

# MARKETBEAT

## Cleveland, OH

Office Q4 2016



### CLEVELAND OFFICE

#### Economic Indicators

	Q4 15	Q4 16	12-Month Forecast
Cleveland Employment	1,052K	1,060K	▲
Cleveland Unemployment	4.3%	5.4%	▲
U.S. Unemployment	5.0%	4.8%	▼

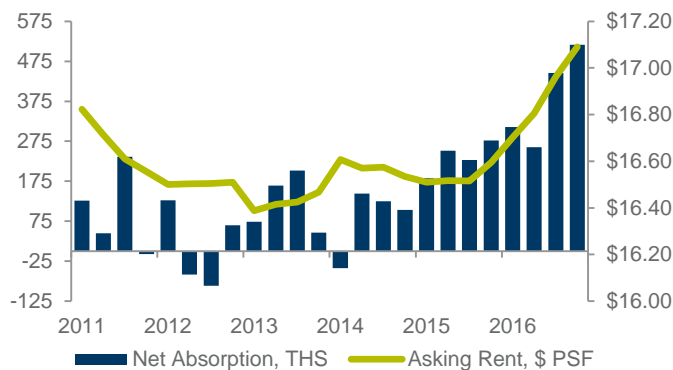
#### Market Indicators (Overall, All Classes)

	Q4 15	Q4 16	12-Month Forecast
Vacancy	11.5%	11.1%	▼
Net Absorption (sf)	301K	581K	▲
Under Construction (sf)	1.2M	620K	▼
Average Asking Rent*	\$16.79	\$17.30	▲

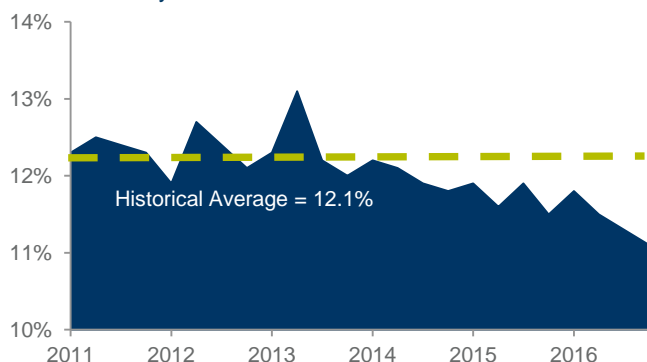
\*Rental rates reflect gross asking \$psf/year

#### Overall Net Absorption/Overall Asking Rent

##### 4-QTR TRAILING AVERAGE



#### Overall Vacancy



### Economy

Economic activity in the last quarter shows somewhat limited growth but the housing market posts signs of improvement in both higher unit sales and higher prices. Commercial builders report a solid advance in backlogs. Payrolls show little adjustment while employment gains in construction and banking were partially offset by job losses in manufacturing. Construction, retail, and banking sectors of this region reveal the clearest signs of wage pressures, both for low and high-skilled jobs. According to staffing firms, the number of job openings and placements declined but temporary positions increased.

Residential agents view the low existing-home inventory as the primary factor driving up prices of single family units by about 5%, as compared to last year, but the housing market hit a temporary slowdown, due in part to the presidential election. Nonresidential contractors report a higher level of activity resulting from aggressive contractor bidding and movement from project pipelines to the construction phase. Demand for construction services remains reasonably strong. Many contractors have increased billing rates to help cover rising labor costs and protect profit margins.

### Market Overview

Office space in Northeast Ohio remains in demand and market conditions exhibit further signs of advancement. The regional vacancy rate declined by 0.4 percentage points from last year to 11.1%, and rental rates grew, as compared with last quarter and a year ago. In Q4 the Central Business District (CBD) submarket revealed the greatest positive overall net absorption of 2016.

Healthy leasing activity, absorption and upward movement on rental rates has spurred additional investment in office product in the region. Multi-family demand and redevelopment activity remain strong. The Ohio Preservation Tax Credits awarded The Halle Building on Euclid Avenue as the largest local winner. This overhaul will add 125 large apartments and renovate 220,000 square feet (SF) of commercial space in the CBD.

### Outlook

Nearly six million SF of commercial space has already been renovated into residential space, and one million SF of commercial space has been updated to meet current technology-driven demands. This investment along with easy access to public transit, proximity to jobs, retail, restaurants and entertainment, will further enhance the CBD housing options as the CBD transforms into a 24-hour city. This will continue to attract new residents and businesses for the foreseeable future.

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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	32,508,887	40,694	6,447,632	20.0%	199,674	286,691	542,868	0	\$19.56	\$22.29
Akron	26,833,882	8,767	2,900,084	10.8%	147,207	428,678	401,357	56,156	\$15.88	\$20.22
Chagrin, East & Lander	12,594,960	8,062	672,762	5.4%	15,920	-7,175	163,722	316,080	\$22.05	\$27.75
Stark County	11,792,524	16,500	1,020,273	8.8%	-884	-48,569	131,101	26,800	\$13.60	0
Rockside & South	9,480,629	3,000	715,078	7.7%	20,739	148,276	311,946	0	\$17.49	\$21.21
West	8,497,769	7,234	615,569	7.3%	74,827	790,949	142,907	43,848	\$15.17	\$19.26
Southwest	8,542,922	25,547	945,387	11.4%	7,388	-40,206	301,573	53,300	\$16.78	\$22.84
Northeast & Lake County	8,545,524	1,190	713,314	8.4%	-8,782	128,342	85,460	0	\$15.61	\$24.00
Midtown	6,878,304	15,998	538,873	8.1%	199,601	250,585	266,678	0	\$15.89	\$20.86
Lorain County	5,516,922	0	558,040	10.1%	1,536	-77,483	53,528	18,984	\$12.17	0
Fairlawn & Montrose	4,154,742	1,804	327,204	7.9%	-7,039	47,750	85,899	0	\$16.42	\$20.88
Portage & Geauga	4,032,331	0	237,920	5.9%	-19,034	50,761	61,218	39,445	\$15.25	\$25.27
Southeast	3,635,221	0	227,165	6.2%	-41,155	41,598	53,783	65,000	\$18.15	\$20.60
Medina	3,013,871	0	132,730	4.4%	-8,920	74,240	54,959	0	\$15.35	0
<b>CLEVELAND TOTALS</b>	<b>146,028,488</b>	<b>128,796</b>	<b>16,052,031</b>	<b>11.1%</b>	<b>581,078</b>	<b>2,074,437</b>	<b>2,656,999</b>	<b>619,613</b>	<b>\$17.30</b>	<b>\$22.69</b>

\*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	26,889,323	35,756	2,246,817	8.5%	439,894	1,229,075	1,063,388	313,000	\$22.69	\$22.69
Class B	74,314,678	52,400	9,169,294	12.4%	109,796	619,748	1,087,208	306,613	\$16.70	\$16.73
Class C	44,824,487	40,640	4,635,920	10.4%	31,388	225,614	506,403	0	\$14.57	\$14.55

### Key Lease Transactions Q4 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
20001 Euclid Ave East Building	77,367	HGR Industrial Surplus	Renewal	Northeast & Lake County
18780 Bagley Road	50,000	SW General Middleburg Medical Center	New	Southwest
1111 Superior Avenue East	47,529	Hyatt Legal Plans	Expansion	CBD
3900 Kinross Lakes Parkway	32,090	Assured Partners	New	Akron
950 Main Avenue	27,694	Kelley & Ferraro	Sublease	CBD

### Key Sales Transactions Q4 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
925 Euclid Ave, Huntington Building	1,431,054	Optima Ventures / Hudson Holdings	Undisclosed	CBD
12301 Snow Road	661,804	MetroHealth / HealthSpan Integrated Care	\$7,245,000 / \$11	Southwest
45 Erieview Plaza	496,105	Highland REIT / Somera Road	\$36,000,000 / \$72	CBD
1367 E 6th Street, Lincoln Building	269,500	Manchester Realty / MVP REIT	\$7,300,000 / \$27	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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