

MARKETBEAT

Cleveland, OH

Office Q4 2017



CLEVELAND OFFICE

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Cleveland Employment	1,028k	1,030k	▲
Cleveland Unemployment	5.6%	5.8%	▲
U.S. Unemployment	4.7%	4.1%	▼

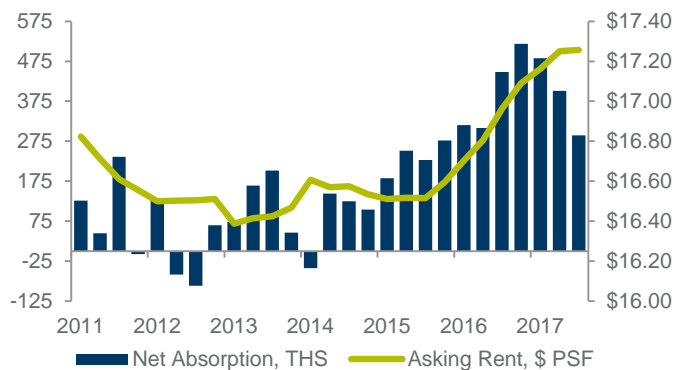
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	11.1%	9.6%	▼
YTD Net Absorption^ (sf)	581k	583k	▲
Under Construction (sf)	620k	1.6M	▲
Average Asking Rent**	\$17.30	\$17.23	▲

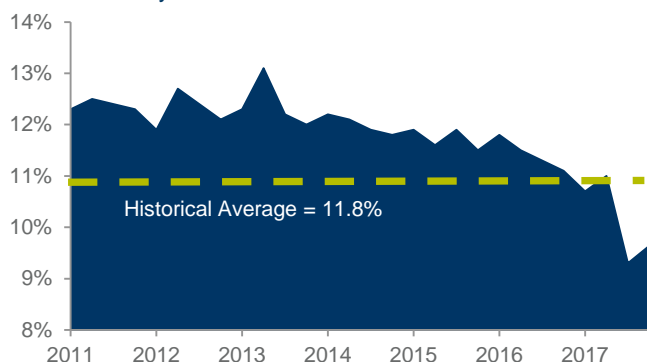
Market Indicators are not reflective of U.S. MarketBeat Tables
 **Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Business activity grew at a moderate pace in Northeast Ohio during the fourth quarter of 2017. Labor markets continued to tighten and challenges in attracting and retaining qualified workers contributed to wage pressure. Retailers saw a boost in brick-and-mortar traffic as new motor vehicle sales improved. Manufacturing output grew at a modest pace overall, but production at motor vehicle assembly plants trended lower. Non-financial services and freight transport firms saw moderate-to-strong gains in activity while homebuilders and realtors expressed concern about the impact of rising home prices on first-time buyers. Activity in commercial real estate remained elevated as the boost in hiring that began in the third quarter continued into the fourth, with the strongest activity found in construction and non-financial services sectors. Retailers reported a seasonal increase in payrolls, although attracting and retaining both high and low-skilled workers is a challenge across numerous industry sectors. A growing number of firms reported increasing wages more frequently or giving mid-year bonuses as a means of retention, with the strongest wage pressures found in the banking and retail sectors.

Market Overview

2017 was a strong year for commercial real estate across northeast Ohio, and the final quarter of the year displayed signs of continued growth as average asking rates ticked upwards. However, vacancy rates increased slightly, the result of new deliveries adding inventory to the office market. Despite slight negative absorption in the fourth quarter, year-end absorption figures remained strong and the CBD, East, and South submarkets were the most vibrant submarkets for leasing and sales activity. Apartment rents continued to trend moderately higher as developers explore converting obsolete office space into multi-family use.

Outlook

With rents continuing a gradual increase and new office construction introducing Class A assets to the market, we anticipate continued growth in the commercial real estate marketplace and a positive outlook for 2018. Bolstered by several years of modest-to-moderate growth across all submarkets, there is encouragement for occupiers and landlords to expand their businesses in Northeast Ohio. With low costs of living and a skilled workforce, Northeast Ohio is increasingly gaining recognition from companies outside the region as a dependable and value-driven place to do business.

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SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	32,156,268	4,904,914	47,274	15.4%	198,284	315,552	927,822	0	\$19.59	\$22.17
Akron	27,341,987	2,112,667	0	7.7%	-182,454	69,717	483,751	593,120	\$16.09	\$20.01
Chagrin, East & Lander	13,443,324	745,689	16,610	5.7%	-30,424	-42,834	317,320	432,184	\$20.59	\$22.52
Stark County	11,996,461	802,738	0	6.7%	46,665	180,144	171,405	0	\$14.10	\$18.00
Rockside & South	9,470,265	810,154	25,780	8.8%	-34,979	31,373	326,027	13,328	\$18.63	\$22.89
West	8,650,334	674,792	6,337	7.9%	14,648	-23,172	245,123	126,600	\$15.40	\$18.62
Southwest	8,701,896	610,346	93,767	8.1%	-76,292	-14,567	236,463	0	\$17.49	\$21.20
Northeast & Lake County	8,786,697	763,777	5,197	8.8%	27,560	32,332	297,275	0	\$15.90	\$25.00
Midtown	7,031,520	503,570	15,998	7.4%	31,041	76,963	177,315	10,000	\$15.22	\$22.39
Lorain County	5,690,919	554,601	0	9.7%	-37,679	14,269	63,521	173,482	\$12.01	n/a
Fairlawn & Montrose	4,070,705	380,689	1,804	9.4%	-21,818	-26,392	93,368	114,591	\$16.86	\$20.32
Portage & Geauga	4,112,066	247,861	0	6.0%	-15,054	50,265	209,093	0	\$16.35	\$23.77
Southeast	3,779,079	265,941	6,582	7.2%	-221	-42,918	80,816	145,000	\$16.71	\$16.69
Medina	3,072,331	190,814	0	6.2%	-36,930	-18,156	57,720	57,556	\$14.66	n/a
CLEVELAND TOTALS	148,303,852	13,568,553	219,349	9.3%	-117,653	866,204	3,687,019	1,665,861	\$17.24	\$21.18

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*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 NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	28,351,114	2,809,765	66,714	10.1%	-179,412	-33,970	941,237	1,275,246	\$21.26	\$21.18
Class B	75,332,350	8,283,339	47,517	11.1%	111,352	310,878	2,030,826	390,615	\$16.77	\$16.80
Class C	44,620,388	2,475,449	105,118	5.8%	-49,593	325,668	714,956	0	\$14.66	\$14.69

Key Lease Transactions Q4 2017

SF	TENANT	TRANSACTION TYPE	SUBMARKET
5900 Euclid Avenue	MCPc	New	CBD
26250 Euclid Avenue	Universal Electronics, Inc.	New	Northeast
2203 E Superior Avenue	Council for Economic Opportunity in Greater Cleveland	New	CBD
175 Montrose West	CESO, Inc.	New	Akron
1400 W 10th Street	Clinical Management Consultants, Inc.	New	CBD

Key Sales Transactions Q4 2017

SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
6450-6480 Rockside Woods Blvd, Independence, Ohio	Five Mile Capital Partners / Lee & Associates	\$24,000,000 / \$106	Rockside & South
1468 W 9th Street Cleveland, Ohio	Ferchill Group / WRB Partners LLC	\$6,750,000 / \$47	CBD
35000 Kaiser Ct. Willoughby, Ohio	Home Savings & Loan Co / Michael Downing Realty Ltd.	\$2,525,000 / \$53	East
3636 Euclid Avenue Cleveland, Ohio	Centimark Corp. / AM Higley	\$2,125,000 / \$83	CBD

Cushman & Wakefield |
CRESCO Real Estate
3 Summit Park Drive
Suite 200
crescorealestate.com

For more information, contact:
Bill Saltzman, SIOR, CCIM
Executive Vice President
Tel: +1 216 520 1200
bsaltzman@crescorealestate.com

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