

MARKETBEAT

Cleveland, OH

Office Q3 2018



CLEVELAND OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Cleveland Employment	1,060k	1,080k	▲
Cleveland Unemployment	5.9%	5.2%	▲
U.S. Unemployment	4.4%	3.9%	▼

Numbers above are quarterly averages

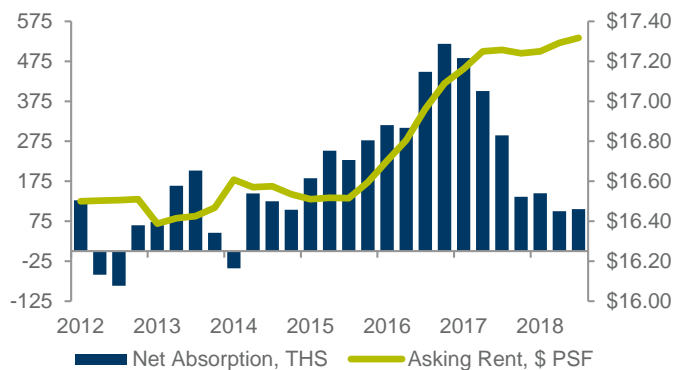
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	9.3%	8.6%	▼
YTD Net Absorption (sf)	306k	890k	▲
Under Construction (sf)	1.5M	1.2M	▲
Average Asking Rent*	\$17.23	\$17.31	▲

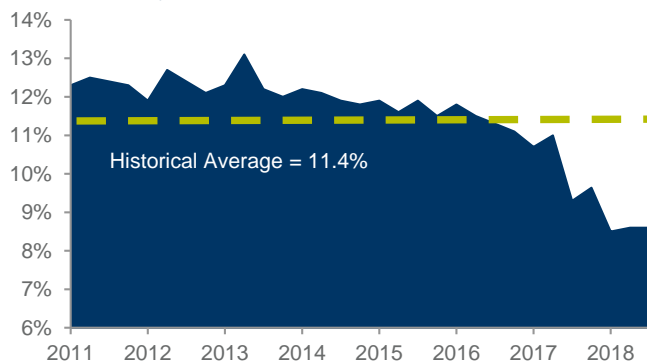
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic

Business activity in Northeast Ohio expanded at a moderate pace in Q3 2018. Demand was strong in many sectors, but the labor shortage limited business expansion. Despite rising wages across many sectors, businesses cannot keep up with the demand for products and services due to a lack of qualified workers. Supply costs have increased as well this quarter, particularly in construction materials and transportation. Despite the labor shortage and increasing costs of goods, market conditions for Northeast Ohio were strong.

Market Overview

Third quarter 2018 was a strong quarter for the office market across northeast Ohio, with several high-profile CBD sales, including 200 Public Square (1.27 million square feet) transferring to Scott Wolstein, and the Tower at Erieview and the Galleria (830,000 square feet) to local real estate developer James Kassouf. Rental rates in both the CBD and the suburban markets continue to climb, as vacancy rates drop to historic lows, particularly in downtown Cleveland. As a result of low office supply and increasing rents, two speculative developments were announced this quarter: Harbor Bay's mixed-use project on West 25th in Ohio City (estimated 183,000 square feet), and Scott Wolstein's phase three of the Flats East Bank (estimated 300,000 square feet). Both of these projects are slated to add more Class A office space to the market.

Outlook

We anticipate continued growth in the commercial real estate marketplace and have a positive outlook throughout the final quarter of 2018. The CBD will lead the way with occupiers drawn to the millennial workforce and continued revitalization of downtown Cleveland. Speculative development has returned to downtown Cleveland, with a handful of new speculative projects picking up steam. Real estate investors and developers are keeping a close eye on rising interest rates, though. As long as consumer confidence remains high and the national economy continues to flourish, expect continued positive growth across suburban and CBD markets.

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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	31,686,594	4,355,503	71,106	13.8%	190,007	190,007	36,449	0	\$19.73	\$22.15
Akron	27,251,868	1,448,879	8,546	5.3%	132,755	398,315	175,081	301,900	\$15.54	\$18.70
Chagrin, East & Lander	13,894,336	981,268	13,950	7.2%	-75,200	177,719	167,370	40,800	\$22.21	\$22.44
Stark County	12,023,304	726,205	12,384	6.1%	-75,912	-86,653	13,281	18,755	\$14.59	\$18.00
Rockside & South	9,518,434	937,071	12,914	9.8%	-8,337	-98,048	123,778	0	\$18.87	\$21.66
West	8,987,905	673,972	17,100	7.7%	103,867	178,555	89,204	89,000	\$15.28	\$18.08
Southwest	8,840,509	965,972	98,080	13.7%	-7,417	-329,969	49,790	0	\$15.36	\$20.63
Northeast & Lake County	8,836,743	642,368	2,100	7.3%	3,191	26782	80419	0	\$15.53	\$25.00
Midtown	7,098,117	405,771	17,998	6.0%	55,337	106389	89320	10,000	\$18.96	\$22.39
Lorain County	5,793,443	432,929	0	7.5%	51,203	100,660	27,219	2,925	\$12.35	n/a
Fairlawn & Montrose	4,164,580	373,212	1,804	9.0%	-12,498	-47,326	42,948	42,742	\$16.84	\$21.82
Portage & Geauga	4,242,514	216,863	0	5.1%	19,432	35,903	30,305	0	\$16.74	\$23.77
Southeast	4,095,750	221,731	6,582	8.0%	26,579	229,162	131,787	0	\$16.58	\$23.77
Medina	3,079,289	151,014	0	4.9%	-12,086	8,921	39,129	22,352	\$14.21	n/a
CLEVELAND TOTALS	149,504,837	12,556,383	262,564	8.6%	257,671	890,417	1,096,080	528,474	\$17.31	\$21.98

*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	30,044,169	4,315,254	57,590	15.3%	280,869	858,981	361,621	363,402	\$22.12	\$21.98
Class B	75,493,100	6,194,079	82,352	10.4%	81,376	-115,031	372,031	165,072	\$16.42	\$16.43
Class C	43,967,568	2,047,050	122,632	4.9%	-104,574	-70,310	362,428	0	\$14.32	\$14.40

Key Lease Transactions Q3 2018

1660 West 2 nd Street	51,810	Sherwin Williams	Renewal	CBD
6675 Parkland Boulevard	42,958	Oracle	New	East
100 Park Place	32,357	Philips Healthcare	New	East
925 Keynote Circle	11,402	Visiting Nurse Association	New	South
1250 Old River Road	9,867	Search Discovery	New	CBD

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
200 Public Square, Cleveland, OH	1,270,000	Harbor Group International / DRA Advisors	\$187,000,000 / \$147	CBD
1301 E 9 th Street, Cleveland, OH	760,339	RAIT Financial Trust / James Kassouf	\$16,722,4500 / \$21.99	CBD
1300 E 9 th Street, Cleveland, OH	575,000	Optima 1300 LLC / Rugby Realty	\$36,875,000 / \$64.13	CBD
5755 Granger Road, Independence, OH	90,000	Omni, LLC / HJB Holdings, LLC	\$2,800,000 / \$31.11	South

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