/SF in the previous quarter. The first quarter of 2024's average sublease rate decreased by \$0.08/SF to \$16.07/SF. However, the gap between sublease and direct rents increased to \$3.92/SF from \$3.80/SF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Lease and Sale Transactions in 1Q24

Select 1Q24 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Confidential	29300 Aurora Rd.	East	Direct	20,561
LLA Therapy	7325 Production Dr.	East	Direct	12,000
Confidential	4807 Rockside Rd.	South	Renewal	9,582
Confidential	6000 Freedom Square Dr.	South	Direct	8,266
McKinsey & Company	127 Public Sq.	CBD	Direct	6,042
Avantia	9525-9655 Sweet Valley Dr.	South	Extension	4,492

Select 1Q24 Sale Transactions

Buyer	Building	Submarket	Sale Price	Square Feet	Price Per SF
11630 Chillicothe LLC	11630 Chillicothe Rd.	East	\$1,320,000	11,670	\$113.11
Oak Tree Executive Center LLC	6200 Oak Tree Blvd.	South	\$15,513,000	223,000	\$69.57
STG Communications Services Inc.	360 Highland Rd.	South	\$1,762,060	25,944	\$67.92
Namdar Realty Group LLC	200 Public Square	CBD	\$54,000,000	1,269,584	\$42.53
TNAC Properties III LLC	466 Northfield Rd.	East	\$465,000	21,500	\$21.63

Source: Newmark Research, CoStar

CBD Submarket Posts Highest Vacancy

Please reach out to your
Newmark business contact for this information

All Submarket Asking Rents Up Year Over Year

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Appendix



Submarket Overview

Please reach out to your
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Cleveland - Submarket Map

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Additional Market Statistics

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