

MARKETBEAT

Cleveland, OH

Office Q3 2016



CLEVELAND OFFICE

Economic Indicators

	Q3 15	Q3 16	12-Month Forecast
Cleveland Employment	1,045K	1,063K	▲
Cleveland Unemployment	4.6%	5.1%	▲
U.S. Unemployment	5.2%	4.9%	▼

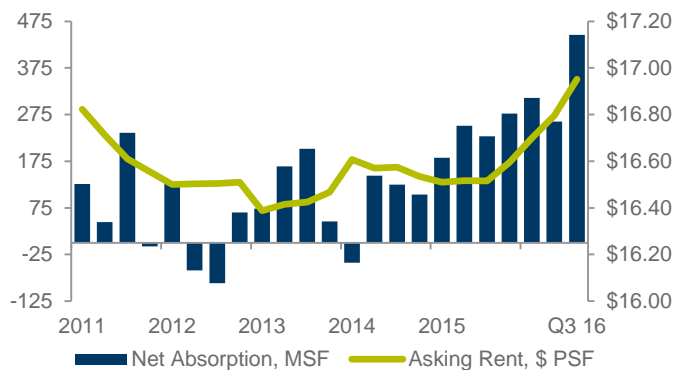
Market Indicators (Overall, All Classes)

	Q3 15	Q3 16	12-Month Forecast
Vacancy	11.9%	11.3%	▼
Net Absorption (sf)	132K	863K	▲
Under Construction (sf)	1.2M	575K	▲
Average Asking Rent*	\$16.57	\$17.20	▲

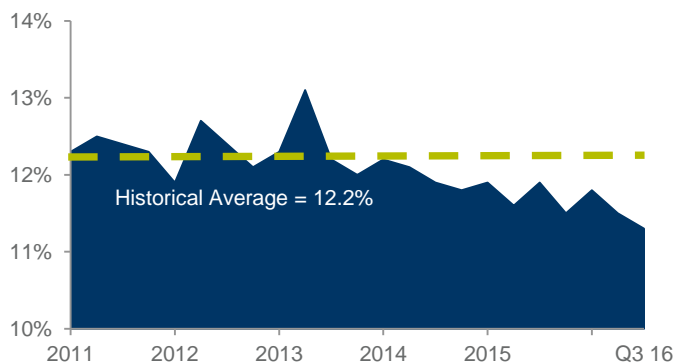
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The most recent data for the Cleveland metro area shows continued signs of moderate economic performance. Business activity in the region continues to add jobs at a modest pace, while payrolls did not change much over the period. Gains in employment, in both construction and banking sectors, were offset by losses in manufacturing and freight hauling. Wage pressures remain in construction and retailing.

Gross domestic product (GDP) per capita continues to rise, home prices have increased for 12 months in a row and residential construction remains positive. Year-to-date sales of new and existing single-family homes increased more than 7% through mid-2016, compared with those from the prior year.

Market Overview

The Cleveland office market continues to report steady increases in the Central Business District (CBD) Class A asking rental rates. Office vacancy rates decreased from 11.5% to 11.3% from Q2 through Q3 and remain the lowest in the region. Cleveland's CBD leasing and sales activity is robust and the Class A vacancy rate is expected to continue to decline.

New multi-family development continues, in an effort to keep pace with the ongoing demand which results, in part, from companies targeting millennials to strengthen their workforce. One prime example of repurposing office space for residential use can be seen in the recent acquisition of the historic 585,000-square foot (SF) Terminal Tower on Cleveland's Public Square, purchased by K&D RE Services, one of the region's largest multi-family developers. At least 300 residential units will result from the conversion of the lower office floors of the Terminal Tower to residential use. As a result, a number of additional office tenants will soon explore relocation options, further reducing current office vacancies.

Outlook

The region is in the midst of a revival. The Republican National Convention, which yielded positive impressions of the Cleveland area to millions of visitors and viewers, is one of many recent events that has improved the image of the city and bolsters the business climate for continued success in the future. Public enthusiasm and city support is evident and should further attract local and tourist traffic to the CBD and surrounding region. With the Cleveland Indians on their way to the World Series, hospitality occupancy rates will remain high and Cleveland continues to rock.

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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 AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	32,719,337	25,934	6,661,498	20.4%	-183,310	123,148	363,047	0	\$19.32	\$22.31
Akron	26,731,339	10,899	2,973,927	11.2%	136,255	286,961	274,329	121,019	\$15.87	\$20.13
Chagrin, East & Lander	12,581,685	10,852	724,220	5.8%	-5,427	-15,450	96,791	250,080	\$21.84	\$27.65
Stark County	11,743,594	16,500	1,038,269	9.0%	37,953	-71,965	46,675	0	\$13.35	0
Rockside & South	9,488,066	9,650	725,055	7.7%	34,272	138,323	162,379	0	\$17.99	\$21.14
West	8,614,073	8,850	664,379	7.8%	693,546	719,362	88,868	21,662	\$14.65	\$19.59
Southwest	8,479,491	28,283	887,932	10.7%	10,096	-32,587	254,664	106,400	\$17.83	\$22.84
Northeast & Lake County	8,354,941	1,190	695,121	8.3%	28,297	122,820	58,470	0	\$15.01	\$24.00
Midtown	6,892,198	15,998	751,149	11.1%	19,575	60,713	208,449	0	\$15.36	\$20.86
Lorain County	5,455,656	0	418,370	7.7%	25,105	58,187	35,356	17,000	\$12.62	0
Fairlawn & Montrose	4,141,680	4,304	312,198	7.6%	12,290	63,010	67,872	0	\$16.27	\$20.08
Portage & Geauga	3,879,772	0	165,665	4.3%	15,834	56,760	46,992	58,460	\$15.53	\$25.27
Southeast	3,641,252	0	182,210	5.0%	-2,977	92,221	41,892	0	\$17.96	\$19.73
Medina	3,029,648	0	121,256	4.0%	41,590	97,134	32,996	0	\$15.83	0
CLEVELAND TOTALS	145,752,732	132,460	16,321,249	11.3%	863,099	1,698,637	1,778,780	574,621	\$17.20	\$22.46

*Rental rates reflect gross asking \$psf/year

	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)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	26,834,020	30,646	2,616,157	9.8%	654,051	828,503	732,729	290,500	\$22.54	\$22.46
Class B	74,182,180	53,816	9,054,342	12.3%	162,828	686,617	686,130	284,121	\$16.48	\$16.50
Class C	44,736,532	47,998	4,650,750	10.5%	46,220	183,517	359,921	0	\$14.63	\$14.63

Key Lease Transactions Q3 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1801 Superior Ave E, Cleveland	44,700	Council for Economic Development	Lease	CBD
388 S Main Street, Akron	39,400	Quanex IG Systems	Lease	Akron
755 White Pond, Akron	34,200	Stark State College	Lease	Akron
21100 Southgate Park, Maple Heights	32,800	I Can Schools	Lease	South

Key Sales Transactions Q3 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1001 Lakeside Ave E, North Point Tower 2	590,795	Hertz Investments/Equity Commonwealth	\$73,931,804 / \$125	CBD
50 Public Square, Terminal Tower	585,000	K&D RE Services/Forest City Enterprises	\$38,500,000 / \$66	CBD
901 Lakeside Ave E, North Point Tower 1	282,540	Hertz Investments/Equity Commonwealth	\$38,646,740 / \$137	CBD
4141 Rockside Road, Independence	74,000	C-III Realty Services/4141 Rockside LLC	\$2,500,000 / \$34	Rockside & South

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