

# MARKETBEAT

# Cleveland, OH

Office Q4 2018



## CLEVELAND OFFICE

### Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Cleveland Employment	1,058k	1,086k	▲
Cleveland Unemployment	5.4%	5.1%	▼
U.S. Unemployment	4.4%	3.9%	▼

Numbers above are quarterly averages

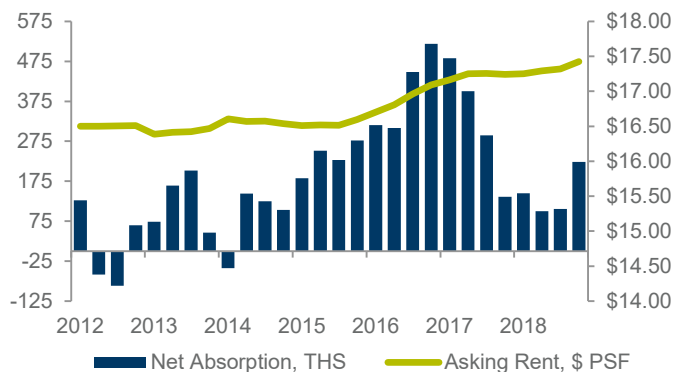
### Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	9.3%	8.2%	▼
YTD Net Absorption (sf)	306k	1027k	▲
Under Construction (sf)	1.5M	671k	▲
Average Asking Rent*	\$17.23	\$17.66	▲

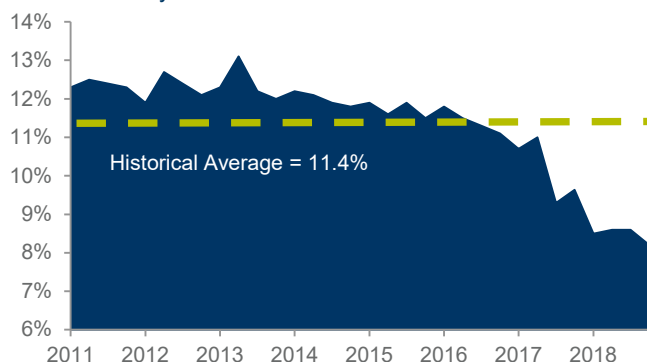
\*Rental rates reflect gross asking \$psf/year

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Vacancy



## Economic

Business activity in Northeast Ohio expanded at a modest pace in Q4 2018. Labor shortages continue to be detrimental to business growth across all major sectors, although the short supply of labor has resulted in increased wages for both temporary and full-time workers. Consumer demand also grew at a modest pace this quarter, as consumer confidence remains high throughout the region. Despite the labor shortage, market conditions for Northeast Ohio were strong in the fourth quarter.

## Market Overview

Fourth quarter 2018 was another strong quarter for the office market across northeast Ohio, with vacancy rates dropping to 8.2% and asking rates jumping up an average of \$17.66 per square foot (psf) gross. The quarter was headlined by 1111 Superior Avenue (587,442 square feet) selling to New York based Zamir Equities for \$55 Million (\$92 psf). Another notable transfer was 17800 Royalton Road in Strongsville, which sold to Foundation Software, fetching a price of \$7,500,000 (\$60 psf). Rental rates in both the CBD and the suburban markets continue to climb at a modest pace, and vacancy rates continue to drop. New Class A mixed-use development projects in the CBD are expected to add the needed supply to the market, headlined by Stark Enterprises' NuCLEus project (285,000 sf) and Harbor Bay's Market Plaza development (150,000 sf).

## Outlook

There is good reason to expect a strong beginning to 2019 in the office space sector. Expect the CBD to continue to lead the way with occupiers drawn to the revitalization of downtown and the rapidly increasing population of millennial workers. Expect suburban markets to see less growth in rental rates and stable vacancy rates. With new Class A office space set to deliver in 2019, there will be major moves amongst the top tier occupiers in Cleveland, as the blue chip companies located in Northeast Ohio will likely be drawn to the full amenity packages and new construction efficiencies in the upcoming mixed-use projects. Despite rising interest rates, increasing costs of goods, and a major shortage in the labor market slowing growth, consumer confidence remains high and the office market in Cleveland will continue to be the beneficiary of the current local and national market conditions.

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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	31,458,946	3,016,489	64,209	13.5%	97,348	529,142	193,255	0	\$20.06	\$22.15
Akron	27,659,557	2,546,824	6,046	5.3%	-95,335	325,130	155,474	62,500	\$15.96	\$18.70
Chagrin, East & Lander	13,839,607	848,494	12,450	6.2%	95,295	193,885	95,519	40,800	\$21.71	\$22.44
Stark County	12,242,600	720,518	0	5.9%	215,952	159,319	128,572	153,857	\$15.00	\$18.00
Rockside & South	9,538,473	901,885	12,384	9.6%	10,039	-104,224	106,067	0	\$18.57	\$21.66
West	8,950,147	630,249	13,687	7.2%	47,979	120,541	114,311	214,709	\$15.25	\$18.08
Southwest	8,841,791	884,926	65,047	10.7%	72,528	-257,123	80,618	0	\$16.78	\$20.63
Northeast & Lake County	8,854,494	629,861	2,225	7.1%	-7,192	25,787	118,083	54,200	\$15.83	\$25.00
Midtown	7,722,872	386,310	17,998	5.2%	7,855	111,634	84,368	100,000	\$18.77	\$22.39
Lorain County	5,801,710	434,133	0	7.5%	-1,204	100,506	42,168	2,925	\$12.53	n/a
Fairlawn & Montrose	4,167,878	425,958	1,804	10.3%	-52,746	-99,982	147,805	42,742	\$17.83	\$21.82
Portage & Geauga	4,189,842	182,261	0	4.4%	13,778	49,641	36,834	0	\$17.18	\$23.77
Southeast	3,950,839	253,832	6,582	6.6%	31,505	52,061	151,152	0	\$16.41	\$23.77
Medina	3,095,180	173,778	0	5.6%	1,731	959	51,355	0	\$14.86	n/a
<b>CLEVELAND TOTALS</b>	<b>150,313,936</b>	<b>12,035,518</b>	<b>202,432</b>	<b>8.20%</b>	<b>437,533</b>	<b>1,207,276</b>	<b>1,478,727</b>	<b>671,733</b>	<b>\$17.66</b>	<b>\$21.96</b>

\*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	29,871,187	2,643,939	50,683	9.0%	31,538	707,745	707,745	427,599	\$22.18	\$21.96
Class B	76,532,952	7,513,965	65,812	8.6%	293,792	419,865	308,433	244,134	\$16.86	\$16.86
Class C	43,909,797	1,877,614	85,937	4.5%	112,203	79,666	462,549	0	\$14.82	\$14.90

### Key Lease Transactions Q4 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
5005 Rockside Road	10,619	PS Professional Office Space	New	South
100 Park Avenue	10,763	Ridama Management, LLC	New	East
3401 Enterprise Pkwy Ste 250	12,000	TEP Management LLC	New	East
6200 Oak Tree Blvd	14,272	iHeart Media	New	South
4500 Courthouse	19,120	ACRT Services	New	South

### Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
1111 Superior Avenue, Cleveland, OH	597,442	American Landmark / Zamir Equities	\$55,000,000 / \$92	CBD
17800 Royalton Road, Strongsville, OH	125,000	Somera Road / Foundation Software	\$7,500,000 / \$60	Southwest
24651 Center Ridge Road, Westlake, OH	90,758	McKnight Property / Travel Centers of America	\$6,500,000 / \$72	West
1910 Carnegie Avenue, Cleveland, OH	33,000	Hemingway Development/Glickman Real Estate	\$4,570,000/ \$138	CBD

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