

FIGURES | CLEVELAND OFFICE | Q4 2022

Negative absorption to close 2022 after three consecutive quarters of positive activity

▲ 15.4%
Vacancy Rate

▼ (36,104)
SF Net Absorption

▲ 1.2M
SF Construction

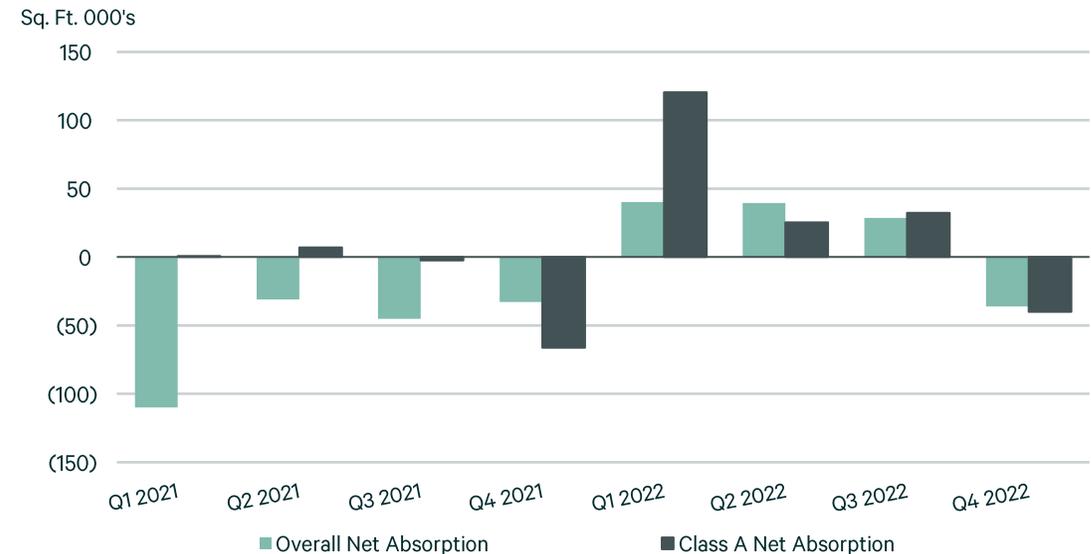
▲ \$19.08
Gross / Lease Rate

Note: Arrows indicate change from previous quarter.

Summary

- Cleveland saw multiple move-outs in Q4 2022 as users continued making decisions on hybrid work models and shedding office space. The market experienced negative absorption for the first time in 2022, with -36,104 sq. ft. vacated. However, total year-end absorption was positive at 72,362 sq. ft.
- Cleveland houses 14 Class A Prime properties: a specialized class of office buildings including elite amenities and employee experiences. Class A prime buildings demand a 20% rent premium over typical Class A assets. On average, Cleveland prime buildings have 5% lower vacancy than nonprime buildings.
- Leasing activity remains strong with over 254K sq. ft. of new leases, renewals, and expansions signed in Q4 2022. Average asking lease rates have increased from \$0.03 quarter-over-quarter and \$0.14 year-over-year. This can be attributed to the overall cost of projects and the trend toward higher quality office space, which typically demand higher rents.
- The overall vacancy rate slightly increased by 40 basis points (bps) to 15.4%. The Northeast submarket holds the lowest vacancy rate at 5.5% and has seen the lowest vacancy rate for the past 8 consecutive quarters.

FIGURE 1: Historical Total Absorption vs. Class A Absorption



Source: CBRE Research, Q4 2022

Suburban and Downtown

Overall availability is highest in the Suburban market at 4,165,254 sq. ft, whereas Downtown shows only 2,968,918 sq. ft. available. Class A available space has climbed in both markets quarter-over-quarter. Downtown holds the highest amount of available Class A space, totaling 1,422,716 sq. ft. in Q4 2022.

Overall, Cleveland saw multiple corporate users shed space in Q4 2022, causing both the Downtown and Suburban markets to see negative net absorption. This can be attributed to companies becoming more space efficient and making changes to suit their new hybrid workplace models.

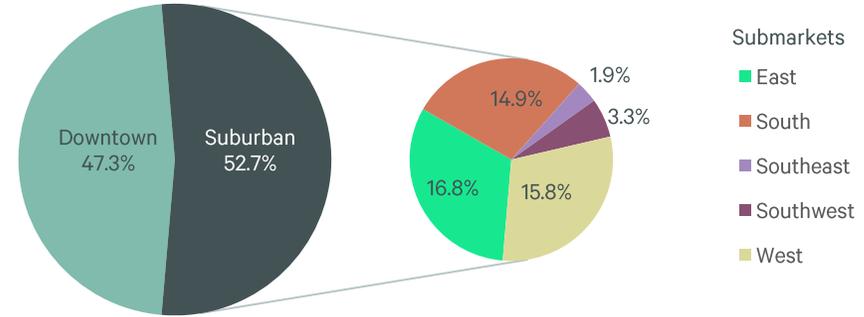
The 137,000 sq. ft. CBIZ HQ at 6200 Rockside Woods Blvd. is under construction in the Suburban market. Construction began in Q2 2022 and is expected to be completed in Q2 2023. Construction for the 1M sq. ft. Sherwin-Williams HQ located in the CBD began in Q1 2022; the 36-floor office tower is due in 2024.

Sublease Activity

Cleveland holds 947,865 sq. ft. of sublease space available, 60% of which is Class A space. Sublease space accounted for 13% of total available space in the market in Q4 2022. The South submarket holds the most amount of sublease space with approximately 362,959 sq. ft. available.

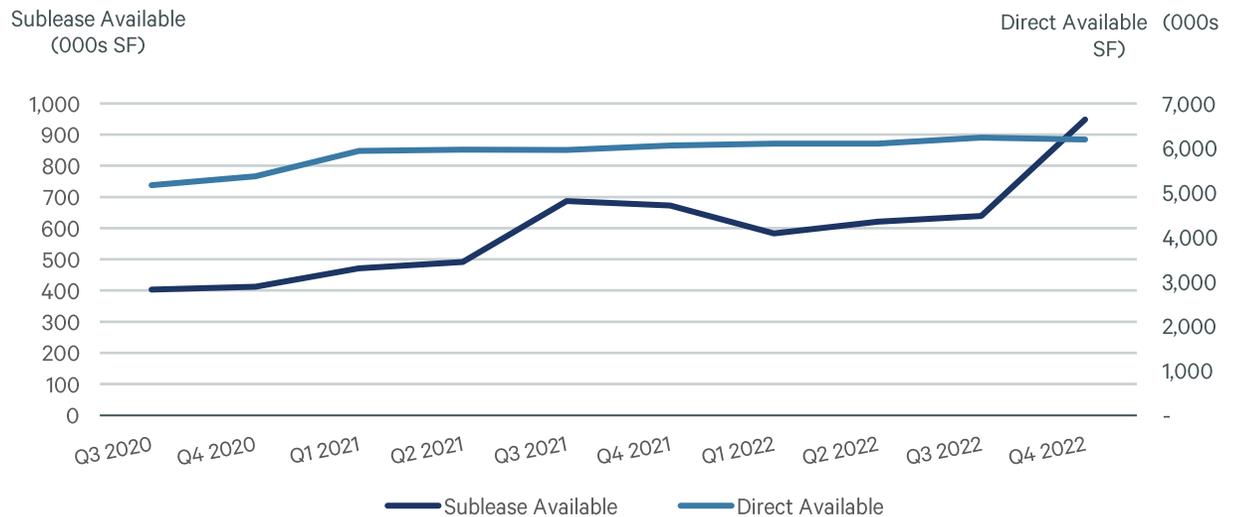
As companies reevaluated their space needs, subleases have become more attractive in the Cleveland market. From Q3 2022 to Q4 2022, there was an increase of sublease space availability of 308,771 sq. ft. Much of this can be attributed to the 250,000 sq. ft. of space American Greetings put up for sublease at 1 American Blvd. Along with this, due to the flexible nature of subleases, with shorter terms and often negotiable lease rates, users have been signing more subleases in 2022 than in all of 2021. There were 48% more subleases signed in 2022 than in 2021.

FIGURE 2: Class A Available Space by Market and Submarket (% total sq. ft.)



Source: CBRE Research, Q4 2022

FIGURE 3: Available Sublease Space vs. Available Direct Space



Source: CBRE Research, Q4 2022

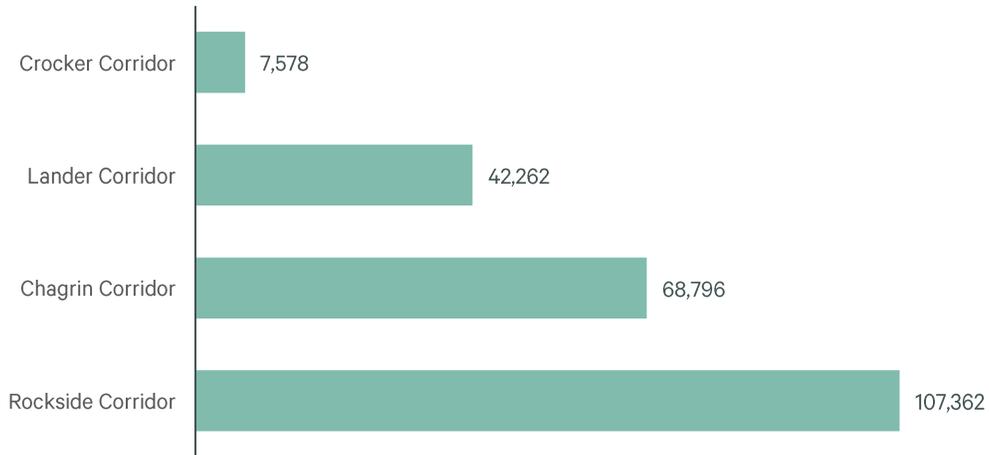
Submarket Corridors

In Q4 2022, the Rockside and Crocker were the only corridors with positive net absorption; they also outperformed the total market in terms of lower vacancy rates. Inventory in these areas is heavy in Class A office space, which tends to attract occupiers looking for higher quality environments.

Asking lease rates for Class A product in the overall market averaged \$22.82. Class A asking lease rates in the Chagrin and Crocker corridors sat higher than the overall market at \$23.29 and \$27.50, respectively. This is due to the higher volume of Class A product the corridors hold, which equates to over 71% of the total volume in the Suburban market.

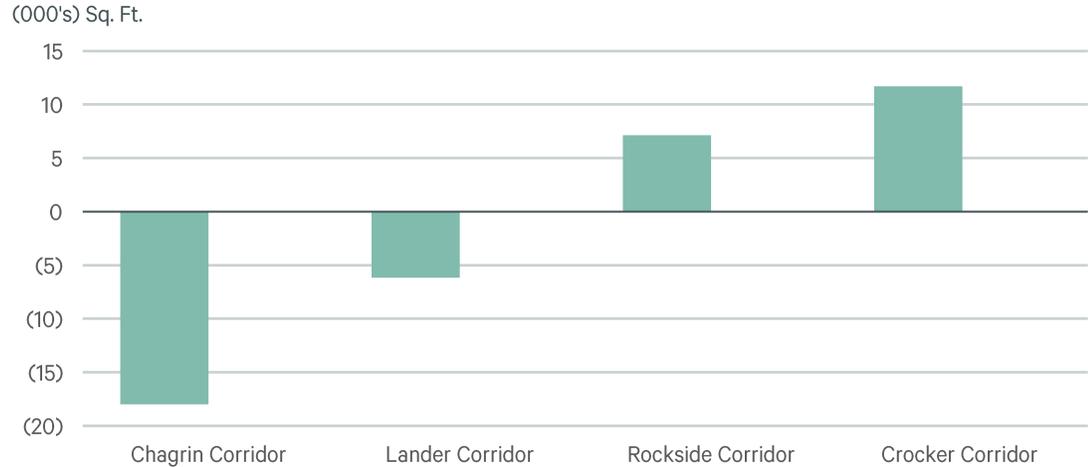
There was a total of 225,998 sq. ft. of sublease space available in the corridors in Q4 2022, which accounted for 24% of the total market sublease availability. The bulk of this space is currently in the Rockside corridor

FIGURE 5: Sublease Space by Submarket Corridor



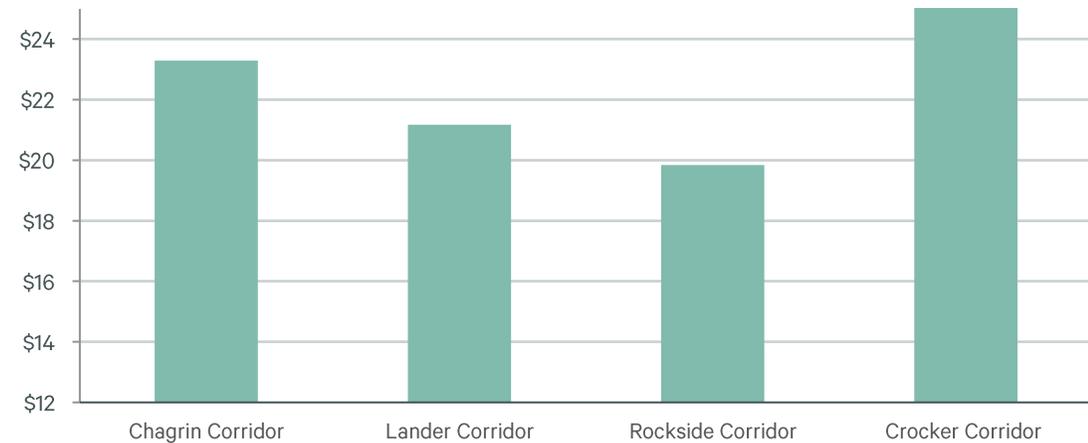
Source: CBRE Research, Q4 2022

FIGURE 4: Net Absorption by Submarket Corridor



Source: CBRE Research, Q4 2022

FIGURE 6: Class A Average Asking Lease Rates and Submarket Corridor



Source: CBRE Research, Q4 2022

Vacancy

The Downtown submarket houses the most vacant space of any submarket, currently with 2.1M sq. ft. vacant. The overall market vacancy rate in Q4 2022 was 15.4% with almost 5M sq. ft. of vacant space. The Q4 2022 vacancy rate is 40 bps up year-over-year.

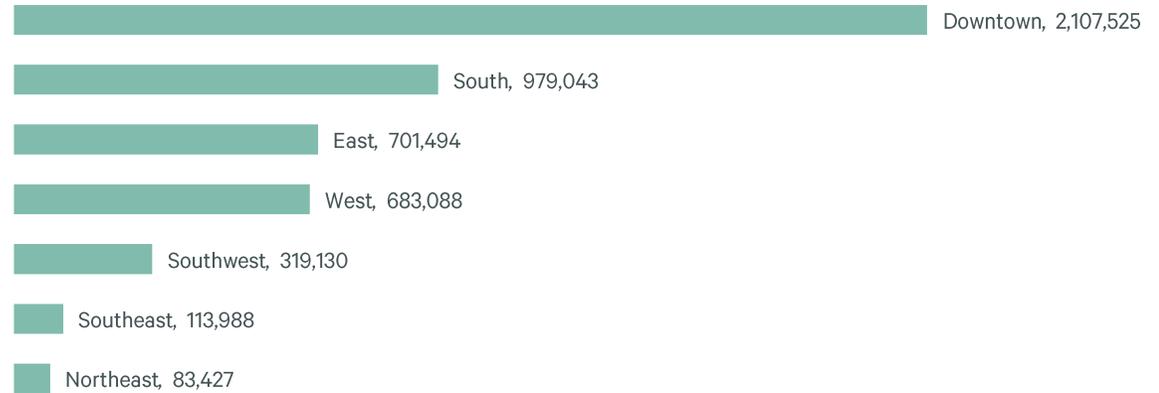
With absorption numbers falling negative and vacancy rates rising, the office market saw a dip in its overall steady recovery. Vacancy Downtown has risen 40 bps quarter-over-quarter and fallen 190 bps year-over-year. The decreased vacancy rate can be attributed to the adaptive reuse of Class B/C office space downtown. Office space is being converted into residential use, combating the growing demand for housing and decreasing demand for office space. Cleveland is a national leader in office-to-residential conversions. With 5 conversions underway and 16 completed since 2016 in the downtown and Flats district, Cleveland is seeing strong resilience to the transforming office market.

Lease Rates

Overall average lease rates in the market have increased from \$19.05 in Q3 2022 to \$19.08 in Q4 2022. Downtown Class A and Class B product average asking lease rates were \$25.49 and \$17.96, respectively.

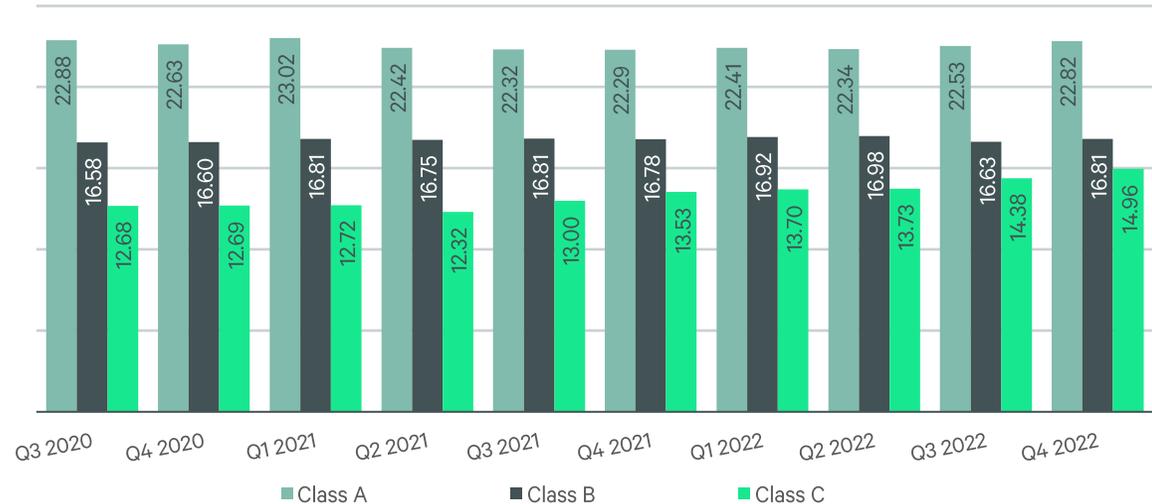
Class A product average asking lease rates have decreased quarter-over-quarter in the Suburban market to \$20.70, previously \$20.74 in Q3 2022. Overall, Class A lease rates have increased on average to \$22.82.

FIGURE 7: Vacant Space by Submarket (sq. ft.)



Source: CBRE Research, Q4 2022

FIGURE 8: Average Asking Lease Rates by Class



Source: CBRE Research, Q4 2022

Leasing Activity

There has been 2.4M total sq. ft. of leasing activity in the Cleveland market since Q1 2021, 11% of which occurred in Q4 2022. A notable lease transaction from this quarter was at the Buckley Building in Playhouse Square, where Dix & Eaton, Inc. signed a lease for 22,000 sq. ft.

Accounting for 76% of all Class A leasing activity, Downtown experienced the highest number of Class A product leasing activity of all the submarkets in Q4 2022. This was driven by the ongoing flight-to-quality trend where tenants are seeking elevated office environments.

Since Q1 2021, there has been over 1.6M sq. ft. of Class A product leases of all types, which is drastically higher than Class B. This is also a result of tenants seeking higher quality space.

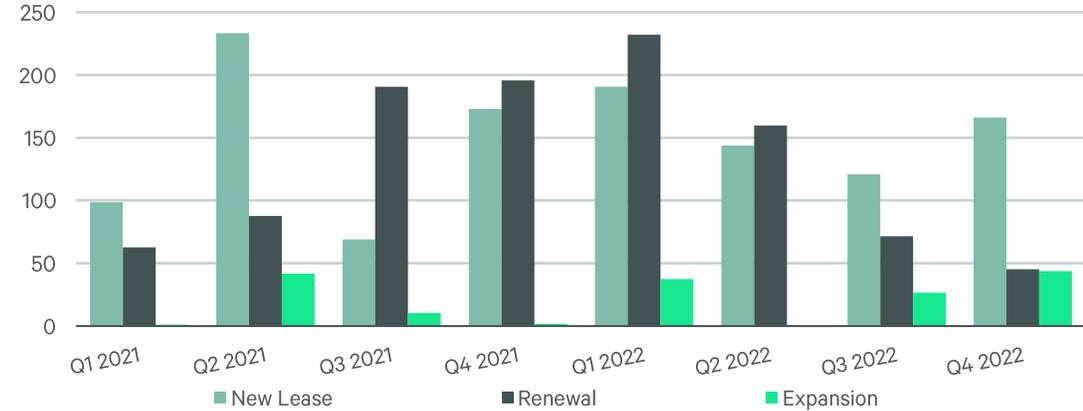
FIGURE 10: Notable Transactions

Transaction Type	Size (SF)	Tenant	Address	Submarket
New Lease	22,000	Dix & Eaton Incorporated	1501 Euclid Ave	Downtown
Renewal	14,995	Level 3 Communications, LLC	1621 Euclid Ave	Downtown
Renewal	14,572	Barnes Wendling CPAS, Inc	1350 Euclid Ave	Downtown
New Lease/Sublease	14,400	City Club of Cleveland	1317 Euclid Ave	Downtown
New Lease	13,030	WellBE	6480 Rockside Woods Blvd N	South

Source: CBRE Research, Q4 2022

FIGURE 9: Historical Lease Transactions by Type

(000's) Sq. Ft.



Source: CBRE Research, Q4 2022

Sales Activity

Throughout 2022, the largest volume of sale activity occurred in the Downtown and East submarkets. One of the largest sales of the quarter was that of the PDC Building located at 3659 S Green Rd. The 70,118 sq. ft. office building was sold to JMR Commercial for around \$3.5M.

Class A product has seen the most activity in property sales in 2022 with over 43% of the total activity. Sale activity saw a decrease during the unsteadiness of 2019 and 2020 but has since regained momentum finishing 2022 with almost of 4.1M sq. ft. total activity.

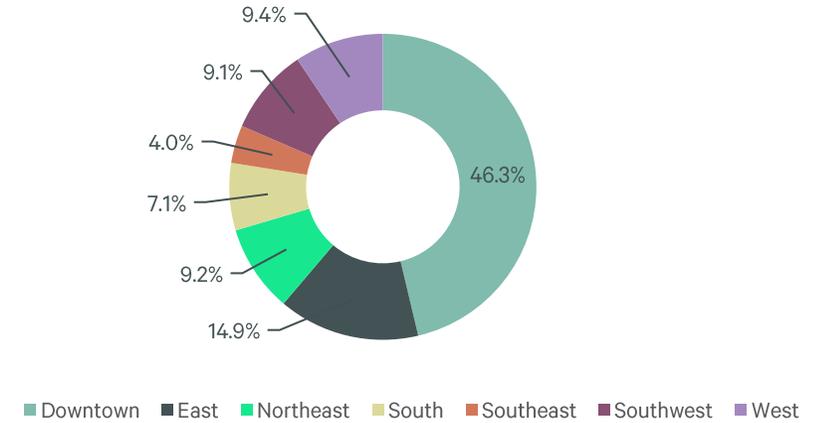
The Ohio Savings Plaza and Park Plaza were both listed for sale in early December by New York Community Bancorp. The twin buildings located in the CBD total around 550,000 sq. ft.

FIGURE 12: Notable Transactions

Property/ Address	Submarket	Buyer	Sale Price (\$)	Size (SF)
PDC Building 3659 S Green Rd	East	JMR Commercial	3,525,000	70,118
4020 Kinross Lakes Pkw	South	CLEKINROSS LLC	3,100,000	76,378
Westgate Plaza Limited 20325 Center Ridge Rd	West	Kenny Wolfe; Agostino Pintus	2,350,000	97,000
35350 Curtis Blvd	Northeast	Smartland	1,133,000	45,205

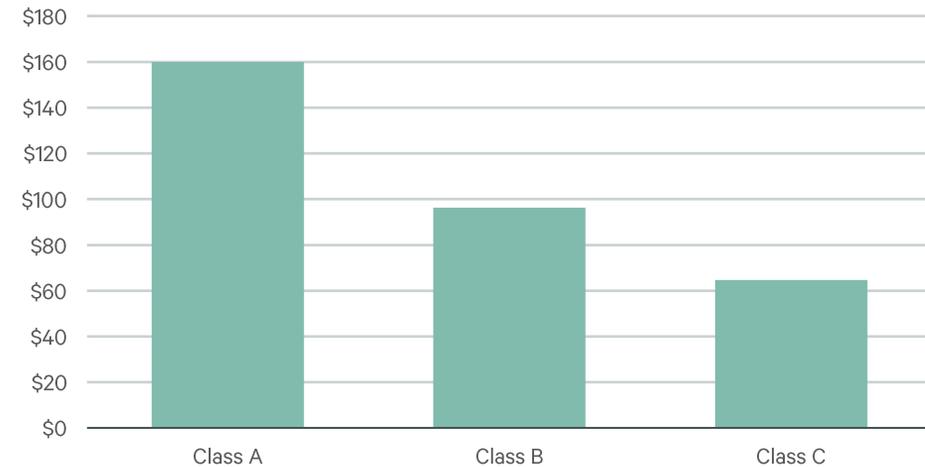
Source: CBRE Research, Q4 2022

FIGURE 11: Office Sales Volume by Submarket (December 2017 – December 2022)



Source: CBRE Research, Q4 2022

FIGURE 13: Average Price per Sq. Ft. by Property Class (January 2022 – December 2022)



Source: CBRE Research, Q4 2022

Economic Outlook

Everybody from Jerome Powell to single parents and Wall Street banks have been laser focused on inflation during the past year. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates, which are curtailing demand for housing and autos. Despite this good news inflation remains a menace. Food and shelter prices are heightened, and fears persist that inflation is embedded in the labor market.

Consequently, the Federal Reserve continues its aggressive tightening program. The pace of recent rate hikes has been the most dramatic in decades and this has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023, means that firms are looking to cut costs, helping to fulfill recessionary prophecies.

Some positive signals can be found in monthly payroll gains, but other labor market metrics are not so sanguine. Data from Challenger, Gray & Christmas shows that the current level of layoff announcements is consistent with past recessions. This is paired with business surveys exhibiting deteriorating activity and consumers grappling with eroding savings. The upshot is we believe the economy will face a moderate recession in 1H 2023.

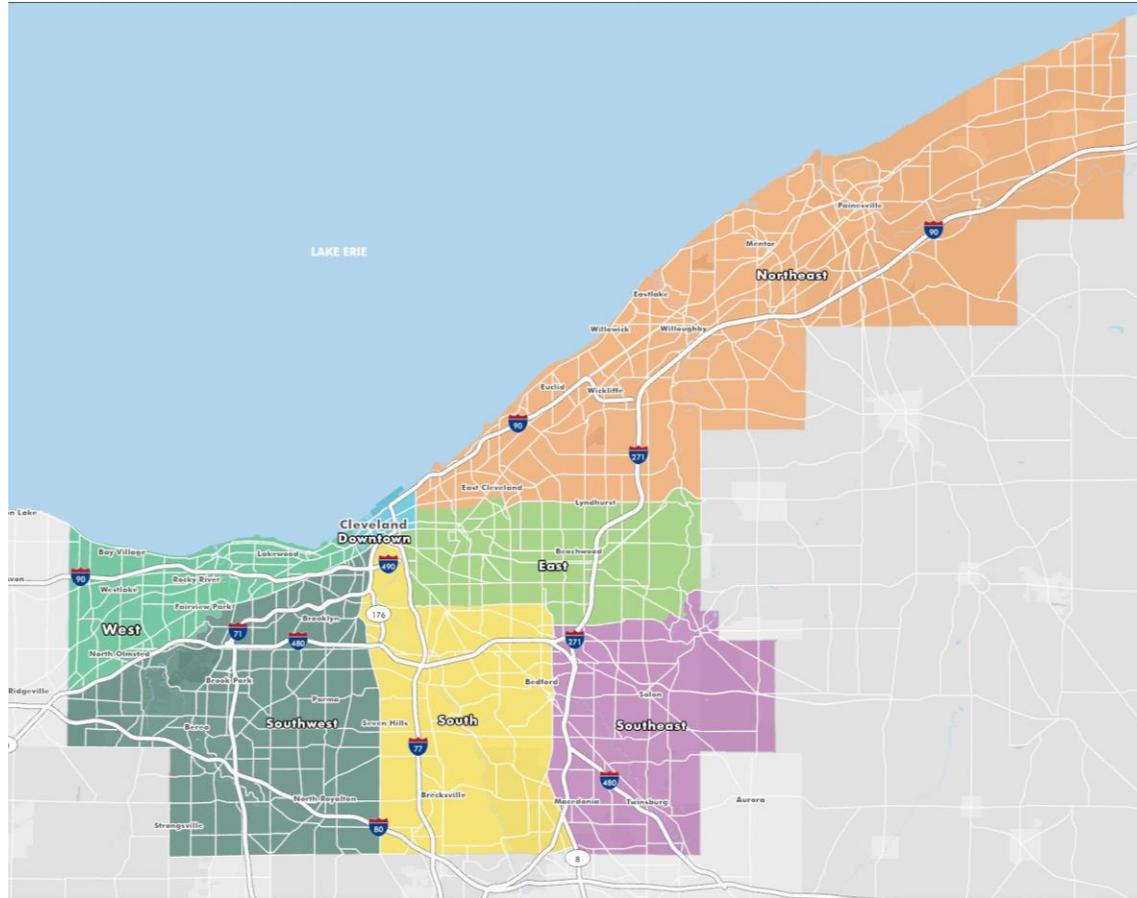
FIGURE 14: Market Statistics

Submarket / Class	Net Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Availability Rate (%)	Q4 2022 Net Absorption (Sq. Ft.)	Asking Rate (\$/Sq. Ft.)
East	5,401,463	13.0%	10.0%	(25,868)	\$20.85
Chagrin Corridor*	3,712,241	14.5%	19.1%	(17,997)	\$21.13
Lander Corridor*	1,281,114	11.7%	23.3%	(6,169)	\$20.36
Northeast	1,522,285	5.5%	8.7%	(191)	\$15.39
West	3,695,109	18.5%	21.8%	5,013	\$16.51
Crocker Corridor*	578,123	10.0%	10.8%	11,689	\$19.88
South	5,767,025	17.0%	27.0%	896	\$17.56
Rockside Corridor*	3,827,089	15.2%	20.8%	7,123	\$18.82
Southeast	996,994	11.4%	21.5%	850	\$14.72
Southwest	1,899,130	16.8%	22.8%	2,533	\$15.97
Total Suburban	19,282,006	14.1%	21.0%	(16,767)	\$17.66
Suburban Class A	6,299,146	14.9%	21.2%	(8,060)	\$20.70
Suburban Class B	11,144,105	14.0%	21.7%	(7,964)	\$16.05
Suburban Class C	1,238,755	11.2%	12.6%	(743)	\$14.43
Total Suburban	19,282,006	14.1%	21.0%	(16,767)	\$17.66
CBD Class A	6,942,602	15.3%	20.5%	(31,906)	\$25.49
CBD Class B	6,024,262	17.4%	25.4%	12,569	\$17.96
Total CBD	13,040,714	16.2%	22.8%	(19,337)	\$21.18
Metro Class A	13,841,748	16.2%	21.7%	(39,966)	\$22.82
Metro Class B	17,168,367	15.2%	23.0%	4,605	\$16.81
Metro Class C	1,312,605	10.6%	13.0%	(743)	\$14.96
Metro Totals	32,322,720	15.4%	22.1%	(36,104)	\$19.08

*Specialized "corridor" districts such as these are pulled from the entirety of data from their primary submarket and are not included in the total at the bottom of the chart.

Source: CBRE Research

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Office buildings 10,000 sq. ft. or greater. Excludes single-tenant owner-occupied buildings, Government owned and occupied buildings, or Medical buildings.

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