

CLEVELAND
1Q18 OFFICE MARKET

VACANCY DOWN AS CBD
PACES STEADY MARKET

The Greater Cleveland office market started 2018 on solid footing, as a modest amount of net positive absorption during the first quarter resulted in a decrease of the overall vacancy rate to 16.1%, a drop of 60 basis points from the fourth quarter of 2017. This marked the inventory's lowest number since the second quarter of 2001, when the vacancy rate stood at 16.0%. The market absorbed a total of 10,458 square feet in the first quarter of 2018, with very high demand for office space in the Central Business District offsetting the suburban submarkets' negative absorption. However, this positive absorption did not translate into higher overall average asking rent, which dipped by \$0.54/SF since fourth-quarter 2017 to \$17.67/SF. In fact, Class B asking rental rates decreased in all of the submarkets, except for the Central Business District and the West. However, Class A properties within the CBD and East submarkets kept the overall market steady, as evidenced by rising asking rents and positive absorption in those sectors. With the anticipated delivery of new inventory in the East and CBD later this year, signs point to a normalized and solid market as 2018 continues.

The CBD paced the market with 192,554 square feet of positive net absorption during the first quarter. This generated an overall CBD vacancy rate of 19.2%. When factoring in tracking methodology modifications, this amounted to the equivalent of a 110-basis-point-drop from the previous quarter. Class B asking rents in the CBD increased by \$0.17/SF from the previous quarter, coming in at \$18.61/SF. This increase combined with a Class A increase of \$0.35/SF from fourth-quarter 2017 to \$21.99/SF, prompted the overall asking rent in the CBD to increase \$0.15/SF to \$18.91/SF.

In the CBD, MidTown's Link59, located at 5900 Euclid Avenue, made news again. Growth Opportunity Partners, a nonprofit that is now exiting its startup phase, signed a 5,600-square-foot lease that is due to commence in the second quarter. The company will relocate from its incubator space at 6701 Carnegie Avenue. Another long-awaited MidTown project, the MidTown Tech Hive, opened in March, as the 15,000-square-foot cooperative flexible office initiative began operations in the historic Frost Building at 6815 Euclid Avenue.

Electronic Merchant Systems, a prominent payment and financial services firm, announced in the first quarter that it plans to move from the South submarket to 48,433 square feet in the CBD's 250 West Huron building by the middle of the year. The company will join the Cleveland Cavaliers, which leased 29,946 square feet in this building for its corporate offices during the renovation of Quicken Loans Arena. Another CBD move saw financial firm Boyd Watterson sign a 20,300-square-foot lease at the Tower at Erievue, located at 1301 East Ninth Street.

Current Conditions

- Overall 16.1% vacancy down to lowest level since 2Q01
- Overall asking rental rate dipped to \$17.67/SF
- Class A asking rental rates up dramatically in the CBD and East Submarkets; East climbs to over \$23.00/SF
- CBD again leads the pack in absorption – the only net positive submarket for the quarter
- Several smaller property sales took place, but none notable

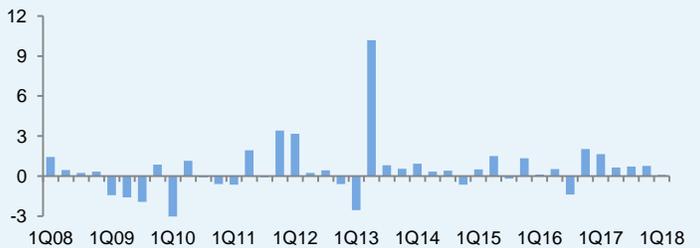
Market Analysis

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	36MSF	39MSF	↑
Vacancy Rate	16.1%	16.7%	16.7%	↓
Quarterly Net Absorption	10,458	77,506	164,505	↔
Average Asking Rent	\$17.67	\$18.21	\$17.88	↑
Under Construction	352,575	277,575	47,000	↑
Deliveries	0	47,000	0	↑

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The first quarter was quiet in terms of high-profile sales in the CBD and across the entire market. However, the CBD did see a couple more noteworthy leases, as the Cuyahoga Land Bank announced a 13,000-square-foot lease at the Caxton Building, located at 812 Huron Road, in a cross-town move from its current space at 323 Lakeside Avenue planned for the second quarter. The Western Reserve Agency on Aging announced in early 2018 a planned third-quarter move from its longtime home at 925 Euclid Avenue to 57,000 square feet of office space at the apartment-heavy mixed-use Reserve Square complex, located at 1701 East 12th Street. This noteworthy lease was signed as 2017 came to a close.

Submarkets Underperform

Rates finally steadied in the East, as the first-quarter average asking rental rate came in at \$18.14/SF, down \$0.31/SF from the previous quarter. However, average asking rental rates for Class A properties in the East increased by \$0.34/SF to \$23.20/SF, which eclipsed the CBD's Class A rate once again. Class B asking rental rates decreased by \$0.52/SF to \$16.38/SF, which caused the overall rate to be tempered. Overall, the East experienced a vacancy increase by 40 basis points to 12.3%, prompted by 88,097 square feet of negative absorption.

Pre-leasing continued at the Offices at Pinecrest, located at 100 and 200 Park Avenue in Orange Village, as law firm Amin, Turocy & Watson LLP announced plans to move from the CBD's Key Tower, 127 Public Square, to the forthcoming development in the second quarter via a 6,200-square-foot lease. Minc LLC, another law firm, also committed to Pinecrest with a 5,000-square-foot lease that will keep the firm in the East submarket after it exits 28601 Chagrin Boulevard later in the year.

The East submarket saw a key office building transfer at the very end of fourth-quarter 2017, as the prominent 462,000-square-foot Mayfield Heights Rockwell Automation Building, located at 1 Allen Bradley Drive, sold for \$52.0 million, or \$113/SF, to Mohr Capital.

The South submarket remained the tightest in the area, as its vacancy rate tallied 10.9% this past quarter. The submarket's average overall asking rental rate came in at \$16.09/SF for all classes. A notable sale took place in the South at the end of fourth-quarter 2017, as Corporate Plaza I & II, a pair of Independence office buildings that make up 226,498 square feet, transferred to a local investor group for \$23.4 million, or \$103/SF. The properties are located at 6450 and 6480 Rockside Woods Boulevard.

The Southwest continued to carry the highest vacancy rate of all the submarkets, and that rate increased by 210 basis points to 21.2%. The submarket's average asking rent decreased by \$0.57/SF to \$15.50/SF.

The West submarket's vacancy increased slightly in the first quarter to 15.0%, a 40-basis-point upturn from the fourth quarter. The West's overall asking rent decreased from the fourth quarter by \$0.25/SF to \$14.41/SF. The Class A vacancy rate in the West is at an area-low 6.5%, so the mid-March announcement of Equity Trust's planned development of two office buildings in Westlake should create new opportunities for interested companies. The buildings will total approximately 100,000 square feet in a very visible part of Westlake where Clemens Road, Crocker Road and I-90 converge.

The suburban submarkets all lost space in first-quarter 2018, collectively tallying 182,096 square feet in negative net absorption. However, the aforementioned 192,554 square feet of positive absorption by the CBD helped to bring the overall market back into positive territory.

The market's overall average asking rental rate over the last three years is \$17.81/SF for all classes. Interestingly, the overall average Class A asking rental rate of \$21.11/SF this past quarter was the highest it has been since third-quarter 2012, when it came in at \$21.75/SF.

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Select Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Electronic Merchant Systems	250 W. Huron Rd.	CBD	New	48,433
Cleveland Cavaliers	250 W. Huron Rd.	CBD	New	29,946
Boyd Watterson	1301 E. 9th St.	CBD	New	20,300
Dial America Marketing	7271 Engle Rd.	Southwest	Renewal	13,660
Cuyahoga Land Bank	812 Huron Rd.	CBD	New	13,000

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
1 Allen Bradley Dr.	East (late 4Q17)	\$52,000,000	\$113	462,000
6450 & 6480 Rockside Woods Blvd.	South (late 4Q17)	\$23,400,000	\$103	226,498
29125 Chagrin Blvd.	East	\$3,050,000	\$95	32,000
173 Lear Rd.	West	\$131,950	\$86	1,536
141 E. Aurora Rd.	South	\$256,500	\$80	3,200

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	18,099,460	61,575	19.2%	192,554	192,554	\$21.99	\$18.61	\$18.91
East	7,849,107	291,000	12.3%	(88,097)	(88,097)	\$23.20	\$16.38	\$18.14
South	6,008,548	0	10.9%	(50,777)	(50,777)	\$20.75	\$14.06	\$16.09
Southwest	1,431,560	0	21.2%	(29,759)	(29,759)	\$17.98	\$13.54	\$15.60
West	3,196,955	0	15.0%	(13,463)	(13,463)	\$16.84	\$13.85	\$14.41
Suburban Total	18,486,170	291,000	13.0%	(182,096)	(182,096)	\$20.39	\$14.74	\$16.44
Market	36,585,630	352,575	16.1%	10,458	10,458	\$21.11	\$16.69	\$17.67

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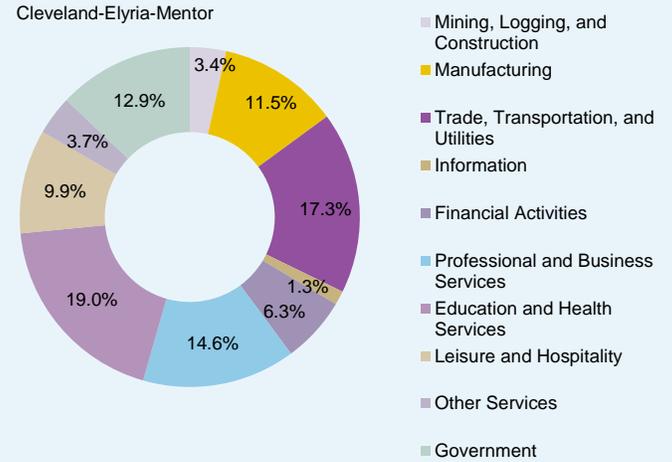
ECONOMIC CONDITIONS

The Greater Cleveland economy added a modest amount of jobs in the early part of first-quarter 2018, as total payroll employment grew in January by 0.1% year-over-year. Most of the gains are due to the uptick in hiring in the manufacturing and trade/transportation/utilities sectors. The manufacturing industry posted strong gains with 3.2% growth from 2017, followed by trade/transportation/utilities, which was up 1.0% year-over-year. The education and health services and government sectors were both up 0.1% from 2017.

On the other hand, the leisure and hospitality and mining, logging and construction sectors have contracted 2.7% and 2.5%, respectively, from 2017.

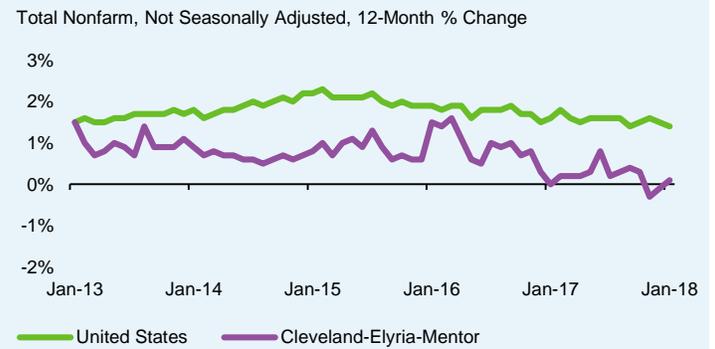
Turning to office-occupying sectors, financial activities posted 0.6% year-over-year growth. Conversely, the professional and business services sector and the information sector contracted 1.1% and 0.7% year-over-year, respectively.

Employment By Industry



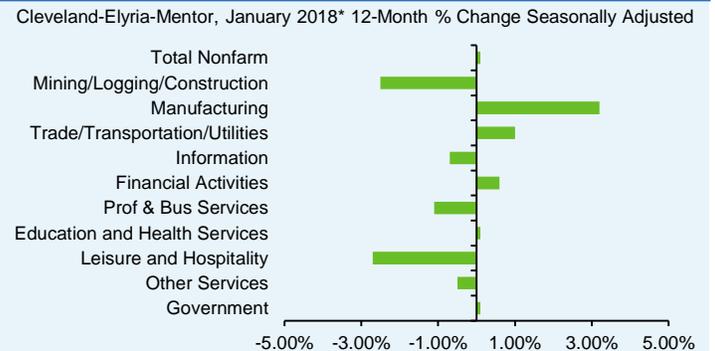
Source: U.S. Bureau of Labor Statistics

Payroll Employment



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry



Source: U.S. Bureau of Labor Statistics

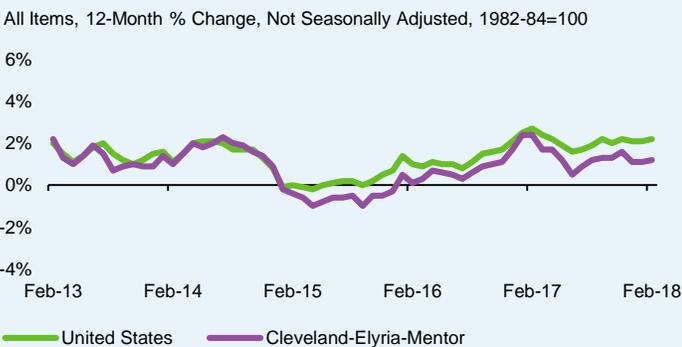
* Preliminary

Unemployment Rate



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)



Source: U.S. Bureau of Labor Statistics

Cleveland

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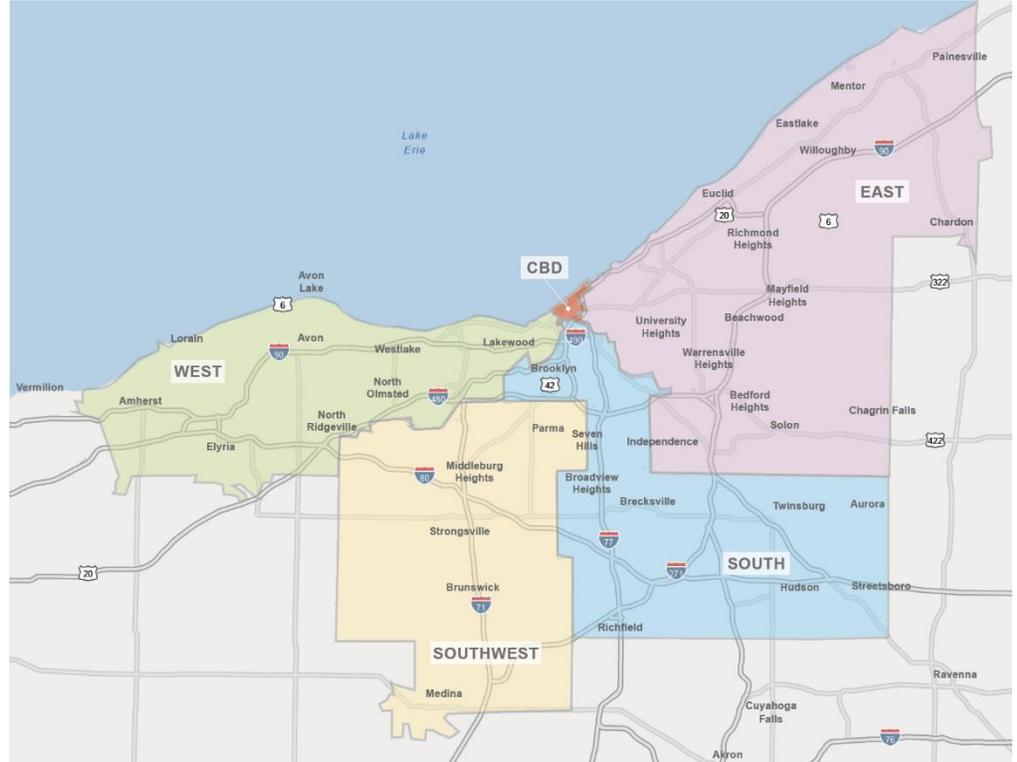
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Cleveland Office Submarkets



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