
4Q24

Cleveland Office Market Overview

With Supplemental Slides



NEWMARK

Market Observations

Economy

- In the fourth quarter, the Cleveland-Elyria-Mentor metro’s economy gained back the most jobs it has seen since December 2023, as total nonfarm employment increased annually by 0.9% in November. National nonfarm employment increased by 1.4%. The unemployment rate for the Cleveland-Elyria-Mentor MSA decreased to 3.8% in November 2024.
- Six of 11 industry sectors in the Cleveland market saw employment gains from November 2023 to November 2024. Two of the three office-occupying industries experienced annual job losses, with Business and Professional being the only office-occupying sector to make gains at 2.5%.
- The number of office-using jobs in the Cleveland market as of November 2024 was approximately 237,251.

Major Transactions

- Office building sales activity in the Cleveland market began to emerge from several quarters of uninspired action, though trade values and volume of deals continued to be below where they were prior to interest rates skyrocketing. A small mixed-use office and retail building in the Cleveland State University area of the Central Business District (CBD) fetched the highest price per square foot for the quarter. The 12,686-square-foot property, located at 1938 Euclid Ave., was purchased by Pro Land Holdings LLC for \$2.0 million, or \$157.65/SF, well above what traditional office buildings have sold for in recent quarters. The Rose Building, Medical Mutual’s former headquarters located at 2060 E. 9th Street in the CBD submarket, officially sold to Spark GHC and Cleveland Construction for just under \$11 million, or \$28.74/SF. The building is slated for a \$120 million conversion to apartments and a boutique hotel.
- Sequoia Financial inked a 20,000 SF lease in the East submarket at 5910 Landerbrook Dr. in Mayfield Hts., where the company intends to consolidate offices to this location by mid-2025; ADP signed an 8,428 SF extension at 6200 Oak Tree Blvd. in the South submarket; and University Hospitals renewed its 6,406 SF space at 25651 Detroit Rd. in the West submarket.

Leasing Market Fundamentals

- Direct space availability decreased significantly in the fourth quarter of 2024 by 160 basis points from the third quarter to 19.7%, representing 7.8 million SF. This is the lowest that direct space availability has been since the second quarter of 2022. Sublease space availability stayed at a flat 1.5%.
- The market accrued 160,328 SF of positive absorption in the fourth quarter of 2024, propelling the market out of the negative for a yearly total of 138,705 SF in net positive absorption. The market finished the year in the positive for the first time since 2019. The quarterly positive absorption caused the vacancy rate to dip by 30 basis points to 27.8%. For the year 2024, the vacancy rate came in at 23.1%.
- The Cleveland office market’s average asking rental rate decreased by \$0.01/SF from the third quarter of 2024 to \$19.96/SF in the fourth quarter. As a result, the 2024 year-to-date average asking rent total held steady at \$19.96/SF.

Outlook

- Despite a historically lackluster 2024 in terms of leasing activity, noticeably fuller parking garages and lots, improving economic conditions, and companies beginning to gravitate more towards heavier and consistent return-to-office mandates, bodes well for a better office leasing ecosystem in 2025.
- Office buildings were still low priorities for investors in 2024 due to continued risks and bleak refinancing prospects for that asset class both locally and nationally. However, some hope has emerged nationally for office assets going forward in 2025 as it is expected that investors and lenders will begin to reconsider office assets with some distress as the interest rate landscape becomes more favorable and accepted.
- Economic challenges continue for several prominent CBD office buildings, as lenders assuming ownership, pending foreclosures, special servicing assignments, and difficulties in securing financing/re-financing continued to impact several skyscrapers as the year ended.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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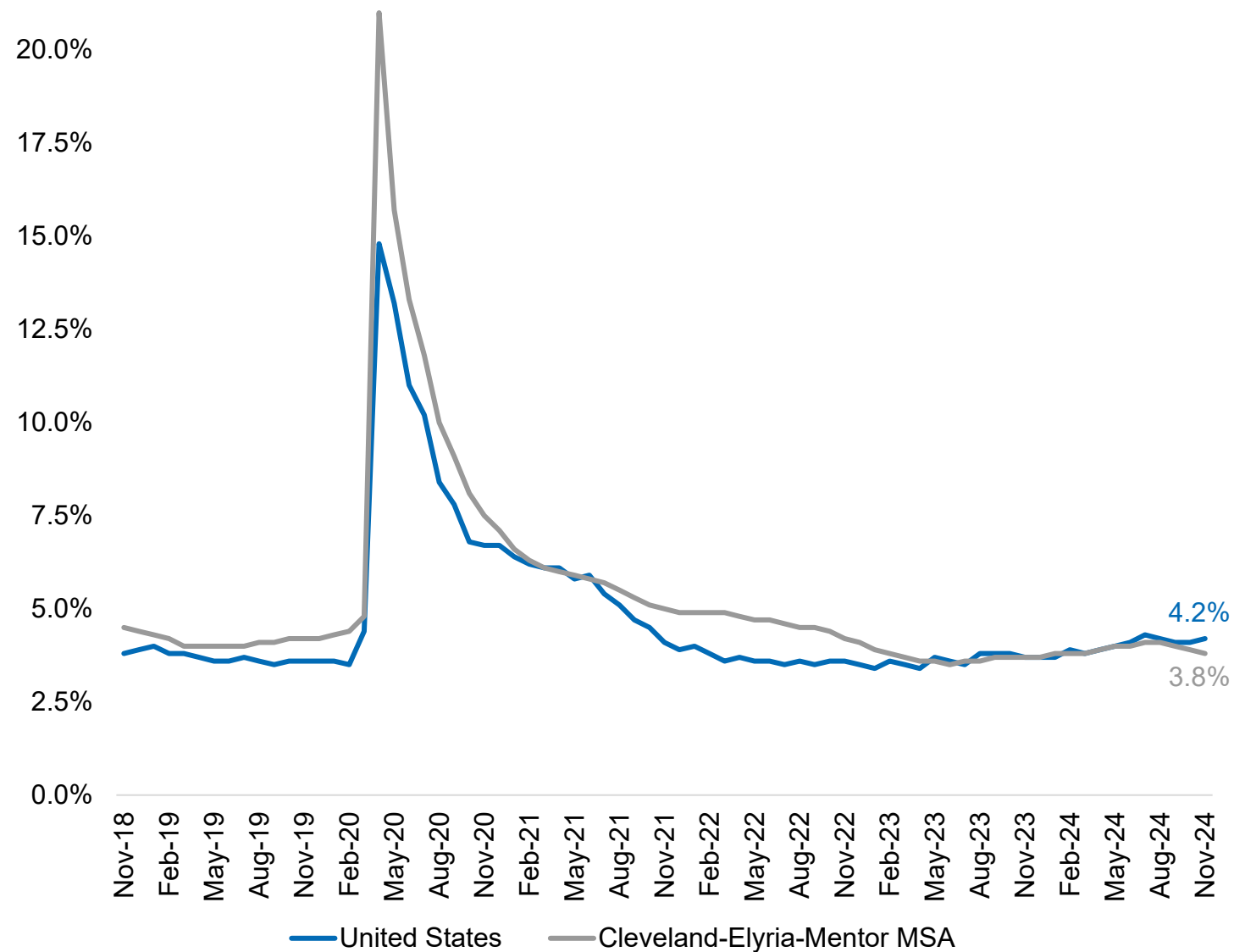
Economy



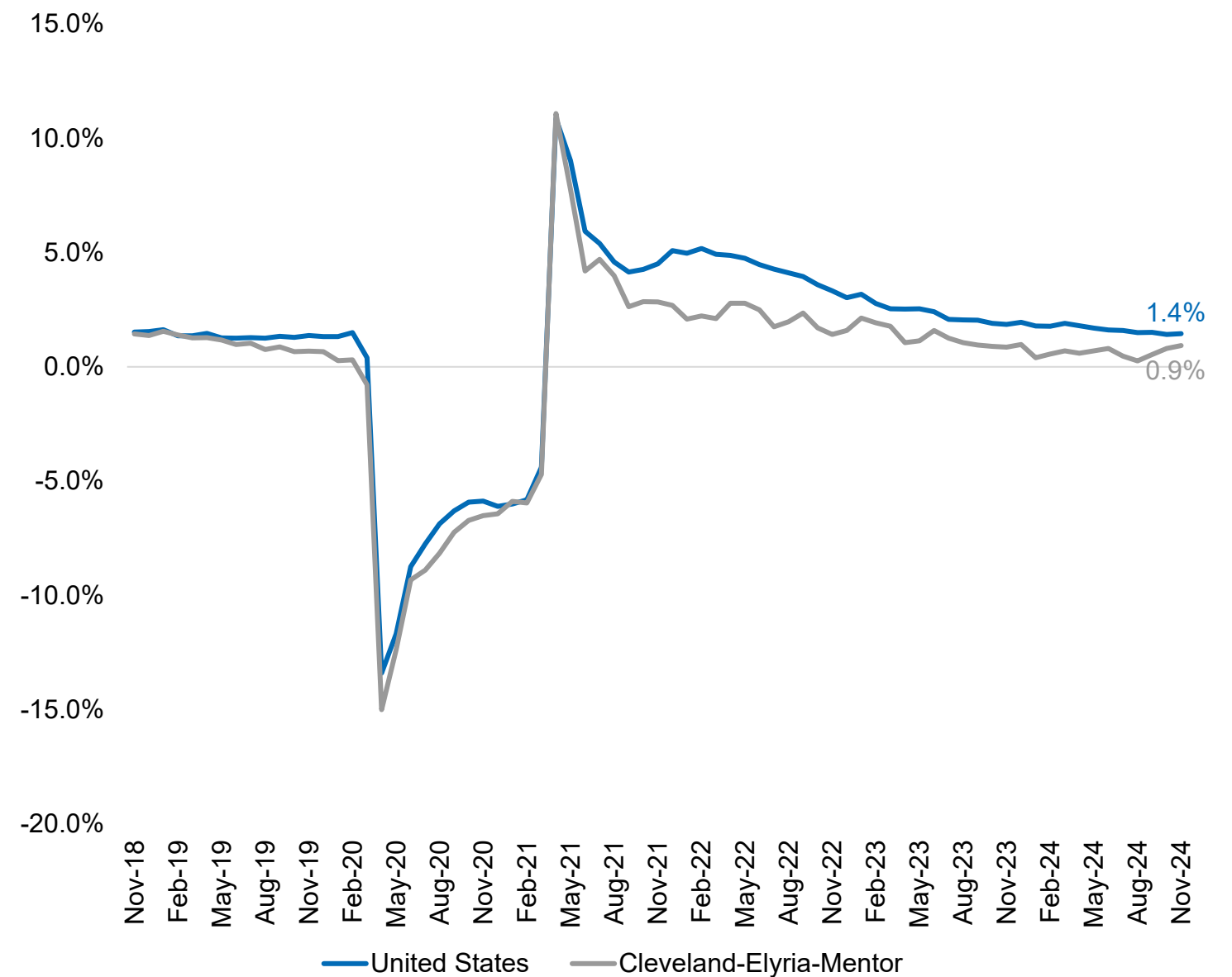
Cleveland and United States Unemployment and Nonfarm Employment Trends

In the fourth quarter, the Cleveland-Elyria-Mentor metro's economy gained back the most jobs it has seen since December 2023, as total nonfarm employment increased annually by 0.9% in November. National nonfarm employment increased by 1.4%. The unemployment rate for the Cleveland-Elyria-Mentor MSA decreased to 3.8% in November 2024 – returning that figure to where it was at the beginning of the year before slowly rising to its highest point of 4.1% in July and August, then coming back down. Cleveland's most recent unemployment low came in June of 2023 at 3.5%. The national unemployment rate rose higher than Cleveland in November, to 4.2% and has remained equal to or higher than Cleveland's unemployment rate since February of 2024.

Unemployment Rate, Seasonally Adjusted



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



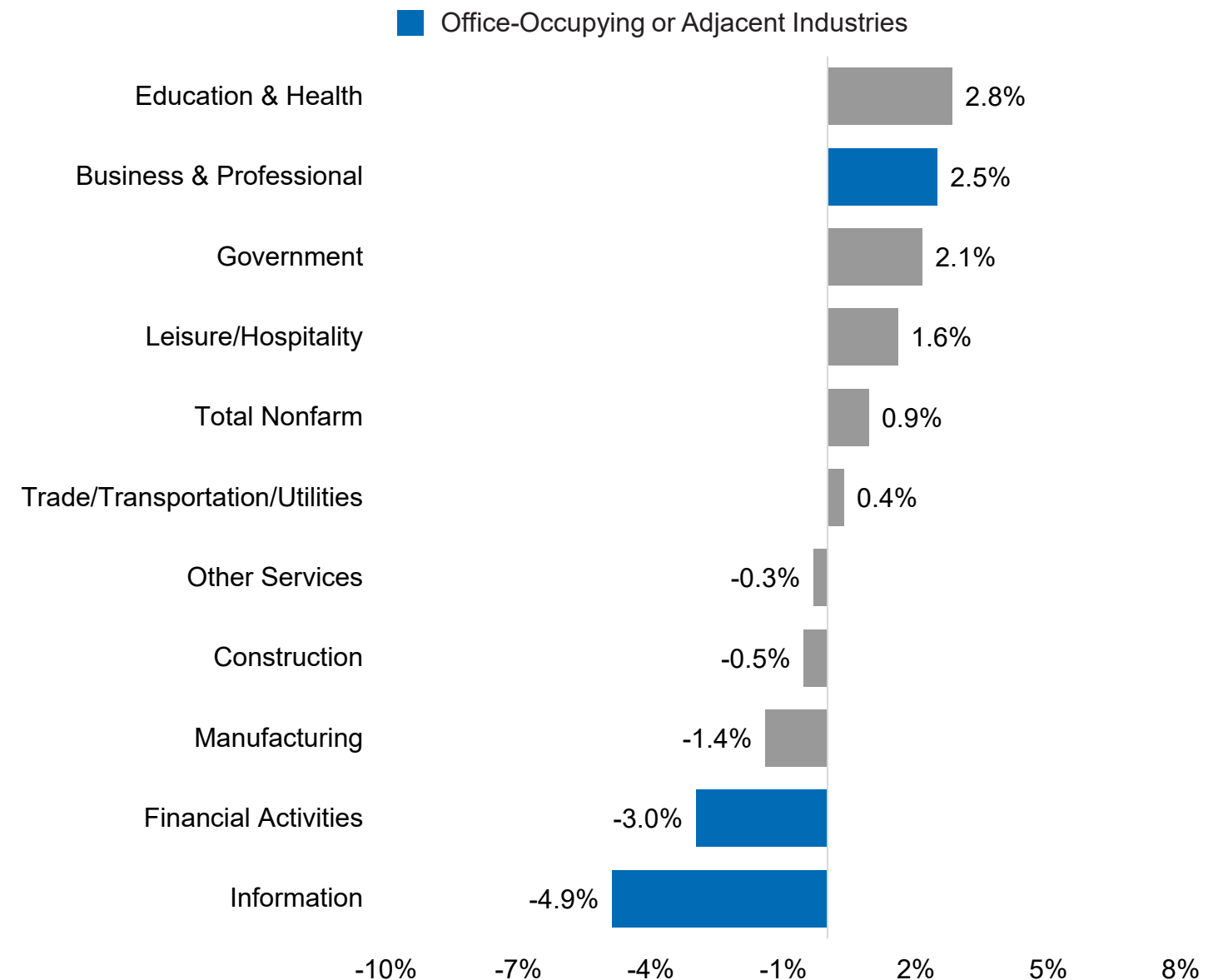
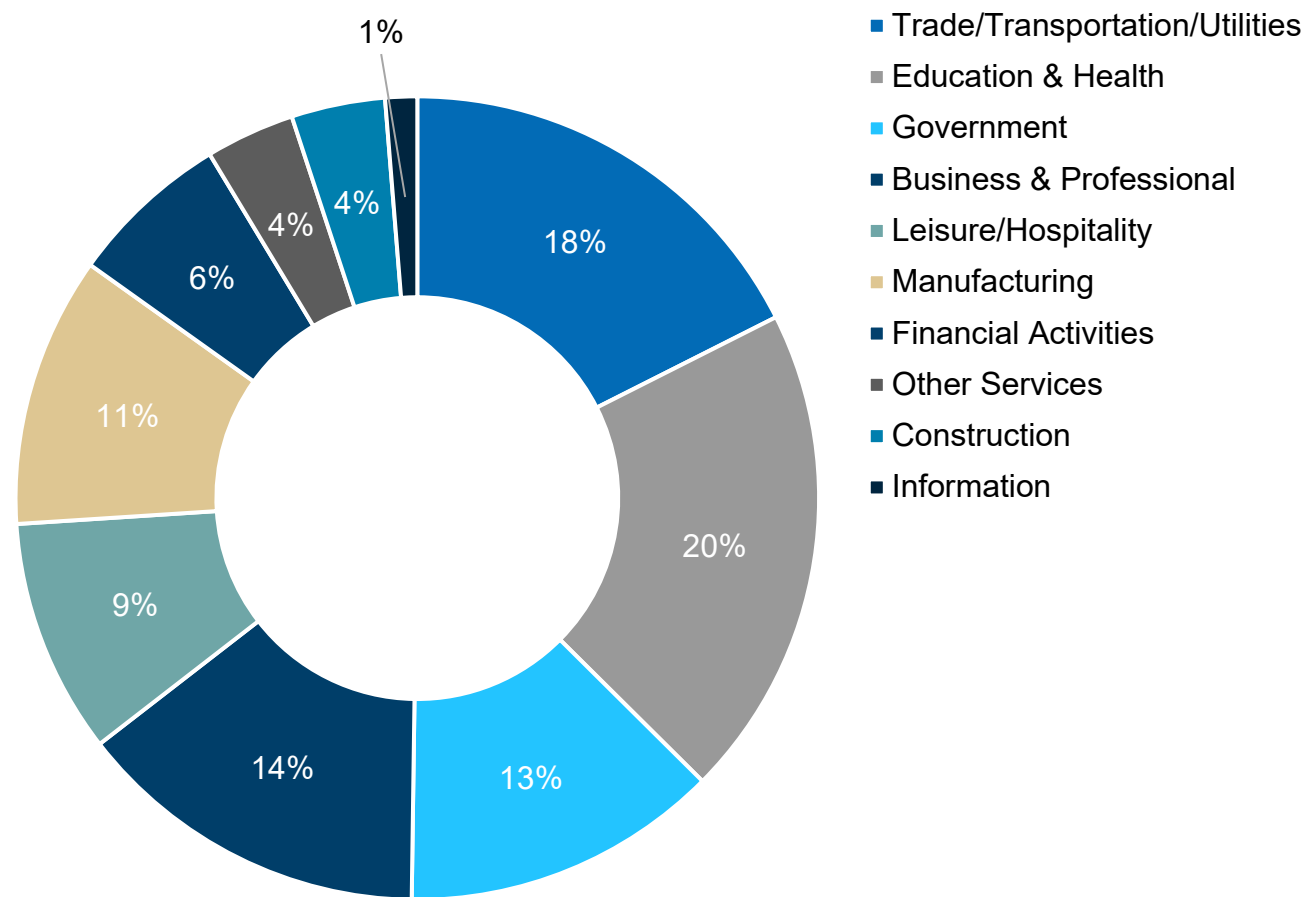
Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

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

Six of 11 industry sectors in the Cleveland market saw employment gains from November 2023 to November 2024. Two of the three office-occupying industries experienced annual job losses, with Business and Professional being the only office-occupying sector to make gains at 2.5%. The Education and Health sector once again had the biggest increase of all the industries for the fourth quarter at 2.8%. The two other office-occupying industries, the Information sector and Financial Activities sector, accrued year-over-year job losses at negative 4.9% and negative 3.0%, respectively.

Employment by Industry, November 2024

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

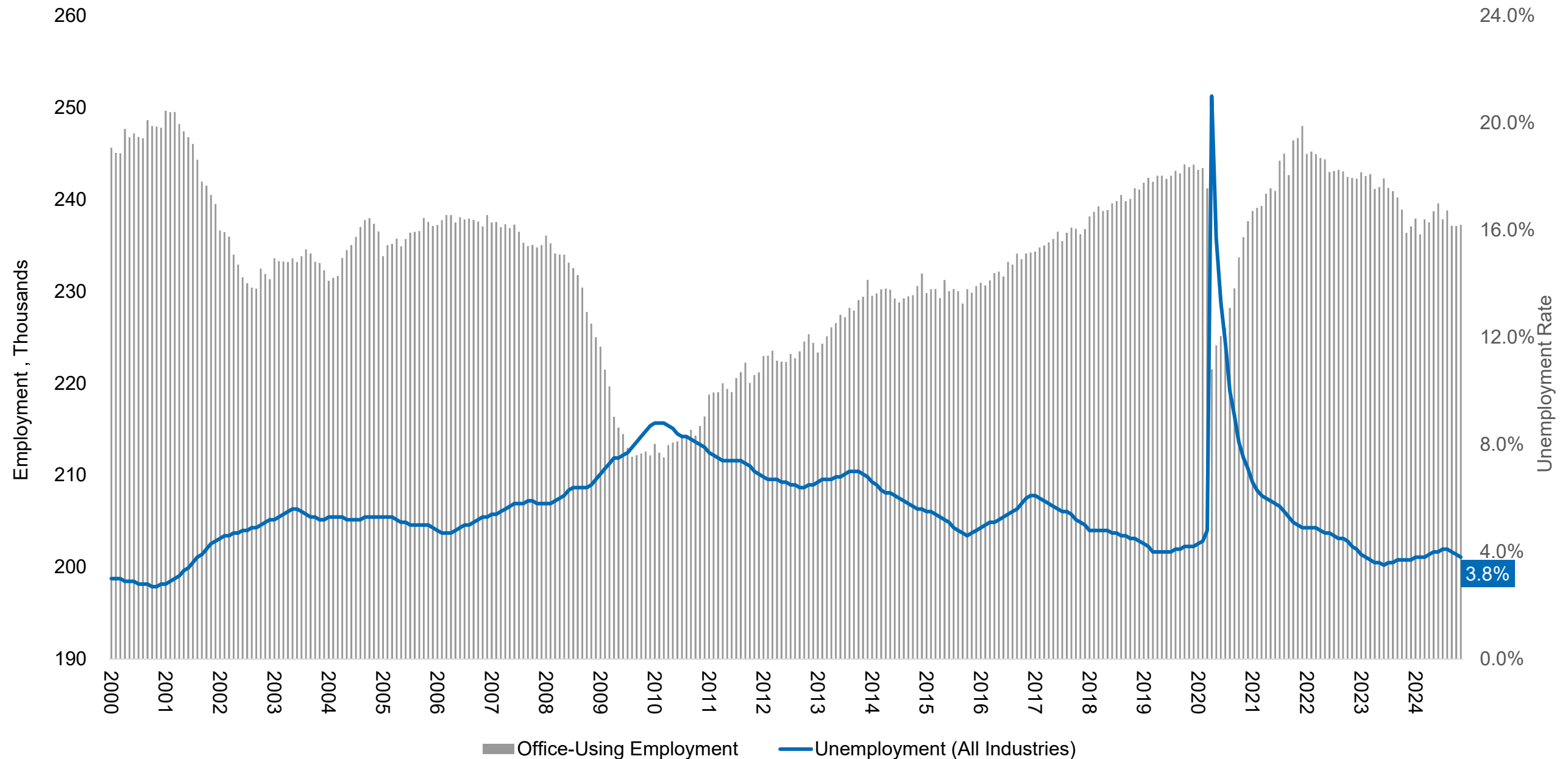


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

Office-Using Employment

The number of office-using jobs in the Cleveland market as of November 2024 was approximately 237,251, which was slightly higher than September and October of 2024, but lower than figures from March through August 2024.

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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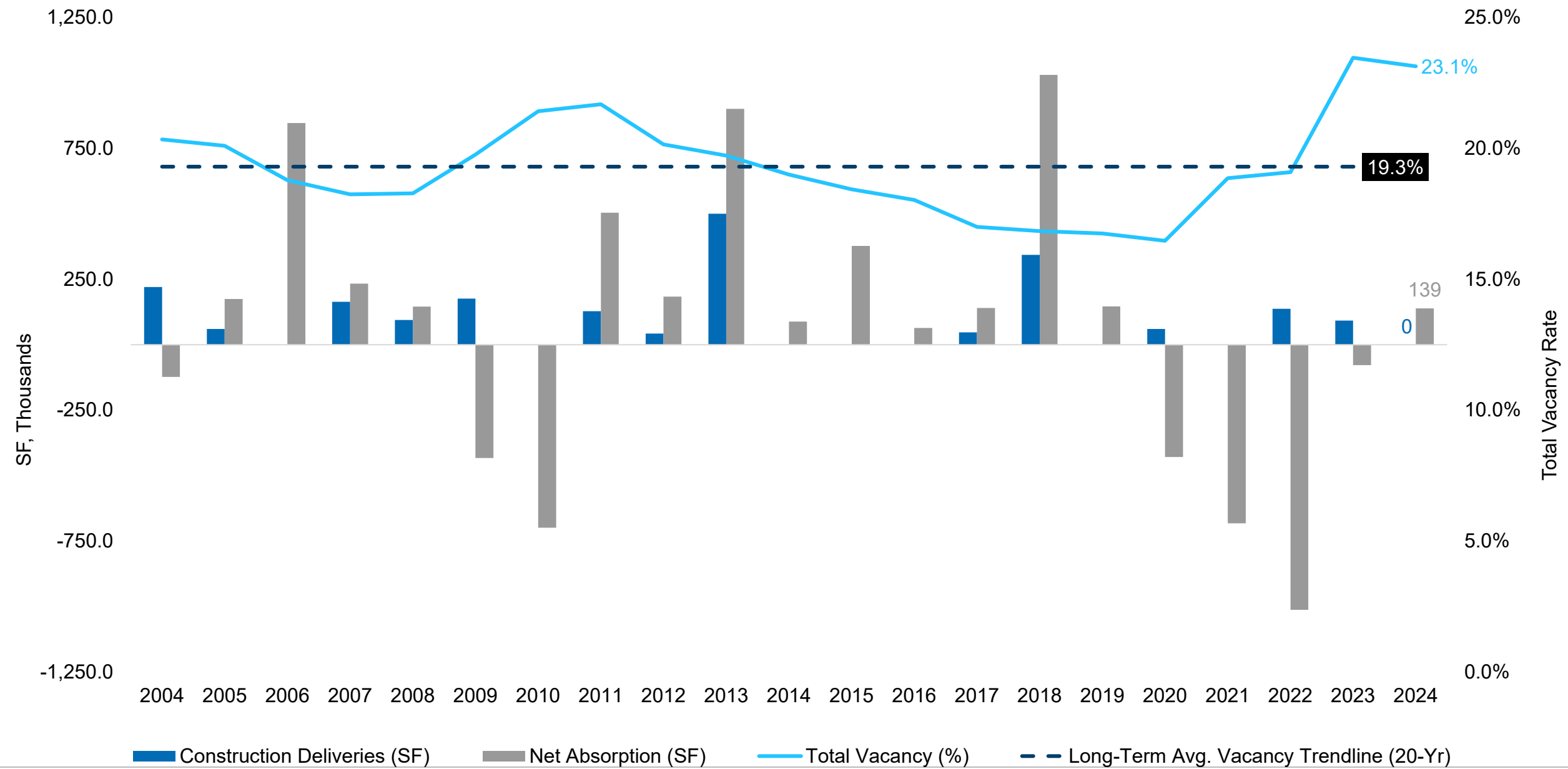
Leasing Market Fundamentals



Office Market Achieves Yearly Total of Net Positive Absorption

The Cleveland office market accrued 160,328 SF of positive absorption in the fourth quarter of 2024, propelling the market out of the negative for a yearly total of 138,705 SF in net positive absorption. The market finished the year in the positive for the first time since 2019. The quarterly positive absorption caused the vacancy rate to dip by 30 basis points to 27.8% in the fourth quarter of 2024. For the year 2024, the vacancy rate came in at 23.1%, 40 basis points lower than the 2023 year-end total. Despite a subtle rebound year for the Cleveland office market, the vacancy rate of 23.1% for the year still ended up higher than the long-term 20-year average vacancy trendline of 19.3% for the second year in a row.

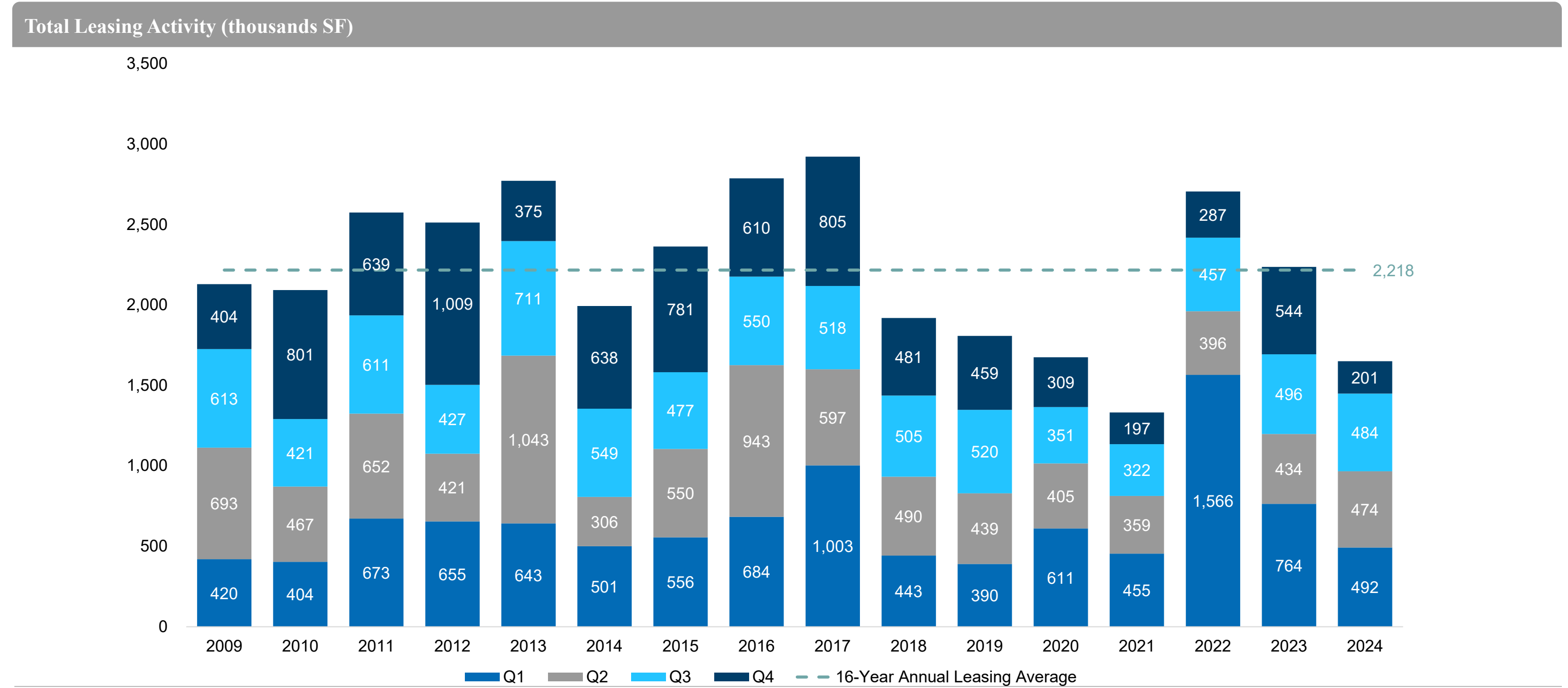
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity for 2024 Second Lowest in Last 16 Years

Total leasing activity for non-owner-occupied office buildings measuring 10,000 SF and greater in the Cleveland MSA was 1.65 million SF, the second lowest yearly total in the last 16 years. The fourth quarter of 2024 was the second lowest fourth quarter total in the last 16 years as well as the second lowest quarterly total of any quarter in the last 16 years. The 16-year annual leasing activity average was 2.2 million SF. Despite a historically lackluster 2024 in terms of leasing activity, improving economic conditions, along with companies beginning to trend more towards heavier and consistent return-to-office mandates, bodes well for a better office leasing ecosystem in 2025.

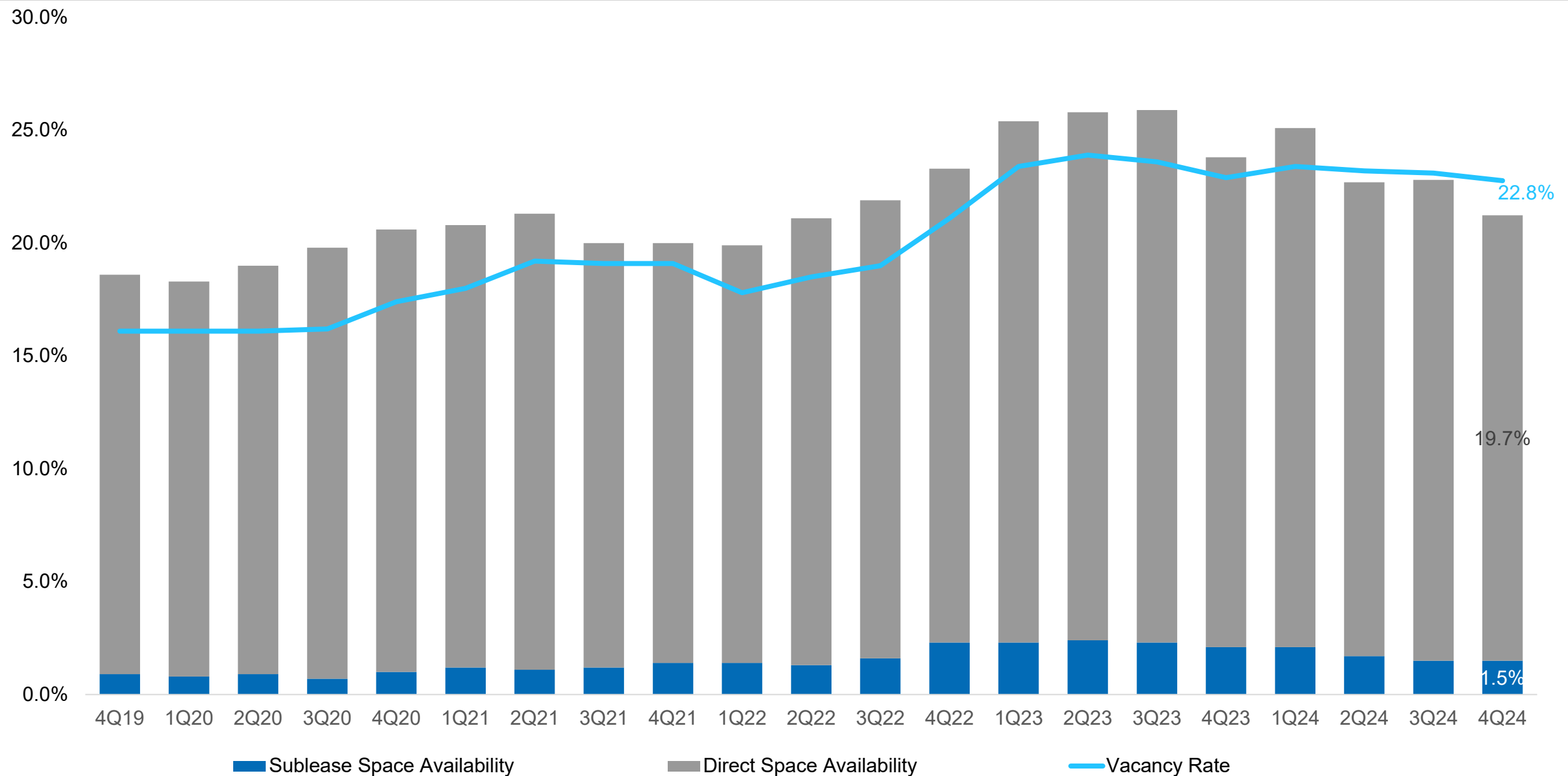


Source: Newmark Research, CoStar

Direct and Sublet Both Dip in Available Square Footage

Direct space availability decreased significantly in the fourth quarter of 2024 by 160 basis points from the third quarter to 19.7%, representing 7.8 million SF. This is the lowest that direct space availability has been since the second quarter of 2022. Sublease space availability stayed at a flat 1.5%, though its available square footage decreased by 18,631 SF. Sublet availability has maintained a fairly steady and slow downward trajectory since the fourth quarter of 2022. Overall vacancy decreased to 22.8%, down 30 basis points from the prior quarter. Despite tepid leasing activity, the drop can be attributed to occupations taking hold from lease signings that took place in previous quarters. In recent quarters, vacancy has been higher than availability as a result of space that is considered vacant during redevelopment but isn't formally available to be leased.

Available Space as Percent of Overall Market

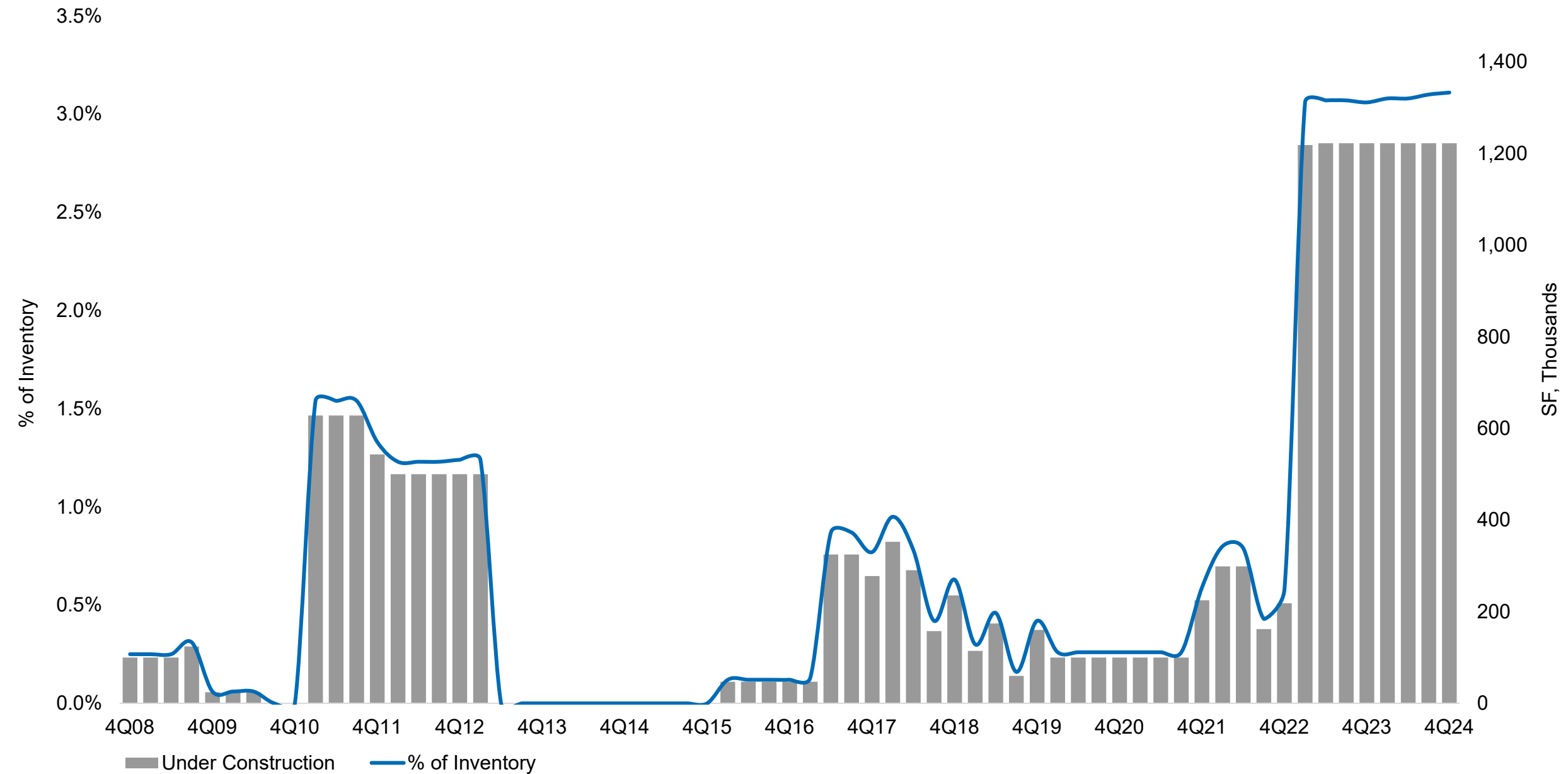


Source: Newmark Research

Office Construction Activity Remains Unchanged

New office construction in recent years continues to be minimal, as 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. That project is due to deliver at some point in 2025. Construction activity has been unchanged for seven straight quarters and has amounted to 3.1% of inventory since the first quarter of 2023.

Office Under Construction and % of Inventory

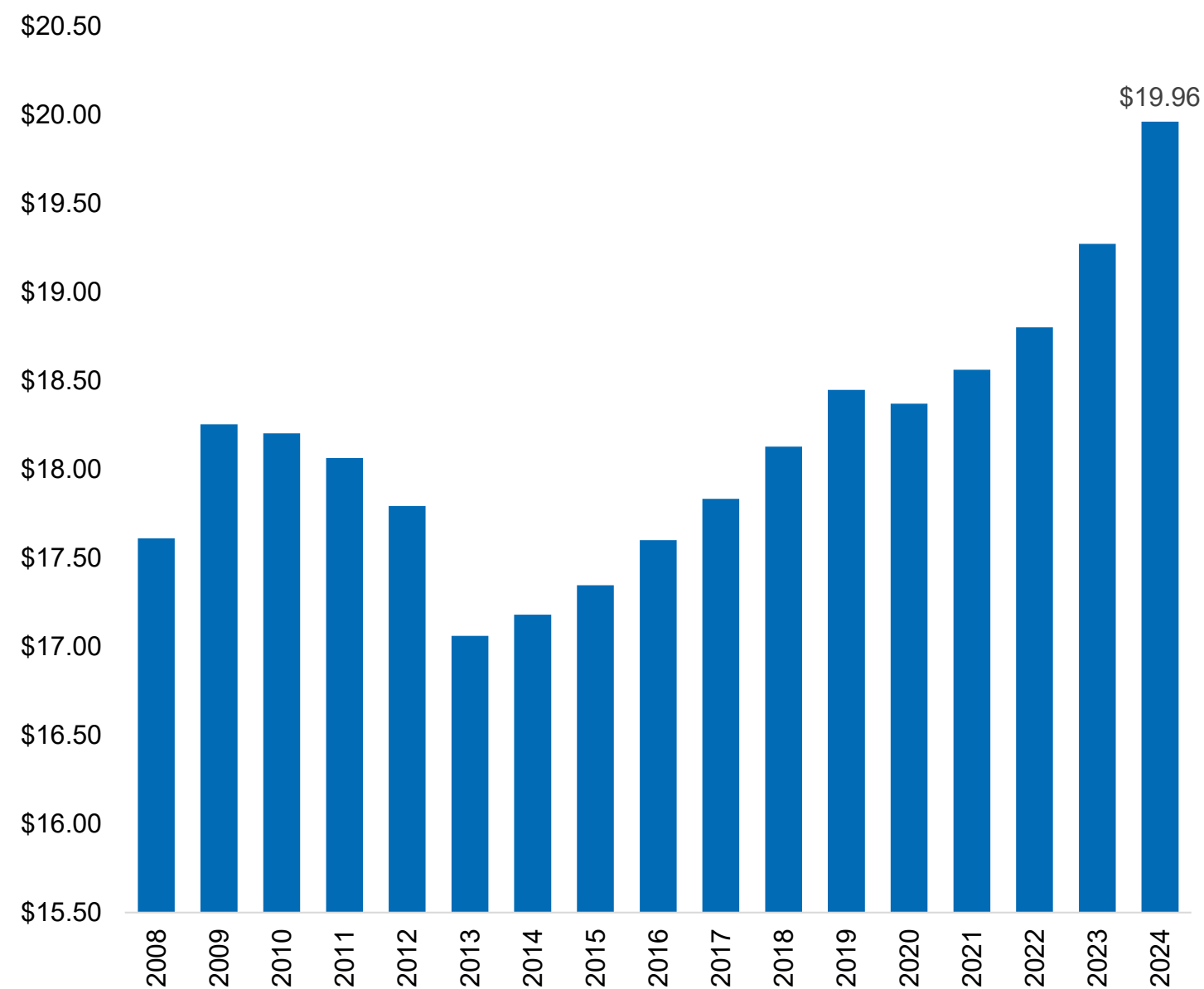


Source: Newmark Research

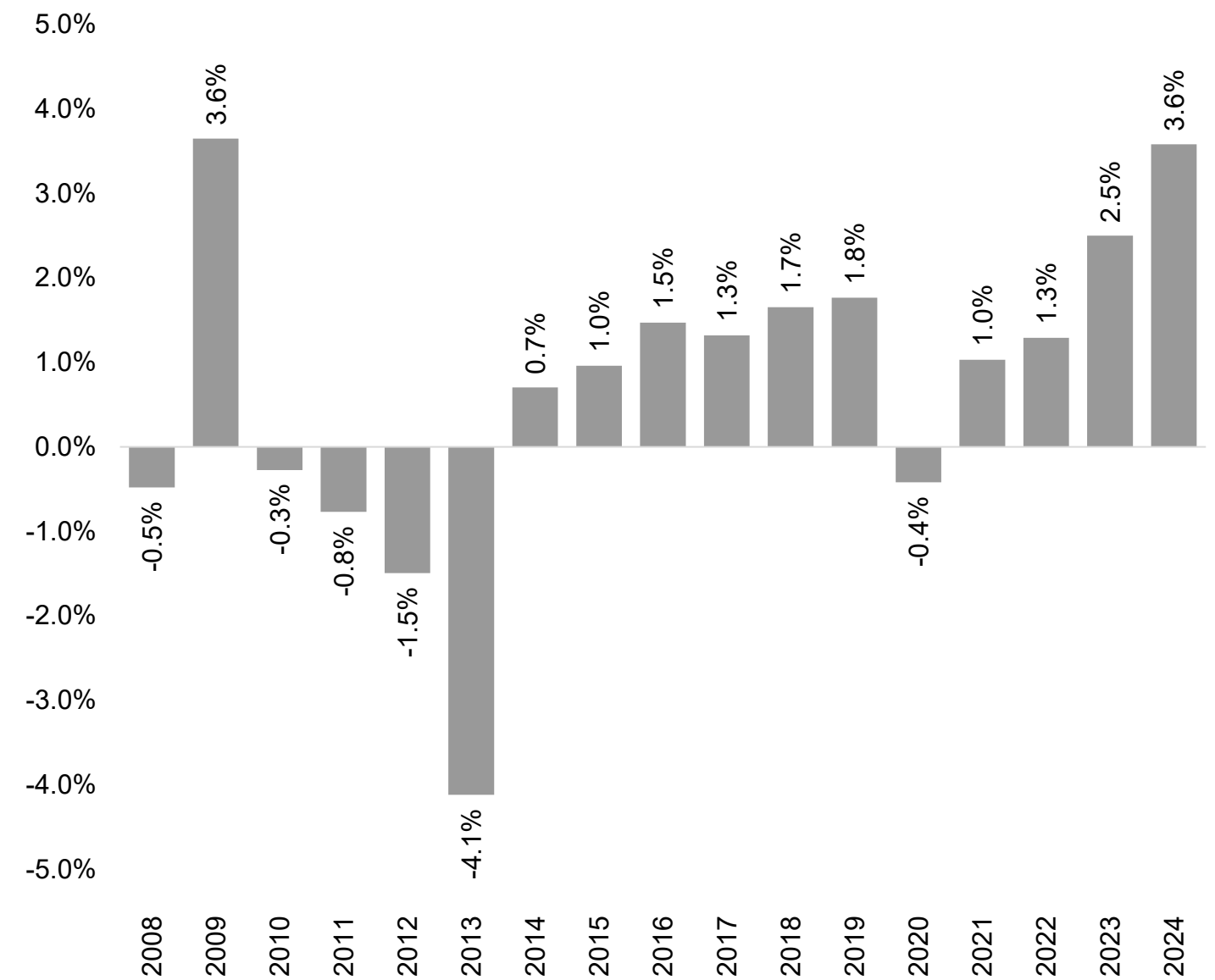
Overall Rents Continue to Increase Year to Year

The Cleveland office market's overall average asking rental rate decreased by \$0.01/SF from the third quarter of 2024 to \$19.96/SF in the fourth quarter. As a result, the 2024 year-to-date average asking rent total held steady at \$19.96/SF (and matched the fourth quarter's rate) once the fourth quarter average was factored in, and the year-over-year asking rent growth rate stayed at 3.6% to end 2024. 10 of the last 11 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 2024. Despite a jump in the yearly average rental rate from 2023 to 2024, quarterly rental rates throughout 2024 stayed within 10 to 20 basis points of each other.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

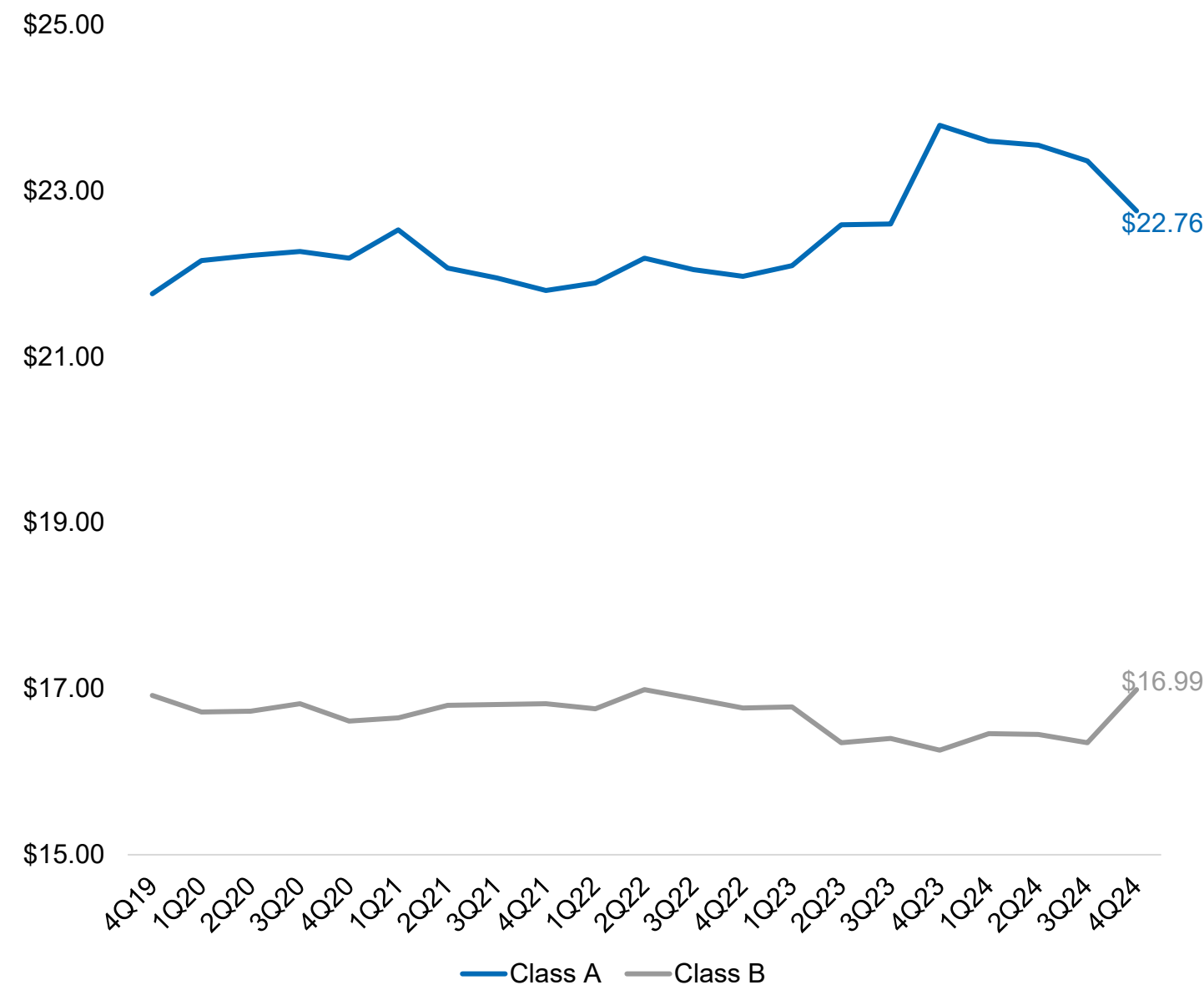


Source: Newmark Research

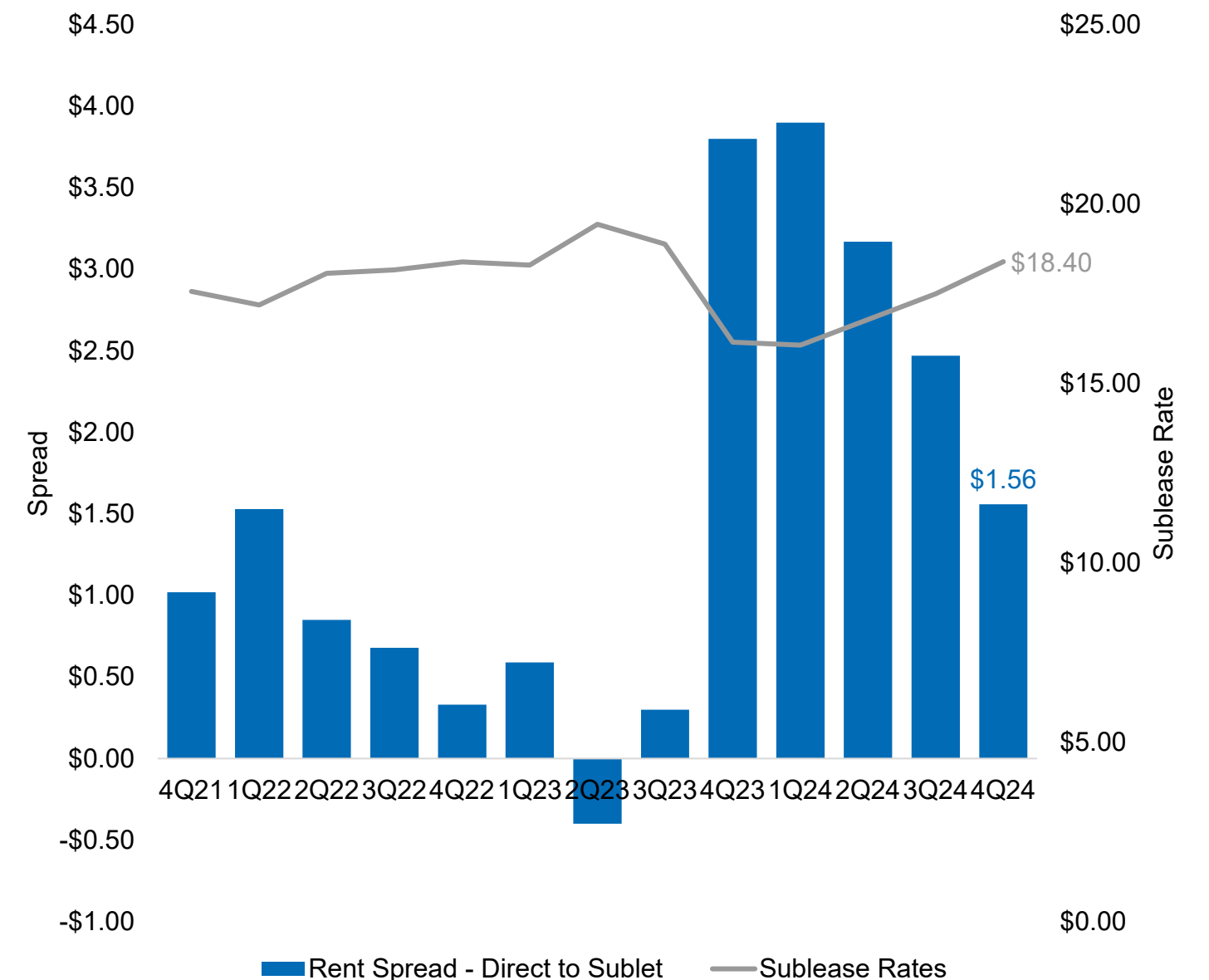
Class A Asking Rents Down, While Class B Rents Rise; Sublease Rates Up

Class A average asking rental rates in the fourth quarter decreased by \$0.60/SF from the third quarter of 2024 to \$22.76/SF, while Class B rates increased by \$0.64/SF to \$16.99/SF, which further narrowed the gap between Class A and B rents to \$5.77/SF from \$7.01/SF in the previous quarter – the closest gap between the two classes of office buildings since the first quarter of 2023. In fact, Class B rents were up across the board for every submarket for the fourth quarter. The fourth quarter of 2024’s average sublease rate increased by \$0.90/SF to \$18.40/SF, which tightened the gap between sublease and direct rents to \$1.56/SF from \$2.47/SF. The sublease rental rate has increased for three consecutive quarters. Sublet availability has maintained a solid downward trajectory since the fourth quarter of 2022.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Lease and Sale Transactions in 4Q24

Select 4Q24 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Sequoia Financial	6085 Parkland Blvd.	East	Direct	20,000
ADP	6200 Oak Tree Blvd.	South	Extension	8,428
University Hospitals	25651 Detroit Rd.	West	Renewal	6,406
VPA, PC	7251 Engle Rd.	Southwest	Direct	3,671
Marein & Bradley, LLC	1300 E. 9th St.	CBD	Direct	3,522

Select 4Q24 Sale Transactions

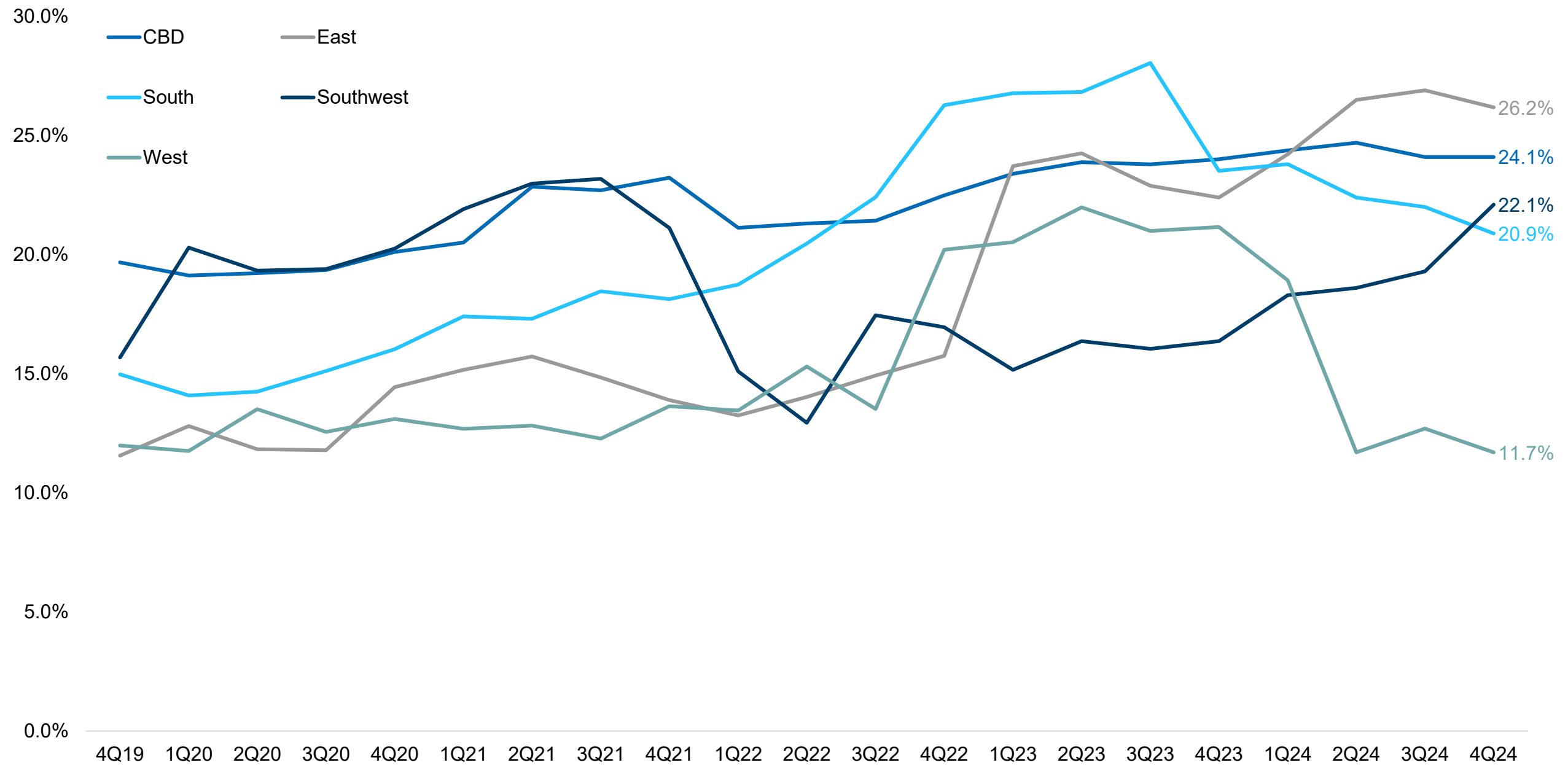
Buyer	Building	Submarket	Sale Price	Square Feet	Price Per SF
Pro Land Holdings LLC	1938 Euclid Ave.	CBD	\$2,000,000	12,686	\$157.65
AE 2500 Enterprise Pkwy, LLC (Great Day Improvements)	2500 E. Enterprise Pkwy.	South	\$2,000,000	26,716	\$74.86
The Hills at Home Property Holdings, LLC	7160 Chagrin Rd.	East	\$1,350,000	19,232	\$70.20
Ohio Department of Youth Services	17500 Rockside Rd.	East	\$4,800,000	121,164	\$39.62
Premier Development Partners	28501 Clemens Rd. (Part of a 2-Property Sale)	West	\$2,250,000	69,588	\$32.33
Premier Development Partners	28500 Clemens Rd. (Part of a 2-Property Sale)	West	\$4,000,000	134,298	\$29.78
Spark GHC and Cleveland Construction	2060 E. 9th St.	CBD	\$10,956,667	381,174	\$28.74

Source: Newmark Research, CoStar

Despite Positive Absorption, East Still Had the Most Vacancy (Supplemental Slide)

The East submarket's vacancy rate decreased by 70 basis points to 26.2% this past quarter yet remained the highest of all submarkets. Despite a slight occupancy loss for the quarter, the CBD's vacancy rate of 24.1% was not impacted, and remained the second-highest vacancy of the submarkets. The Southwest lost 41,469 SF of space in the fourth quarter of 2024 and tallied a vacancy rate of 22.1% to jump past the South submarket for the third highest vacancy in the market. The South had 70,968 SF of positive absorption, prompting a 110-basis-point vacancy rate decrease to 20.9% as the quarter ended. The South had 70,968 SF of positive absorption, prompting a 110-basis-point vacancy rate decrease to 20.9% as the quarter ended. The West netted 42,622 SF of positive absorption, which dropped the vacancy rate to 11.7%, the lowest in the market.

Vacancy Rate by Submarket

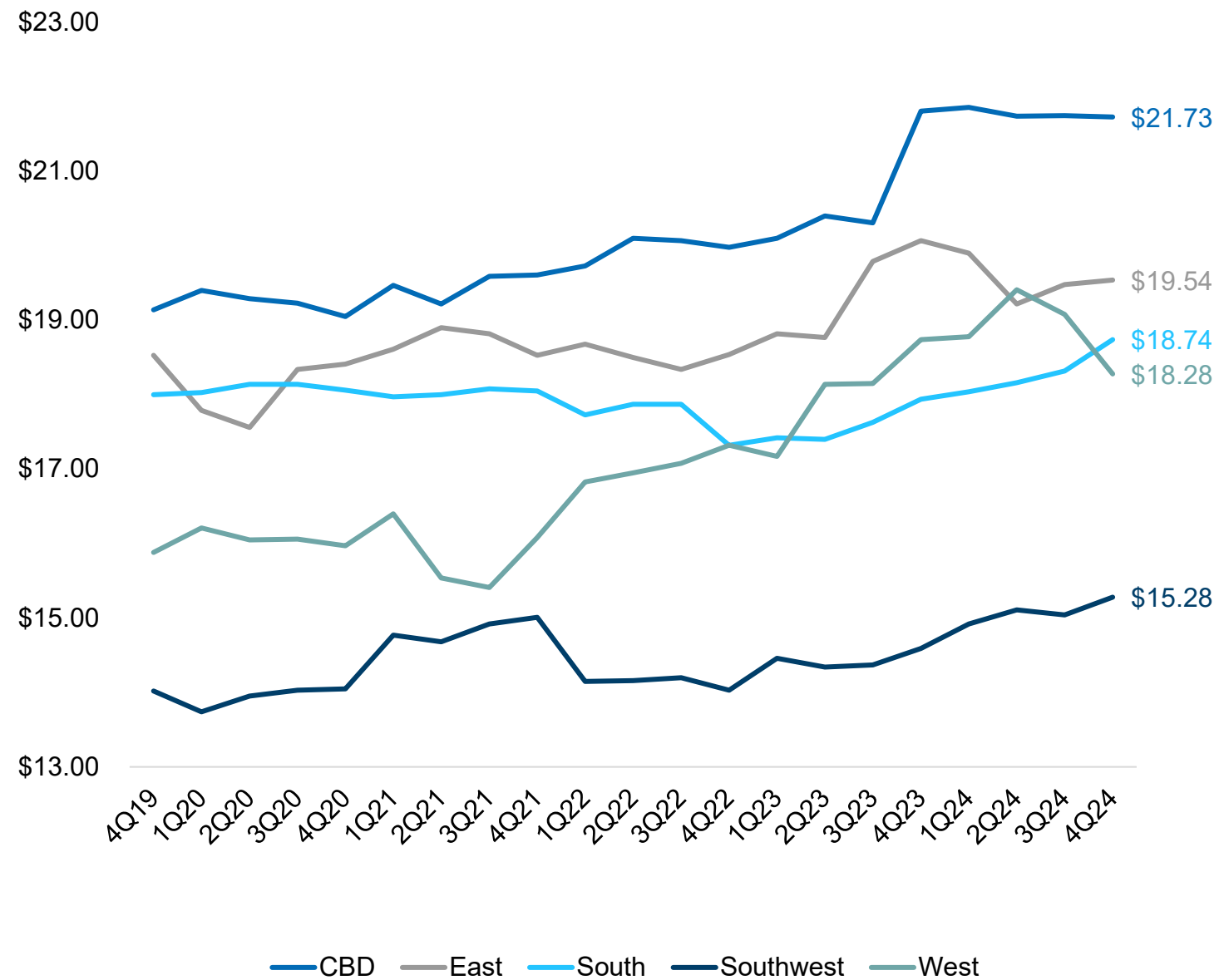


Source: Newmark Research

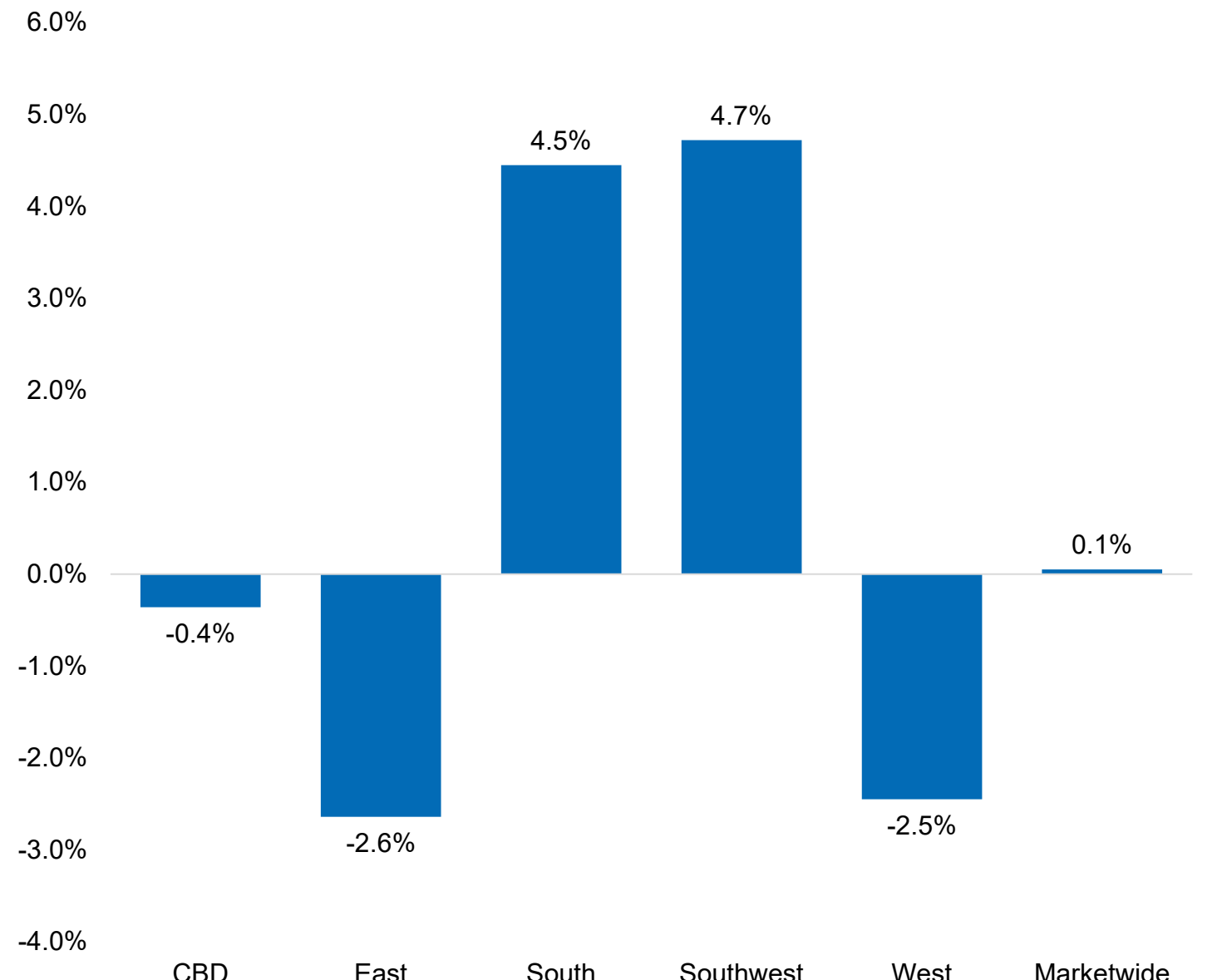
Two of Five Submarket Asking Rents Up Year Over Year (Supplemental Slide)

Just two of the five Cleveland office market's submarkets experienced an uptick in average asking rental rates year over year in the fourth quarter. The Southwest submarket had the largest gain from the previous year at 4.7%, while the South was just behind with a 4.5% increase year over year. The East submarket's asking rental rate had the largest decline year over year since the fourth quarter of 2023, at negative 2.6%, while the Cleveland office market overall had just a 0.1% jump in asking rent year over year.

Asking Rent by Submarket



Year-Over-Year Percent Change in Asking Rate



Source: Newmark Research

4Q24

Appendix



Submarket Overview (Supplemental Slide)

The Central Business District

The Central Business District (CBD) generated 2,401 SF of negative absorption in the fourth quarter of 2024. The occupancy loss for the quarter did not impact the CBD's vacancy rate of 24.1%, the second-highest vacancy of the submarkets. For the year 2024, the CBD gave back a total of 22,416 SF, the third most of any submarket. The overall asking rent in the CBD was \$21.73/SF, the highest average in the market despite a \$0.02/SF drop from the previous quarter. The Class A average asking rent in the CBD ended the year at \$25.78/SF, while the Class B asking rent was \$17.94/SF.

Suburban Submarkets

The East submarket's vacancy rate decreased by 70 basis points to 26.2% this past quarter yet remained the highest of all submarkets. Absorption-wise, the East netted 90,608 SF in positive absorption, the largest net occupancy gain for all submarkets in the fourth quarter. However, for the past year the East accrued a negative absorption total of 318,800 SF, the most space given up in 2024 for any submarket. The average asking rental rate in the East was \$19.54/SF in the fourth quarter of 2024, up \$0.06/SF from the previous quarter. The suburban submarket with the highest average asking rent was the East, which was the second highest of all submarkets behind the CBD.

The South submarket had 70,968 SF of positive absorption, prompting a 110-basis-point vacancy rate decrease to 20.9% as the quarter ended. For 2024, the South gained a total of 174,278 SF, the second most of any submarket for the year. The overall asking rent in the South increased by \$0.42/SF from the third quarter to \$18.74/SF, representing the largest rate gain of any submarket in the fourth quarter.

Moving to the Southwest, this submarket lost 41,469 SF of space in the fourth quarter of 2024 and tallied a vacancy rate of 22.1%, which was up 280 basis points from the previous quarter. With the lowest inventory of any submarket, the Southwest is sensitive to absorption swings one way or the other. For the year, the Southwest gave back 42,329 SF. The Southwest's \$15.28/SF average asking rental rate was the lowest of the submarkets, despite a \$0.24/SF increase from the third quarter.

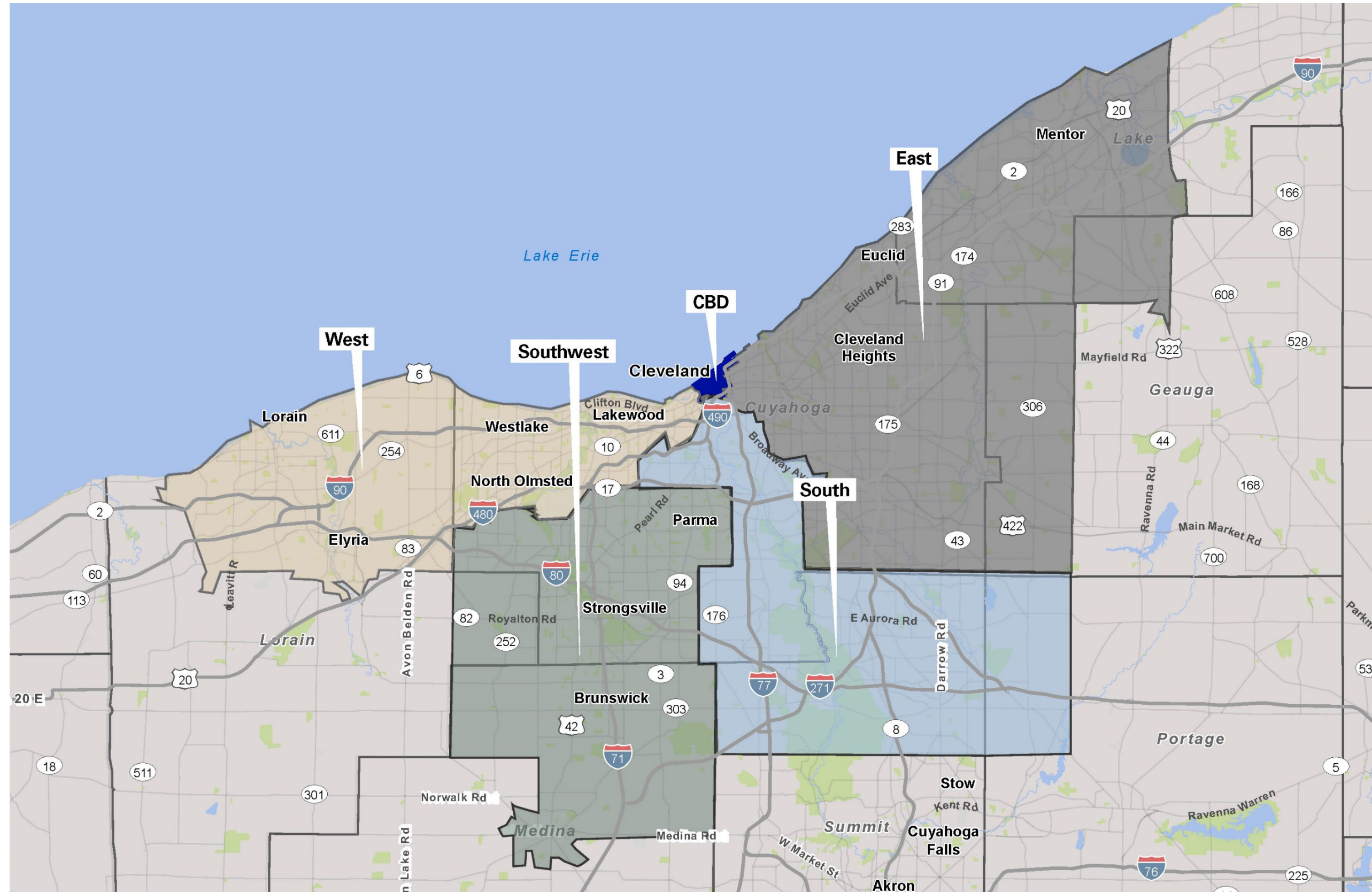
Nearby in the West submarket there was 42,622 SF of positive absorption, which decreased the vacancy rate to 11.7%, the lowest in the market. The West was one of two submarkets to have positive in absorption for the year at 347,972 SF, and it had the most space filled for the year. However, the asking rate in the West decreased from the third quarter by \$0.80/SF to \$18.28/SF.

Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr. Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
CBD Total	16,859,496	1,095,000	24.1%	(2,401)	(22,416)	\$25.78	\$17.94	\$21.73
East	10,330,937	-	26.2%	90,608	(318,800)	\$21.78	\$17.29	\$19.54
South	6,626,857	127,253	20.9%	70,968	174,278	\$20.76	\$15.92	\$18.74
Southwest	1,460,364	-	22.1%	(41,469)	(42,329)	\$16.33	\$14.77	\$15.28
West	4,043,447	-	11.7%	42,622	347,972	\$20.14	\$15.05	\$18.28
Suburban Total	22,461,605	127,253	21.7%	162,729	161,121	\$20.72	\$16.30	\$18.68
Totals	39,321,101	1,222,253	22.8%	160,328	138,705	\$22.76	\$16.99	\$19.96

Source: Newmark Research

Cleveland - Submarket Map (Supplemental Slide)



Additional Market Statistics (Supplemental Slide)

Office Statistical Summary

	Current Quarter	Prior Quarter	Year-Ago Period
Total Inventory (SF)	39.3M	39.4M	39.9M
Vacancy Rate	22.8%	23.1%	22.9%
Quarterly Net Absorption (SF)	160,328	80,806	298,946
Average Asking Rent/SF	\$19.96	\$19.97	\$19.95
Under Construction (SF)	1.2M	1.2M	1.2M
Deliveries (SF)	0	0	0

Select Cleveland Area Office Buildings Listed For Sale During 4Q24

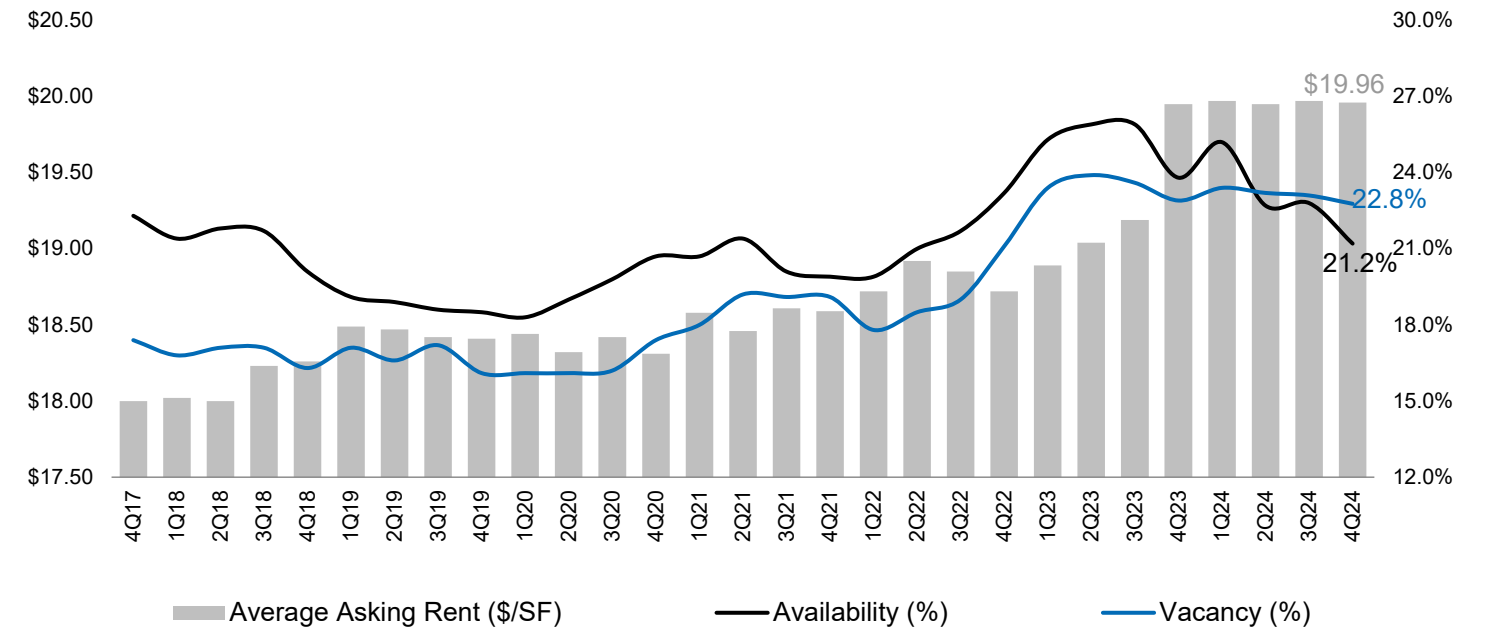
Building(s)	Submarket	Asking Price	Asking Price/SF	SF
7012 Euclid Ave. (part of a portfolio)	CBD	Not individually-priced	N/A	165,965
3711 Chester Ave.	CBD	\$8,700,000	\$86.66	100,395
2205, 2211, 2237 Crocker Rd. (Crocker Commons office portfolio)	West	\$20,000,000	\$201.77	99,122 (total SF)
25435 Harvard Rd.	East	Not disclosed	N/A	57,000
24200 Chagrin Blvd.	East	\$6,000,000	\$146.74	40,888

Largest Sublease Spaces Available as of 4Q24

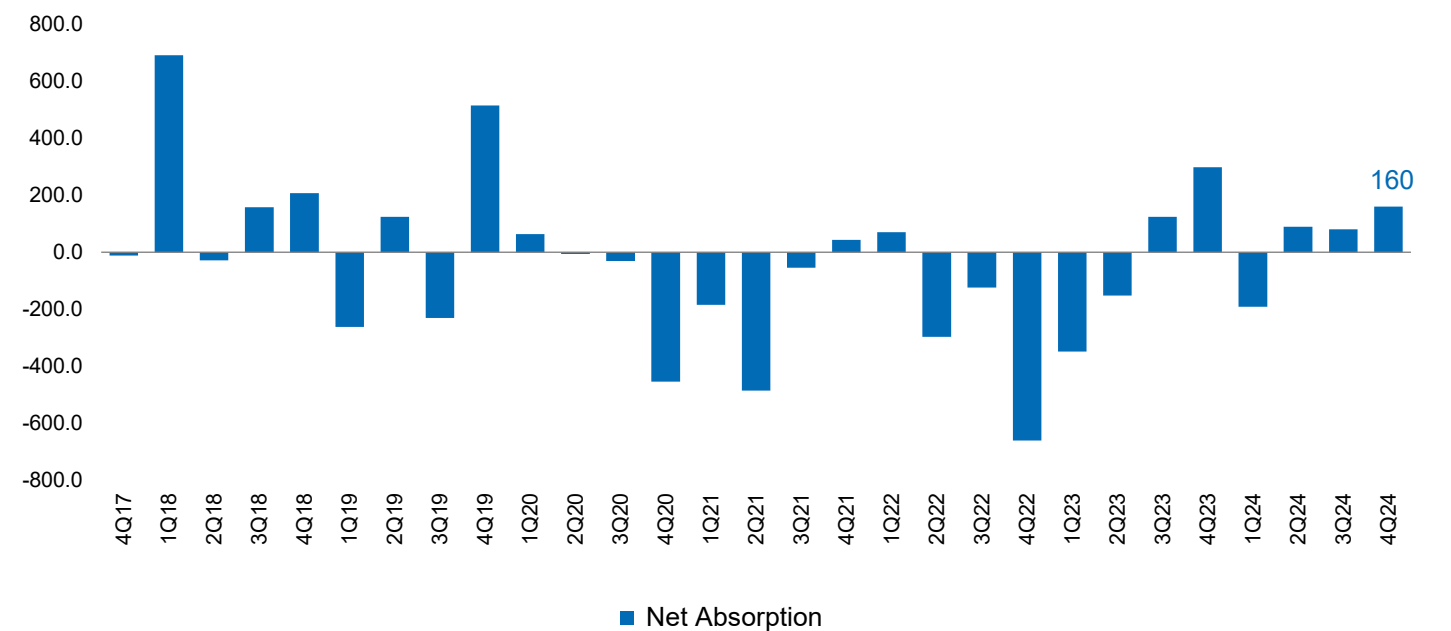
Building	Submarket	Asking Rent/SF/Yr.	Contiguous SF Available
7887 Hub Pkwy.	South	\$14.50/NNN	73,812
31500 Solon Rd.	East	\$17.00/FSG	53,690
127 Public Square	CBD	Unlisted	42,313
1621 Euclid Ave.	CBD	Unlisted	33,825
3900 Kinross Lakes Pkwy.	South	\$19.50/FSG	29,032
6085 Parkland Blvd.	East	\$16.00/FSG	26,638

Source: Newmark Research

Average Asking Rent, Availability and Vacancy by Quarter



Net Absorption by Quarter (Square Feet, Thousands)



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