

MARKETBEAT CLEVELAND

Office Q1 2023



	YoY Chg	12-Mo. Forecast
8.0% Vacancy Rate	▲	▲
-598K Net Absorption, SF	▼	▼
\$19.78 Asking Rent, PSF	▼	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2023

	YoY Chg	12-Mo. Forecast
1.1M Cleveland Employment	▲	▲
4.3% Cleveland Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMY: Vacancy Trending Up and Rental Rates Trending Down:

The Q1 2023 state of the Cleveland office market shows a challenging period with an 8% vacancy rate, which has risen by 40 basis points (bps) compared to the previous quarter. Net absorption is concerning, with -597,646 square feet (sf), indicating a lack of office space being taken up by the market once it becomes vacant. Annual net absorption has sat in negative territory in Cleveland since 2019 and more than 1 million square feet (msf) of space was put back on the market in 2022 alone making it one of the weakest years for demand on record. Currently, there is 11,434,446 sf of direct vacant space available, of which 1,113,903 sf is accounted for by sublet vacant space. The average asking rental rate for all classes has dropped from \$19.84 per square feet (psf) to \$19.78 psf. This could be an indication that landlords may need to start accepting lower rates than expected sooner rather than later, this is not a great sign for an already hurting office market. Class A overall average asking rental rates are currently sitting at \$22.39 psf, which is a \$0.03 increase from the fourth quarter of 2022, aligning with increased construction costs seen across the United States. This trend highlights that if tenants want high-end finishes and upgraded space, they must be willing to pay a premium. Overall, the Cleveland office market faces challenges that may require innovative strategies to attract tenants and fill vacant spaces.

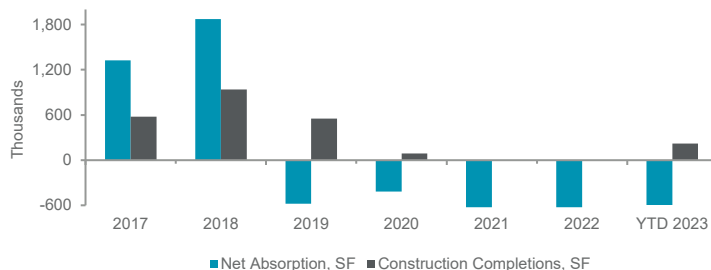
MARKET ACTIVITY: Improved Leasing Activity in Q1

Leasing activity totaled 481,532 sf for the first quarter of 2023. This is a significant improvement from the fourth quarter of 2022, where leasing volume totaled less than 300,000 sf, which was only half the average annual fourth quarter total in the three years prior to the pandemic. During the first quarter of 2023, two notable leases were signed in the Central Business District (CBD). Oracle America, Inc. leased 50,186 sf of space at 3121 Euclid Avenue, while Walter Haverfield leased 39,545 sf of space at 1500 West 3rd Street. These lease signings were a positive sign for Cleveland's CBD. A major sale in the first quarter of 2023 was Lakewood Center West located at 14650 Detroit Avenue. The building was sold to Brooklyn investor group Riverside abstract; according to the city, the plan is to do an office to apartment conversion on floors two-seven, with office space remaining on the first floor and basement. These office conversions seem to be a common theme among investors, due to a lack of rental supply and high demand for housing.

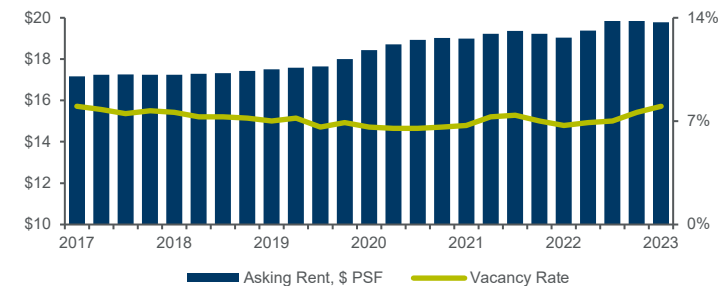
CHANGE IN OWNERSHIP: nuCLEus site taken over by Bedrock:

Bedrock Enterprises, owned by prominent entrepreneur Dan Gilbert, made a significant purchase in the first quarter of 2023. Bedrock acquired the former Nucleus site from Stark Enterprises for a total of \$26.2 million. The property spans 3.17 acres and was initially intended to become an innovative mixed-use development. Bedrock has announced plans to redevelop the site into high-end office, residential, and retail spaces. This redevelopment project is expected to contribute significantly to the revitalization of Cleveland's downtown area, as well as create hundreds of jobs. The transaction aligns with Bedrock's Cuyahoga Riverfront Master Plan, a 3.5 billion, 15–20-year vision. This purchase reflects Bedrock's commitment to Cleveland's revitalization and overall development.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
CBD	31,807,448	211,905	3,363,680	11.2%	-555,340	-555,340	154,529	1,003,000	\$20.35	\$21.42
Akron	27,317,729	353,087	1,868,807	8.1%	-197,201	-197,201	70,246	69,113	\$20.17	\$21.63
Chagrin, East & Lander	14,873,165	49,949	1,156,272	8.1%	-163,941	-163,941	49,360	97,846	\$24.18	\$26.67
Stark County	13,457,776	52,602	886,767	7.0%	101,535	101,535	18,112	-	\$15.98	\$23.09
Rockside & South	9,914,671	86,547	1,272,934	13.7%	5,798	5,798	49,725	725,000	\$19.03	\$21.59
West	10,242,257	265,205	575,389	8.2%	26,161	26,161	25,292	61,900	\$18.64	\$19.59
Southwest	10,102,691	6,768	660,337	6.6%	-21,685	-21,685	16,112	23,321	\$16.59	\$13.29
Northeast & Lake County	9,580,974	10,252	369,051	4.0%	19,477	19,477	17,313	45,000	\$18.57	\$34.77
Midtown	7,690,044	-	299,286	3.9%	-71,753	-71,753	15,538	50,000	\$21.72	\$24.86
Lorain County	6,532,222	-	177,412	2.7%	112,313	112,313	25,393	70,940	\$19.74	\$22.52
Fairlawn & Montrose	4,242,854	67,180	379,642	8.9%	-14,482	-14,482	24,577	32,727	\$21.34	\$22.67
Portage & Geauga	4,438,018	-	125,402	2.8%	-3,536	-3,536	1,880	-	\$17.10	-
Southeast	3,730,606	10,408	297,309	8.0%	93,334	93,334	11,231	-	\$19.10	\$21.37
Medina	3,461,238	-	79,746	2.3%	71,674	71,674	2,224	51,000	\$23.03	\$12.00
CLEVELAND TOTALS	157,391,693	1,113,903	11,434,446	8.0%	-597,646	-597,646	481,532	2,229,847	\$19.78	\$22.39

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	SF	LEASE TYPE
3121 Euclid Avenue	CBD	Oracle America, Inc.	50,186	Direct
1500 West 3 rd Street	CBD	Walter Haverfield	39,545	Direct
5885 Landerbrook Drive	Chagrin, East & Lander	Cedar Brook Financial Partners	18,850	Direct
8160 Norton Parkway	Northeast & Lake County	Burgess & Niple, Inc.	10,694	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2023

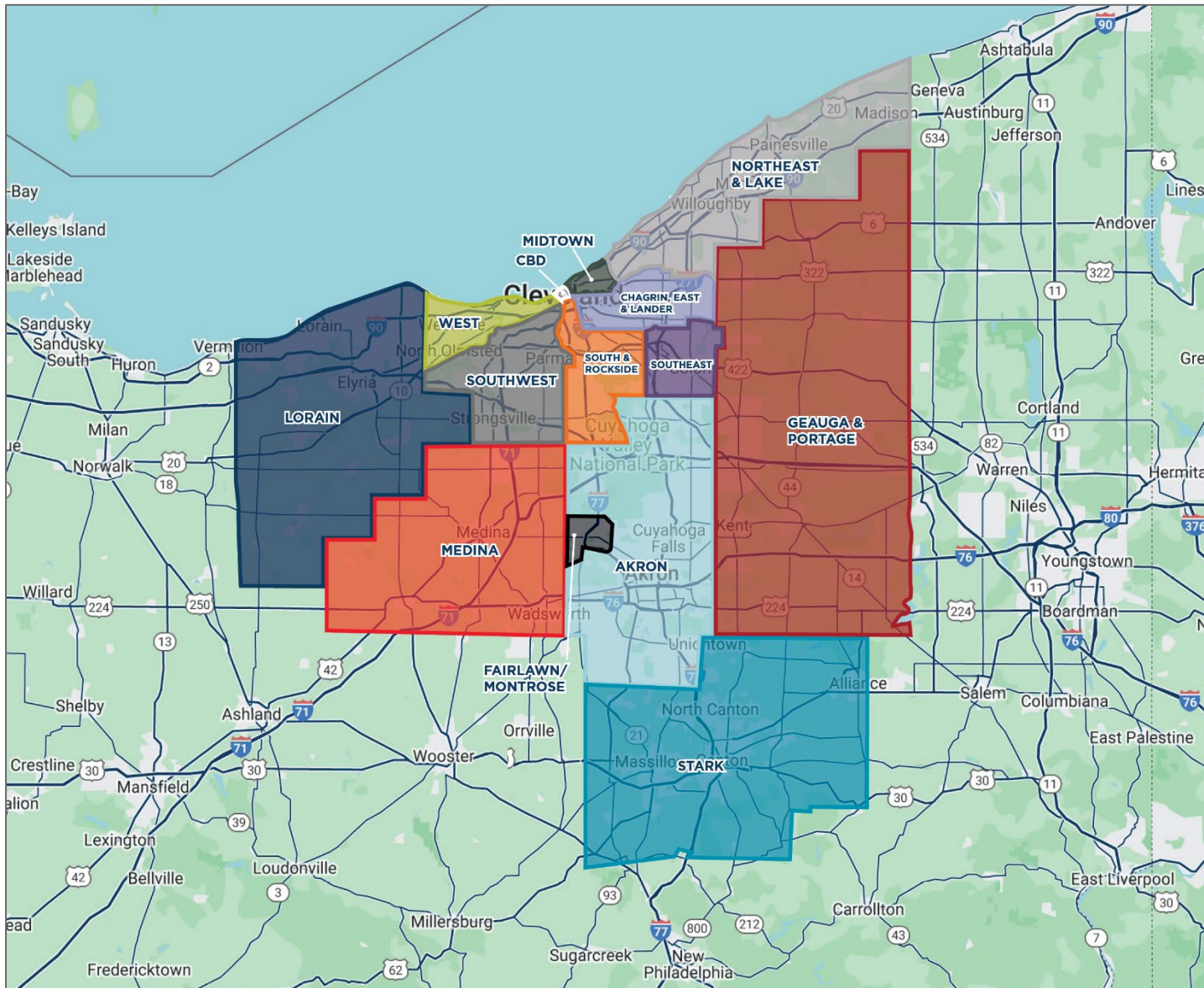
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
14650 Detroit Avenue	West	LCW Associates, Ltd. / Riverside Abstract	77,112	\$2.4M/\$31.12
11811 Shaker Boulevard	Chagrin, East & Lander	Shaker Square Area Development Association / Ogbonnaya Okoroafor	50,000	\$2.27M/\$45.32
1667 East 40th Street	Midtown	4403 Saint Clair Partners / Brownhoist Partners LLC	34,190	\$900K/\$26.32
16102 Chagrin Blvd	Chagrin, East & Lander	Moreland Neighborhood Properties Inc / MNP 16102 Chagrin LLC	8,652	\$785K/\$90.73

CLEVELAND

Office Q1 2023



OFFICE SUBMARKETS



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