



CLEVELAND 1Q17 OFFICE MARKET

KEY TOWER SALE HIGHLIGHTS START OF 2017

Demand for office space in the Greater Cleveland office market remained strong as 2016 wound down and transitioned into the first quarter of 2017. After netting a healthy amount of positive absorption in the fourth quarter of 2016, the office market continued that trend by posting 275,957 square feet of positive net absorption. This positive absorption dropped the overall vacancy rate by 80 basis points from the previous quarter to 16.5% for all office properties.

Leading the way for the second consecutive quarter in terms of absorption was the Central Business District, which recorded 212,123 square feet in positive net absorption. This occupancy increase dropped the CBD's vacancy rate by two basis points to 19.7%. A majority of the CBD's occupancy gains came by way of Dealer Tire's highly anticipated move into its newly renovated, 166,000-square-foot Victory Innovation Center headquarters located at 7012 Euclid Avenue. The CBD's positive absorption and tightening vacancy coincided with an increase in the submarket's average asking rent, which sits at \$18.83/SF, up \$0.52/SF from fourth-quarter 2016. The Class A average asking rent in the CBD increased by \$0.28/SF, coming in at \$22.00/SF.

VACANCY DOWN, ASKING RENTS UP

Despite the healthy market activity, first-quarter 2017 was highlighted by a "key" CBD office building sale, as one of downtown Cleveland's most prominent office buildings, Key Tower, transferred to locally-owned Millennia Companies of Valley View along with an attached Marriott Hotel and parking garage for \$267.5 million, or \$202/SF, in late January. The 1.3 million-square-foot, skyline-defining trophy building and complex at 127 Public Square was put on the market in 2015. Millennia also announced plans for multi-million-dollar renovations to the property, which are reported to include lobby upgrades, changes to the building's landscaping/exterior plaza and hotel improvements.

News of this sale was followed shortly thereafter by two significant lease signings for Key Tower: a 147,795-square-foot lease by Forest City Realty Trust (to commence in 2018) and Millennia's own 45,072-square-foot headquarters move to the tower in mid-2017. These two leases will drive the building's already high occupancy to near capacity once the tenants move in. Beyond contributing its share of positive absorption to the CBD's Class A submarket once the move occurs, the overall impact of the Forest City relocation from the Terminal Tower, located at 50 Public Square, to Key Tower remains to be seen. Many factors will ultimately play into the situation, including plans to convert Forest City's former space into apartments.

Current Conditions

- Overall vacancy tightens to 16.5%
- Asking rental rates tick back up
- Key Tower sale to Millennia closes for \$267.5 million
- Forest City commits to Key Tower as new HQ
- Dealer Tire occupies new Midtown HQ
- Potential Cleveland Police HQ move could impact not only CBD, but overall office market

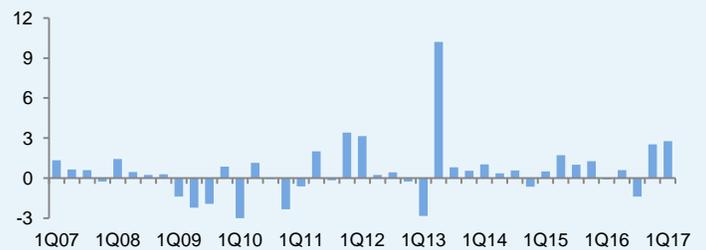
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Hundred Thousands



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	36MSF	39MSF	39MSF	↓
Vacancy Rate	16.5%	17.3%	17.5%	↓
Quarterly Net Absorption	275,957	253,993	-9,788	↔
Average Asking Rent	\$17.88	\$17.74	\$17.69	↑
Under Construction	47,000	47,000	47,000	↑
Deliveries	0	0	0	↑



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In March, news surfaced that the city of Cleveland intends to sell its police headquarters building to Cuyahoga County and move to 55 Public Square, also in the CBD. The sale and move will depend on whether the Cleveland City Council passes two ordinances and the Cuyahoga County Sheriff's Department agrees to provide jail services. If all goes through, and the Cleveland Police lease a reported 180,000 square feet at 55 Public Square, the area's overall Class B vacancy rate and the CBD's Class B vacancy rate will both decrease by at least 1%.

Suburbs Remain Steady and Positive

Moving from the CBD, positive absorption and tightening vacancy was present in all of the suburban submarkets except the Southwest. The smallest market in terms of inventory, the Southwest experienced 18,028 square feet of negative absorption during the first quarter of 2017, pushing vacancy up 130 basis points from the prior quarter to 22.5%.

Conversely, the East submarket's vacancy differential from last quarter to this quarter was the largest of all submarkets, as vacancy dropped 180 basis points to 12.5%. Despite netting only a modest 4,877 square feet of positive absorption, the East had the second-tightest vacancy in the area, behind the South. In addition, the East remained the second-largest submarket in terms of total inventory. At \$17.79/SF, the East submarket's average asking rent was down by \$0.08/SF from last quarter. A unique development in this submarket was the opening of a new dialysis center at 2429 Martin Luther King Boulevard. The 31,365-square-foot facility, named Cleveland Clinic East, is a joint venture between Cleveland Clinic, MetroHealth and Fresenius Kidney Care. The medical office building sold in fourth-quarter 2016 for \$10.74 million, or \$342/SF.

South Submarket Continues to See Action

The CBD and strong suburban office markets continue to provide a positive outlook for the remainder of 2017. In fact, the South submarket, which netted the second-largest amount of positive absorption this quarter at 63,541 square feet, just behind the CBD, remained the tightest submarket with a 9.8% vacancy rate. This marked a 160-basis-point drop in the vacancy from the previous quarter; only the East submarket experienced a larger decrease. Adding to the South's first-quarter action was the sale of the prominent 417,733-square-foot Park Center Plaza I-III office complex, located at 6050-6150 Oak Tree in Independence. The three-building portfolio traded from Five Mile Capital Partners to Park Center Plaza LP, a local investor group, for \$49.95 million, or \$120/SF. This sale, along with an announced hiring increase by Sterling Talent Solutions, now located at 4511 Rockside Road, added to the strength of the South submarket's Rockside Road office micro-market.

The overall suburban vacancy rate was 13.0%, 120 basis points lower than last quarter. The West submarket's vacancy remained below 20% with a first-quarter 2017 vacancy of 15.1%, also down from last quarter, though at a smaller margin than the East and South by 20 basis points.

Although overall asking market rents increased \$0.14/SF from the prior quarter to \$17.88/SF, each of the submarkets saw a slight decrease except for the CBD. The South submarket's overall asking rent matched the market as a whole, but was down \$0.33/SF from fourth-quarter 2016 to \$17.88/SF. The West's overall asking rent was down \$0.12/SF to \$13.70/SF from the prior quarter, despite a \$0.10/SF increase in Class A asking rent to \$17.03/SF.

Class A asking rent was highest in the CBD at \$22.00/SF, although the East's Class A asking rent of \$21.43/SF was not far behind.

Select Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Forest City	127 Public Square	CBD	Direct	147,795
Millennia Companies	127 Public Square	CBD	Direct	45,072
FormFire, LLC	1100 Superior Ave.	CBD	Direct	13,349
Blue Chip Consulting	6000 Lombardo Center	South	Direct	11,933
Verantis Corporation	7251 Engle Rd.	Southwest	Renewal	9,533

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Key Center/127 Public Sq. (portfolio)	CBD	\$267,500,000	\$202	1,321,000
Park Center I-III (6050-6150 Oak Tree)	South	\$49,950,000	\$120	417,733
1273-1275 West 9th St.	CBD	\$850,000	\$42	20,330


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Submarket Statistics

	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	18,810,902	0	19.7 %	212,123	212,123	\$22.00	\$17.76	\$18.83
East	7,424,903	47,000	12.5 %	4,877	4,877	\$21.43	\$16.62	\$17.79
South	5,085,153	0	9.8%	63,541	63,541	\$19.87	\$16.58	\$17.88
Southwest	1,431,560	0	22.5%	-18,028	-18,028	\$16.44	\$14.10	\$14.88
West	3,378,880	0	15.1%	13,444	13,444	\$17.03	\$13.19	\$13.70
Suburban Total	17,320,496	47,000	13.0%	63,834	63,834	\$19.34	\$15.59	\$16.66
Market	36,131,398	47,000	16.5%	275,957	275,957	\$20.79	\$16.83	\$17.88



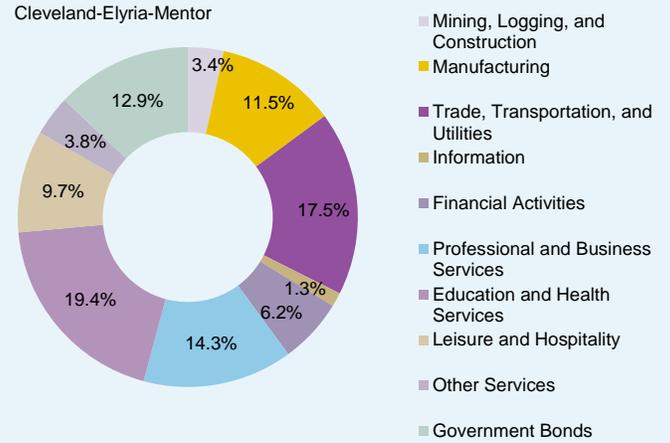
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ECONOMIC CONDITIONS

Greater Cleveland's year-over-year growth in payroll employment dipped each month from November 2016 to January 2017. November saw a 12-month increase of 0.5%, while December and January tallied increases of 0.4% and 0.1%, respectively. Preliminary numbers from February 2017 indicate a possible rebound. Even so, the current payroll employment percentage gap of 1.5% between the Cleveland area and the United States represents the largest difference (along with December of 2014) in five years.

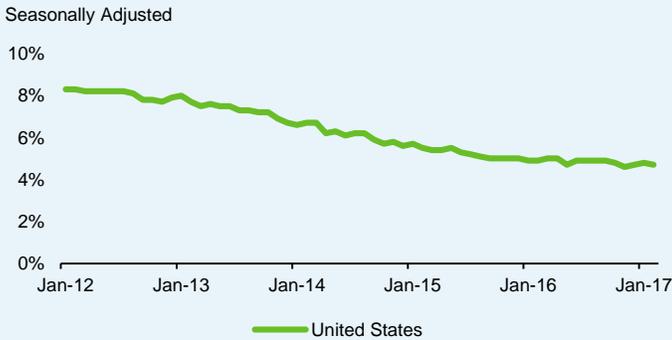
January's Employment Growth by Industry numbers show that the total nonfarm 12-month change was just 0.1% despite six of 10 industries posting positive employment gains from the prior year. The manufacturing sector experienced the largest loss in growth at negative 2.5%, followed by the leisure and hospitality sector at negative 1.6%. Conversely, the biggest gains in employment since 2016 were in the education and health services sector at 2.9%, followed by the financial activities sector at 1.9% and the other services sector at 1.8%.

Employment By Industry



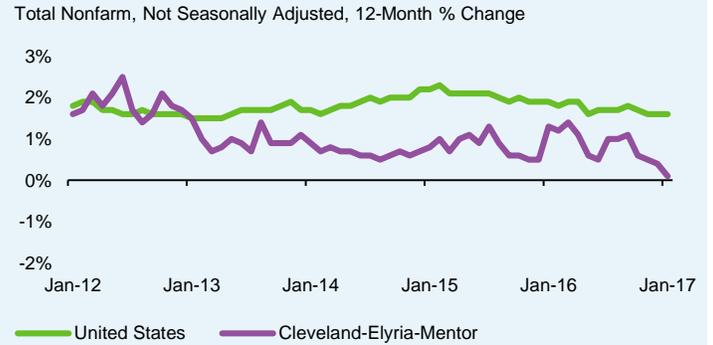
Source: U.S. Bureau of Labor Statistics

Unemployment Rate



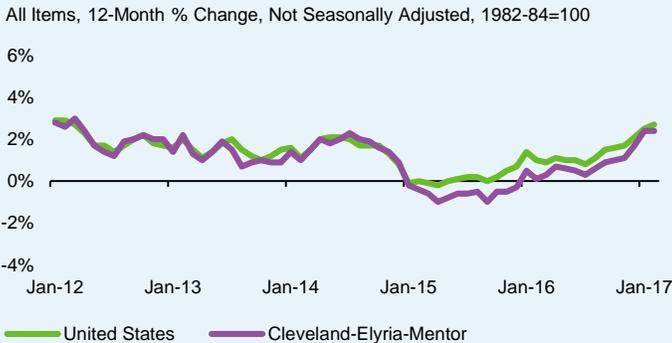
Source: U.S. Bureau of Labor Statistics

Payroll Employment



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry



Source: U.S. Bureau of Labor Statistics



Cleveland

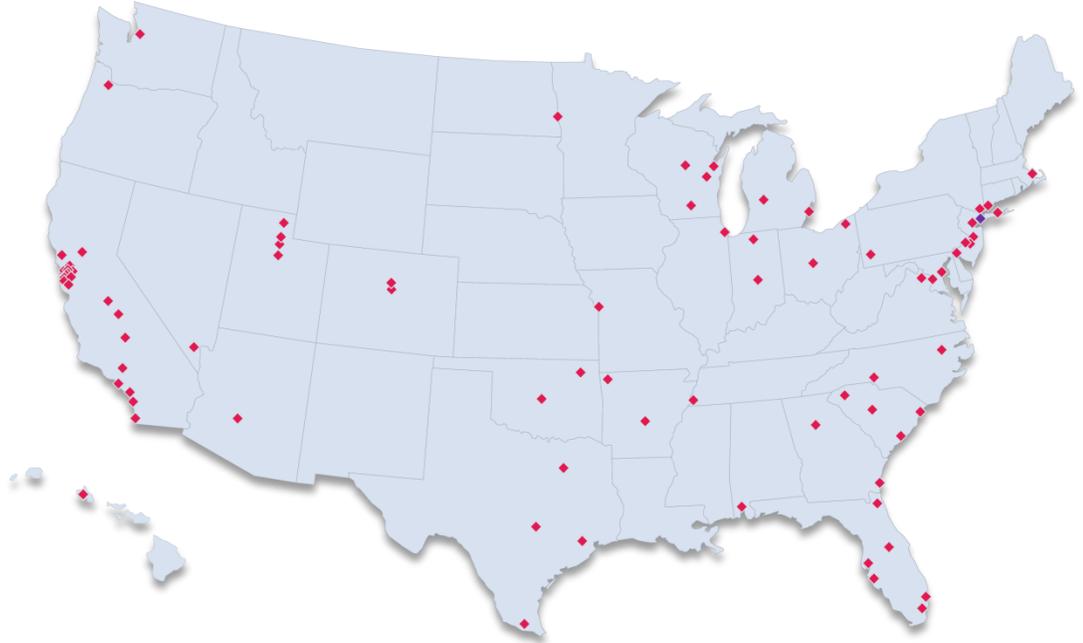
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