

Office Snapshot Q1 2016

Cleveland, OH



CLEVELAND OFFICE

Economic Indicators

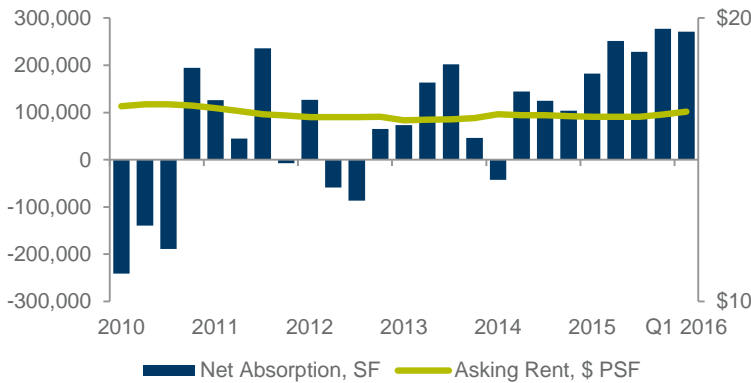
	Q1 15	Q1 16	12-Month Forecast
Cleveland Employment	1041k	1056k	▲
Cleveland Unemployment	5.6%	4.4%	▼
U.S. Unemployment	5.6%	4.9%	▼

Market Indicators

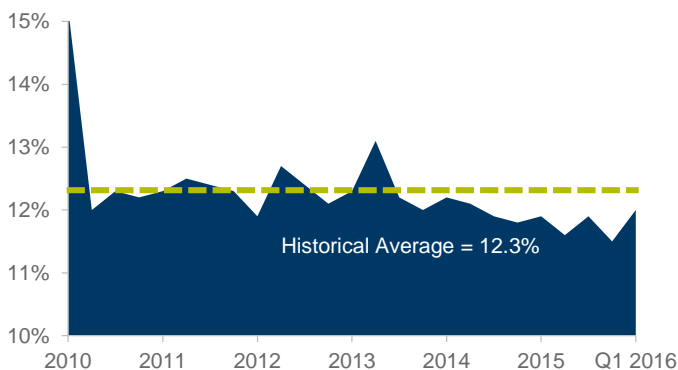
	Q1 15	Q1 16	12-Month Forecast
Overall Vacancy	11.9%	12.0%	▼
Net Absorption	243k	219k	▲
Under Construction	1,083k	795k	■
Overall Average Asking Rent	\$16.49	\$16.91	▲

Net Absorption/Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

Combined business activity in Northeast Ohio and the region covered by the Federal Reserve's Fourth District grew at a modest pace during the last quarter. Manufacturing output trended higher, the housing market improved with higher unit sales and prices. Contractors expect to see continued favorable results through 2016. Post-holiday retail activity from general merchandisers was mixed.

Commercial credit mainly funded acquisitions and commercial real estate projects. Freight volume trended lower. Payrolls expanded, especially in the manufacturing, construction, and the banking sectors, with ongoing tightening in labor markets. Staffing firms reported an increase in the number of job openings and placements, primarily in healthcare and manufacturing. Retailers face stiff labor competition. Higher turnover, together with a smaller pool of qualified workers, is driving up wages. Capital spending budgets increased slightly and manufacturing payrolls expanded moderately across job segments. Cost-of-living increases for production workers averaged 2 to 3 percent. Demand is being driven by healthcare, higher education and to a lesser degree by manufacturing, commercial real estate and multifamily housing. It has been reported that vacant industrial space is being filled at a faster pace, driving up values.

Market Overview

Steady, incremental improvement was reported in the Cleveland market. Several suburban tenants are seeking additional space as a result of business expansion. Demand for office space remains strongest for Class A projects in both CBD and suburban locations. Built-to-suit activity continues to drive the discussion for development projects on a case by case basis. Short term demand for temporary office space to be occupied during the Republican National Convention is pushing rates to premiums previously unheard of in Greater Cleveland. While the long term impact is unlikely, some owners are taking advantage of this window of opportunity.

Outlook

Trends continue from 2015. We anticipate that wages for construction will continue to place upward pressure on costs, funding will remain relatively inexpensive and generally available for worthwhile development projects. Healthcare continues to be an economic driving force in the economy of the region. Expansion in related industries such as biotech, medical devices and research and development will continue to generate modest job growth and sustain measured demand for office facilities to accommodate the employees in these areas.

MARKETBEAT

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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	OVERALL VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT (ALL CLASSES)*	AVERAGE ASKING RENT (CLASS A)*
CBD	191	32,809,391	18,450	6,724,611	20.6%	24,949	24,949	0	\$19.11	\$21.76
Akron	1,513	26,780,793	15,351	3,226,302	12.1%	17,384	17,384	31,972	\$15.74	\$21.67
Chagrin, East & Lander	360	12,717,533	8,052	773,633	6.1%	8,548	8,548	0	\$18.94	\$22.09
Stark County	1,113	11,724,359	16,500	1,043,220	9.0%	-111,892	-111,892	0	\$13.26	N/A
Rockside & South	377	9,490,650	11,772	778,715	8.3%	135,899	135,899	0	\$18.08	\$20.44
West	495	7,984,195	13,771	773,212	9.9%	13,448	13,448	660,000	\$14.98	\$18.61
Southwest	524	8,486,280	117,099	755,890	10.3%	-91,296	-91,296	57,500	\$16.68	\$22.98
Northeast & Lake County	533	8,176,691	1,190	834,208	10.2%	13,290	13,290	6,500	\$15.22	\$24.00
Midtown	199	6,836,688	15,998	797,114	11.9%	41,363	41,363	0	\$15.35	\$20.86
Lorain County	606	5,446,517	850	468,761	8.6%	16,356	16,356	17,000	\$13.44	N/A
Fairlawn & Montrose	171	4,140,746	2,500	336,198	8.2%	40,814	40,814	0	\$16.47	\$19.76
Portage & Geauga	481	3,872,075	0	238,277	6.2%	3,118	3,118	22,000	\$16.15	\$25.27
Southeast	200	3,585,561	0	200,635	5.6%	59,330	59,330	0	\$17.45	\$18.93
Medina	393	3,056,506	3,972	175,409	5.9%	48,122	48,122	0	\$15.47	N/A
CLEVELAND TOTALS	7,156	145,107,985	225,505	17,126,185	12.0%	219,433	219,433	794,972	\$16.91	\$21.33

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

SUMMARY BY CLASS	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	OVERALL VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	151	26,094,695	108,855	2,662,198	10.6%	-151,247	-151,247	703,500	\$21.33	\$21.45
Class B	2,205	74,335,837	51,872	9,413,179	12.7%	420,440	420,440	91,472	\$16.62	\$16.60
Class C	4,800	44,677,453	64,778	5,050,808	11.5%	-49,760	-49,760	0	\$14.22	\$14.21

Key Lease Transactions Q1 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Victory Center, 7012 Euclid Avenue	165,965	Dealer Tire	Direct	CBD
15885 W Sprague Road	88,816	Medical Mutual	Direct	Southwest
1111 Superior Avenue	44,058	IBM	Direct	CBD

Key Sales Transactions Q1 2016

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
Embassy Corporate Park Portfolio	400,000	Dellagnese / Group RMC	\$30,000,000 / \$75	Fairlawn & Montrose
Tower City Center	240,000	Rock Ohio Caesars / RHA 250 LLC	\$16,200,000 / \$68	CBD
Sterling Buildings	193,602	LSR OREO2 LLC / Sterling Linder Holdings	\$7,100,100 / \$37	CBD
Lakeside Professional Lofts	85,826	Geis Companies / Sixty North Ventures	\$6,500,000 / \$76 (est.)	CBD

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