

MARKETBEAT

Cleveland, OH

Office Q2 2019



CLEVELAND OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Cleveland Employment	1,067k	1,082k	▲
Cleveland Unemployment	5.1%	4.5%	▼
U.S. Unemployment	3.9%	3.5%	■

Numbers above are quarterly averages

Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	13.2%	6.7%	▼
YTD Net Absorption (sf)	16.1M	238k	▼
Under Construction (sf)	108.5M	389k	▼
Average Asking Rent*	\$17.50	\$17.59	▲

*Rental rates reflect gross asking \$psf/year. Numbers are different from national report.

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic

Northeast Ohio's economy grew modestly, with strong improvement to business demand. Professional and business services was the fastest growing economic sector in the second quarter, while manufacturing declined slightly. Total payroll employment in the area grew in May by 1.3% year-over-year. Demand for construction and commercial real estate remained strong, and consumer confidence in the region remains high. Cleveland employment numbers continue to climb, as unemployment remains at historic lows.

Market Overview

Market conditions were stable in Q2 throughout Northeast Ohio, with only modest changes to asking rates and vacancy rates. Overall vacancy rates are down to just 6.7%, while average asking rates have climbed to \$17.59/sf. The most active submarkets continue to be the CBD and East, each with major transactions this quarter. 1020 Bolivar transferred to Somera Road, signaling yet another large redevelopment project in the works that will yield more office supply to match increased demand. Large-scale speculative projects including NuCLEus, Market Square, and the Centennial are all on track to break ground by the year's end. In the east, Paychex absorbed 50,000 SF at the new-to-market 23000 Millcreek, which was vacated by PNC when the building was sold just last quarter.

Outlook

Expect the most dynamic changes in the market will be in the CBD, as several high-profile speculative office developments are scheduled to all break ground this fiscal year, and suburban companies continue to look downtown to entice the millennial workforce. The significant increase to supply in the Class A market should shake things up, with several large tenants slated to relocate, which may have a domino effect on the class A/B market. Expect suburban markets to see less growth in rental rates and stable vacancy rates than in the CBD. The rising costs of construction will continue to hurt landlords, as tenant improvement dollars will need to increase in order to draw tenants to renovate or build out new space. There is a continued expectation that large-scale co-working spaces to arrive in Cleveland, as that remains a relatively untapped market as compared to similarly sized Midwest cities.

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SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	31,721,272	2,958,288	58,934	9.5%	-115,412	-141,481	16,043	0	\$20.02	\$23.75
Akron	27,800,654	1,217,052	19,946	4.6%	-59,763	122,247	22,152	19,009	\$15.52	\$20.93
Chagrin, East & Lander	14,057,301	739,687	3,037	5.3%	-270	-6,468	45,917	0	\$21.17	\$25.34
Stark County	12,454,624	608,213	13,648	5.0%	33,302	63,310	21,326	100,000	\$14.49	\$15.31
Rockside & South	9,700,536	1,007,730	17,341	10.6%	24,059	-114,022	26,089	0	\$18.70	\$20.77
West	9,035,454	572,995	7,879	6.4%	10,549	-33,584	53,843	174,709	\$16.23	\$18.24
Southwest	8,786,616	688,184	1,333	7.8%	-55,497	-11,511	8,165	0	\$15.28	\$21.23
Northeast & Lake County	8,941,868	679,581	4,237	7.6%	-48,385	-54,360	23,993	53,200	\$15.90	\$26.00
Midtown	7,613,773	337,199	25,337	4.4%	17,842	29,112	9,626	0	\$17.73	\$22.39
Lorain County	5,828,495	167,665	0	2.9%	242,482	243,435	13,884	13,850	\$15.39	\$22.52
Fairlawn & Montrose	4,202,127	388,572	0	9.2%	-9,174	2,015	12,677	0	\$17.11	\$21.48
Portage & Geauga	4,192,100	130,526	1,375	3.1%	5,189	54,179	1,792	0	\$17.63	\$23.77
Southeast	3,926,234	253,769	5,209	6.6%	-65,786	-24,505	76,512	0	\$17.50	\$16.28
Medina	3,161,644	148,136	0	4.7%	-3,171	22,966	23,559	30,800	\$14.14	\$11.87
CLEVELAND TOTALS**	151,422,698	9,897,597	158,276	6.3%	-24,035	151,333	355,578	391,568	\$16.92	\$20.71

*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	29,790,298	2,472,779	67,925	8.5%	32,960	-80,218	76,899	249,000	\$22.28	\$21.97
Class B	77,467,769	5,686,201	52,299	7.4%	173,623	318,034	232,300	142,568	\$17.07	\$17.08
Class C	44,164,631	1,798,380	33,049	4.2%	-230,618	-86,483	46,379	0	\$14.52	\$14.50

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
23000 Millcreek Blvd, Highland Hills OH	50,000	Paychex	New	Southwest
31500 Bainbridge Rd, Solon OH	31,200	Swagelok	New	East
950 Main Avenue, Ste 650, Cleveland, OH	26,719	AON Services Corporation	New	CBD
100 Saint Clair Ave NE, Cleveland, OH	16,385	Trico	New	CBD
3634 Euclid Ave, Ste 100, Cleveland, OH	15,165	NewBridge	New	CBD

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
1020 Bolivar Road, Cleveland, OH	144,676	Frangos Group / Somera Road Inc	\$10,350,000 / \$72	CBD
6900 Pearl Road, Middleburg Heights, OH	30,000	Pearl Professional Building / Montecito Medical	\$9,485,000 / \$316	Southwest
303 Chestnut Commons Drive, Elyria, OH	40,000	Welltower Inc. / CNL Healthcare Properties	\$5,547,312 / \$138	West
21111 Chagrin Blvd, Beachwood, OH	32,083	Trimont Real Estate Advisors /Cuyahoga County	\$1,173,334 / \$37	East

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**Numbers are different from national report.