

3Q24

Cleveland Office Market Overview

NEWMARK



Market Observations

Economy

- In the third quarter, the Cleveland-Elyria-Mentor metro’s economy gained back the fewest number of jobs it has seen since January 2024, as total nonfarm employment increased annually by 0.4% in August. National nonfarm employment increased by 1.6%. The unemployment rate for the Cleveland-Elyria-Mentor was 4.1% in August 2024.
- Five industry sectors in the Cleveland market saw employment gains from August 2023 to August 2024. Two of the three office-occupying industries saw annual job losses, with Business and Professional being the only office-occupying sector to make gains at 3.1%.
- The number of office-using jobs in the Cleveland market as of August 2024 was approximately 240,510, the market’s highest tally since August of 2023.

Major Transactions

- The Cleveland office market experienced another sluggish quarter in trading activity, with prevailing uncertainty. Lenders were hesitant to provide capital, particularly for office assets. Coupled with the higher interest rate environment dominating most of the year, this resulted in the third quarter maintaining a trend of limited office building sales, or transactions occurring at lower-than-usual prices. However, Snow and Chevy Property LLC stood out this past quarter by acquiring three office buildings through auction purchases. They purchased the 34,426-square-foot building at 6120 Parkland Blvd. in the East submarket for \$1.65 million, or \$47.87/SF. In the West submarket, they acquired the foreclosed 64,153-square-foot building at 24650 Center Ridge Rd. for \$1.4 million, or \$21.83/SF, and the 33,282-square-foot building at 347 Midway Blvd. for \$534,450, or \$16.06/SF.
- A few notable companies signed leases of 15,000 SF or larger in the Cleveland market during the third quarter: Current Lighting, an affiliate of General Electric, leased two floors measuring 30,000 SF at the East Point I building located at 6085 Parkland Blvd., in Mayfield Heights, in the East submarket. The company is expected to occupy the space by the first quarter of 2025; and Facil North America, specialists in fasteners for the mobility industry, inked an 18,479-square-foot lease at Independence’s 6200 Oak Tree Blvd. in the South submarket.

Leasing Market Fundamentals

- Direct space availability ticked up in the third quarter of 2024 by 30 basis points from the second quarter to 21.3%. Sublease space availability dipped by 20 basis points to 1.5%, and continued a downward trend from the second quarter of 2023. Overall vacancy decreased to 23.1%, down 10 basis points from the second quarter of 2024.
- The Cleveland office market absorbed 77,486 SF in the third quarter of 2024, two quarters in a row that resulted in net occupation after a first quarter in the negative.
- The Cleveland office market’s average asking rental rate increased slightly by \$0.01/SF from the second quarter of 2024 to \$19.96/SF.

Outlook

- Although the situation remains challenging, there is cautious optimism as we approach the final quarter of the year and look ahead to 2025. Tenants are starting to make more proactive decisions about workplace strategies, and the recent decline in interest rates is encouraging. These changes could significantly enhance the potential for selling office assets at improved prices. Nevertheless, office properties in Cleveland continue to struggle with financial difficulties. Several prominent office buildings have either entered or stayed in a distressed state over the last quarter. Challenges such as lender issues, special servicing assignments, pending foreclosures, and difficulties in securing financing are significantly impacting owners of both Central Business District (CBD) and suburban offices in the still uncertain local market.
- There remains a notable disparity between Class A and Class B office spaces, highlighting how tenants interested in high-end office environments are historically required to pay top-market rates. This situation persists despite uneven macroeconomic conditions and weak leasing demand. The rent gap between premium and more standard office spaces is primarily driven by tenants aiming to attract and retain top-tier employees who expect quality offices equipped with superior amenities and features, both within their specific spaces and throughout the building. Often, these premium office spaces are more luxurious yet smaller in square footage compared to what was preferred before the pandemic. Additionally, the trend of increasing tenant improvement costs has contributed to rising asking rents for prime office spaces.

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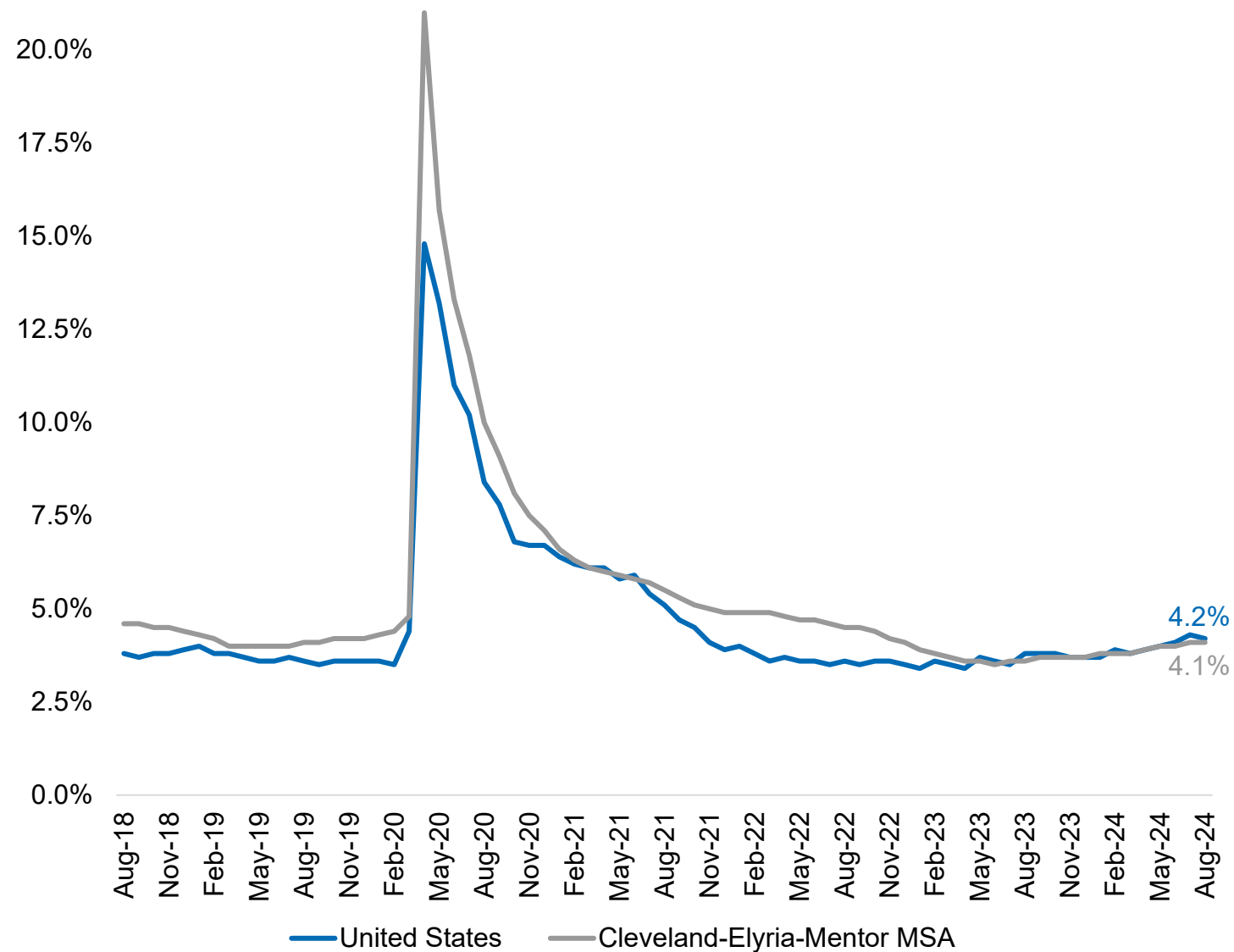
Economy



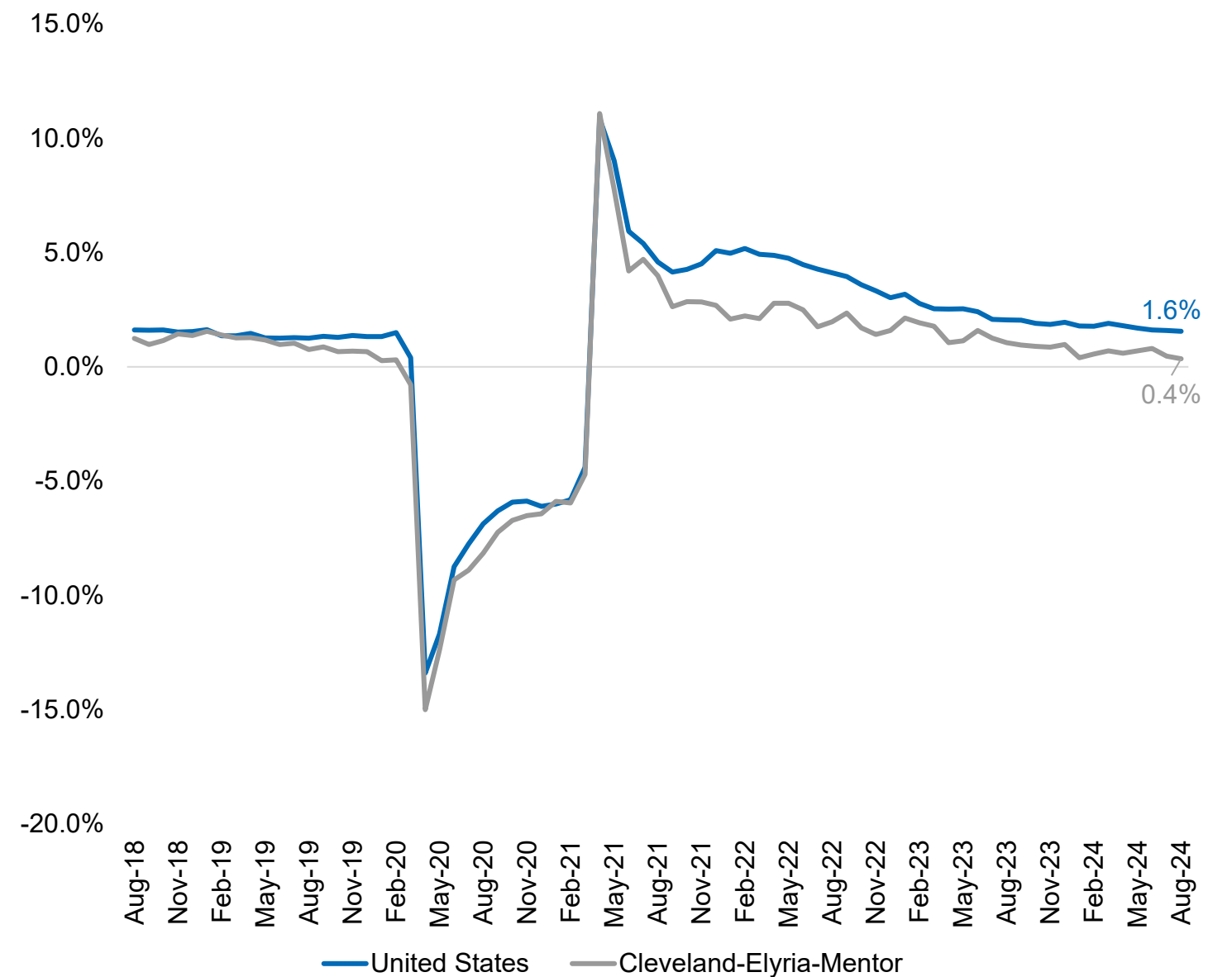
Cleveland and United States Unemployment and Nonfarm Employment Trends

In the third quarter, the Cleveland-Elyria-Mentor metro's economy gained back the fewest number of jobs it has seen since January 2024, as total nonfarm employment increased annually by 0.4% in August. National nonfarm employment increased by 1.6%. The unemployment rate for the Cleveland-Elyria-Mentor was 4.1% in August 2024 after starting the year at 3.8% from January to March and increasing to 3.9% in April. May and June unemployment in Cleveland was 4.0%, then it rose to 4.1% in July and remained there in August. Though the national unemployment rate followed the same path as Cleveland from March to May, it rose higher than Cleveland in August, to 4.2%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



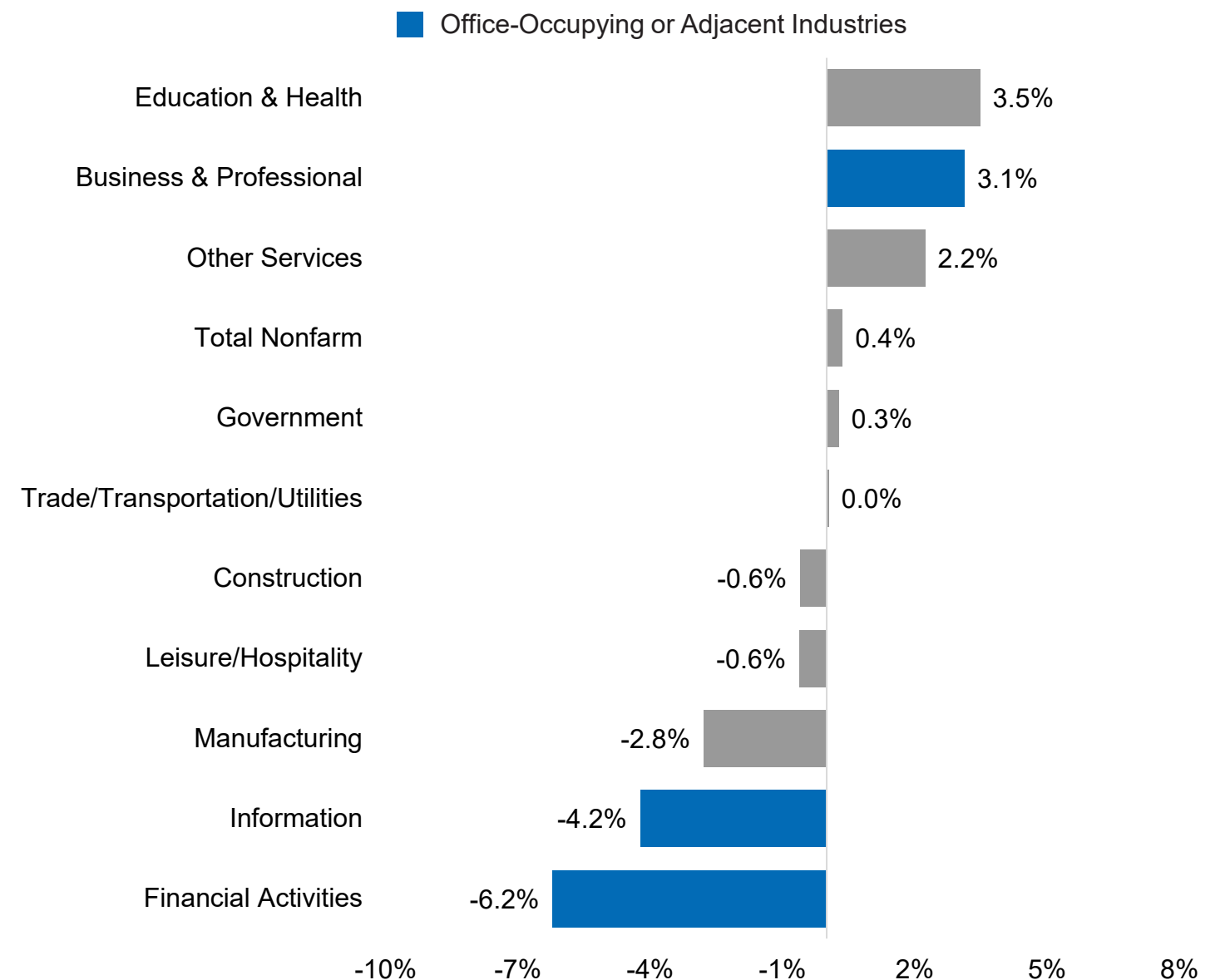
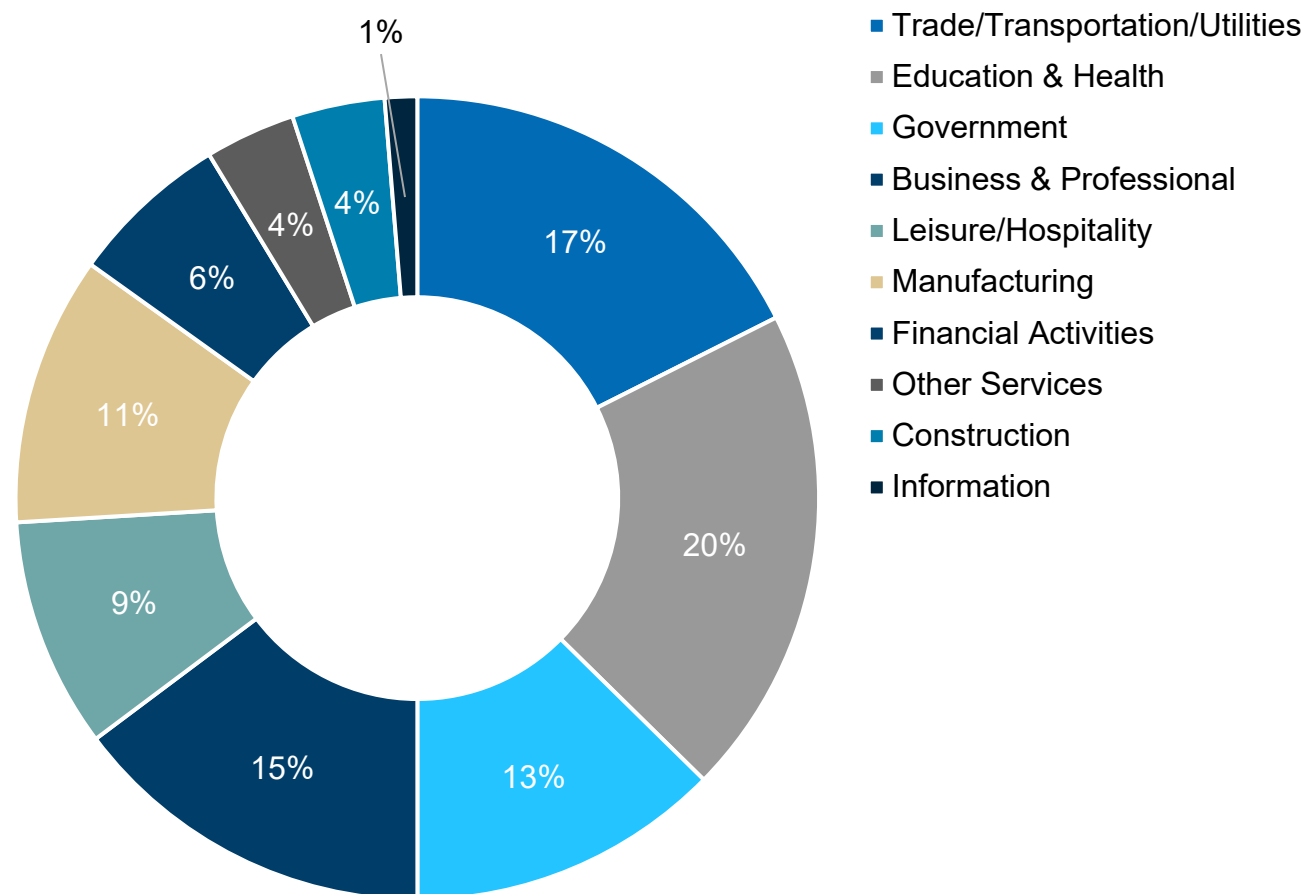
Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

Job Losses in Two of Three Office-Occupying or Adjacent Industries

Five industry sectors in the Cleveland market saw employment gains from August 2023 to August 2024. Two of the three office-occupying industries saw annual job losses, with Business and Professional being the only office-occupying sector to make gains at 3.1%. The Education and Health sector saw the biggest increase of all the industries for the third quarter at 3.5%. The two other office-occupying industries, Information and Financial Activities, saw year-over-year job losses at negative 4.2% and negative 6.2%, respectively.

Employment by Industry, August 2024

Employment Growth by Industry, 12-Month % Change, August 2024

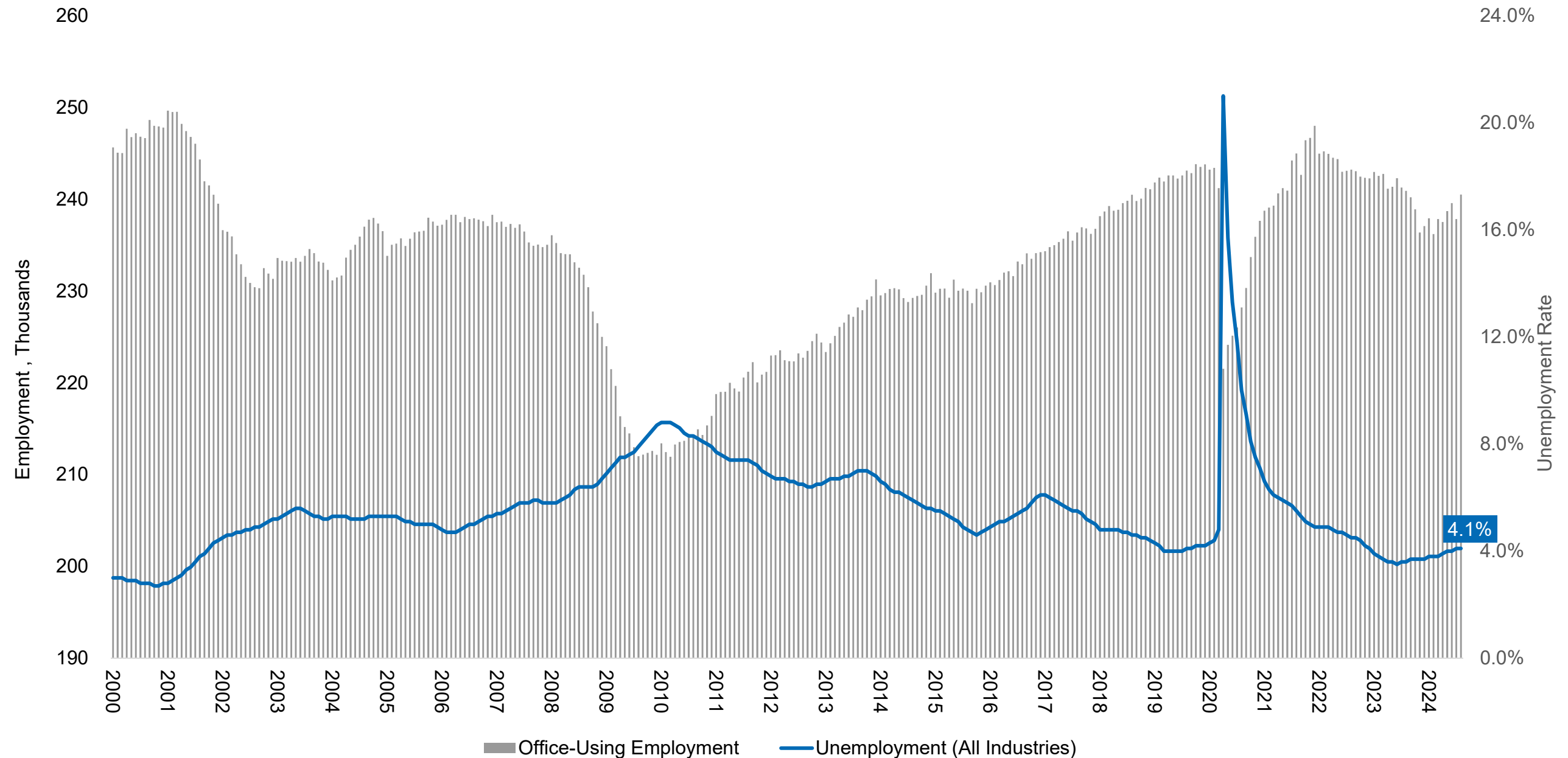


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

Office-Using Employment Up Slightly

The number of office-using jobs in the Cleveland market as of August 2024 was approximately 240,510, the market's highest tally since August of 2023.

Office-Using Employment* and Unemployment Across All Industries, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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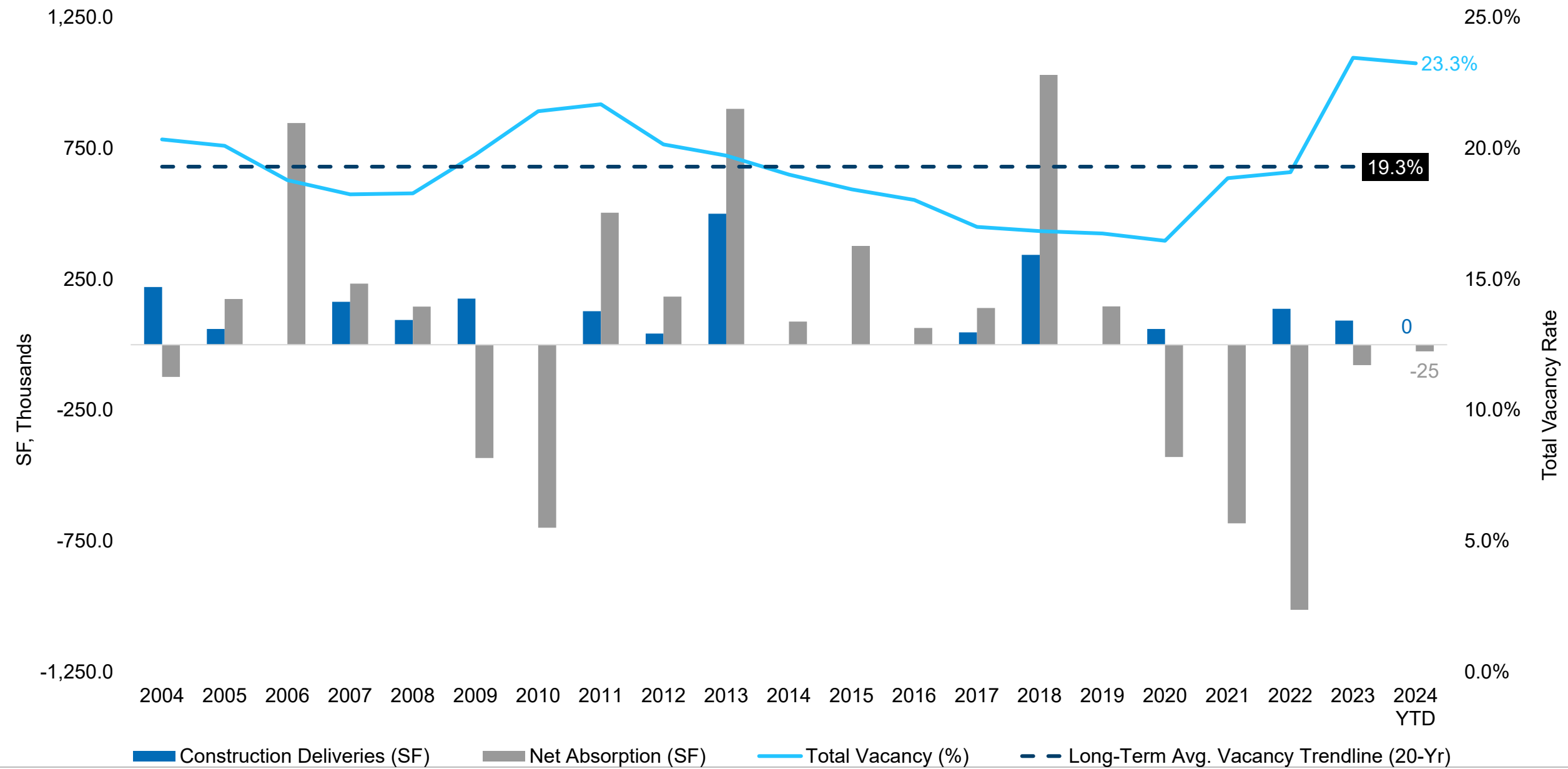
Leasing Market Fundamentals



Absorption Positive For Second Quarter In a Row

In the third quarter of 2024, the Cleveland office market absorbed 77,486 SF, the second consecutive quarter of net positive occupancy following a negative first quarter. Despite this recent positive trend, the market still shows a net negative absorption of 24,943 SF through the first three quarters. The vacancy rate for the third quarter decreased to 23.1%, down by 10 basis points from the second quarter. The year-to-date vacancy rate for 2024 is 23.3%, compared to the 20-year average vacancy rate of 19.3%. While a dramatic improvement in vacancy rates is unlikely in the short term, consecutive quarters of positive absorption and a recovering economy are promising indicators for the future. The timing of a significant cycle turnaround will depend on economic trends, decisions by tenants to open offices in Northeast Ohio, and the evolution of work models and space configurations by occupiers.

Historical Construction Deliveries, Net Absorption, and Vacancy

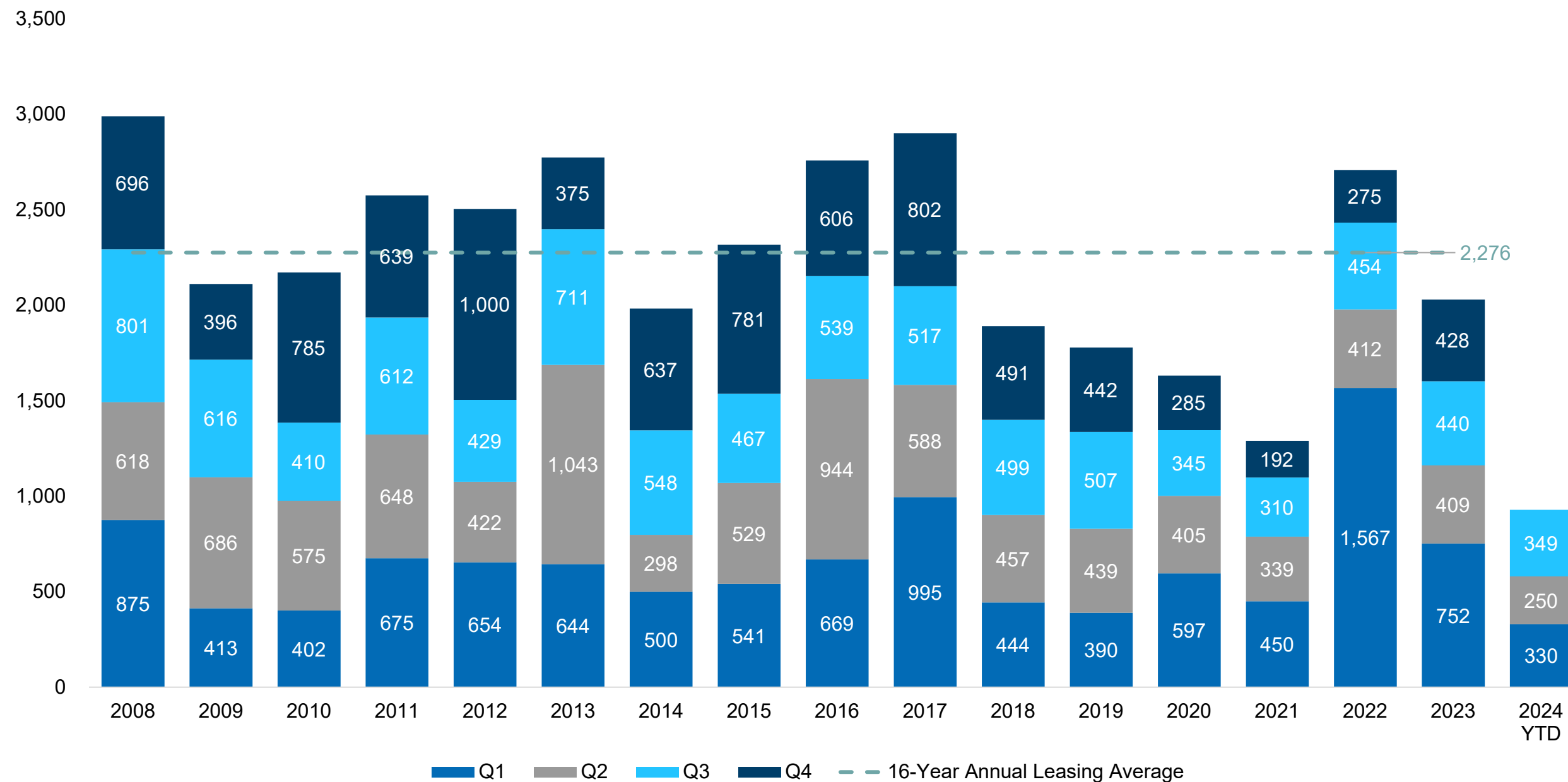


Source: Newmark Research

Year-to-Date Leasing Activity Lowest Through Three Quarters in Recent History

Total leasing was 348,806 SF in the third quarter of 2024, the third lowest third quarter total in the last 16-plus years. The 16-year leasing activity average was 2.3 MSF from 2008 to 2023. It is highly unlikely that the fourth quarter leasing activity will be robust enough to propel the year's totals near the 16-year average. The labor market's health in the coming quarters could largely affect office leasing activity, as will organizations that are revisiting their workplace strategies to emphasize collaboration over individual workspaces. This shift is resulting in redesigned office layouts that maximize existing space usage rather than leasing additional square footage. This approach also leads to cost reduction.

Total Leasing Activity (thousands SF)

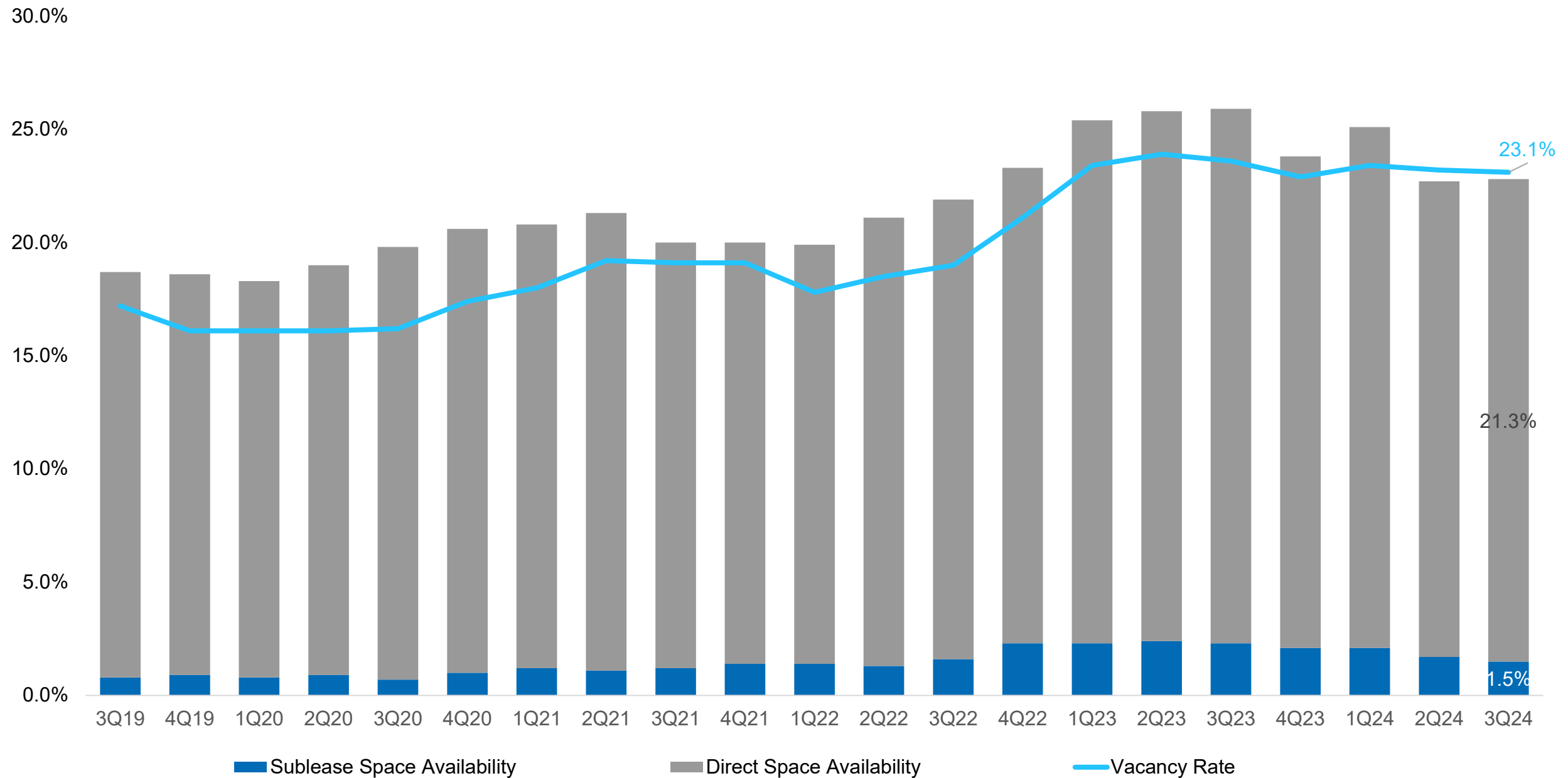


Source: Newmark Research, CoStar

Direct Availability Up Slightly, While Sublease Availability Dips

Direct space availability ticked up in the third quarter of 2024 by 30 basis points from the second quarter to 21.3%. Sublease space availability dipped by 20 basis points to 1.5%, and continued a downward trend from the second quarter of 2023. Overall vacancy decreased to 23.1%, down 10 basis points from the second quarter of 2024. With availability up a little and vacancy dropping slightly the market continued to have several spaces that are being marketed for lease but are currently occupied – this in anticipation of either tenants moving out soon or as a tactic to encourage lease extensions.

Available Space as Percent of Overall Market

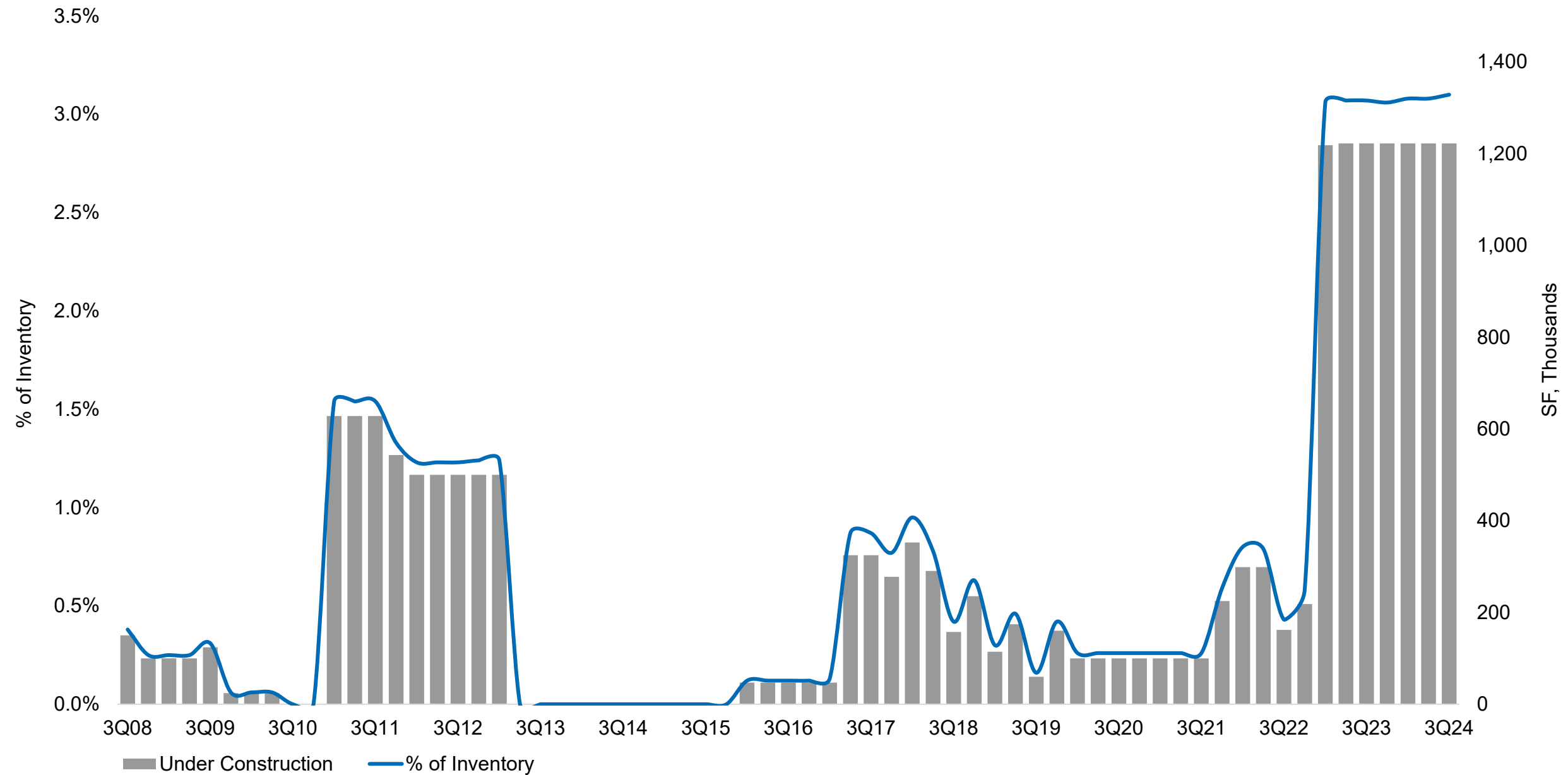


Source: Newmark Research

Office Construction Activity Remains Unchanged

Office construction in recent years continues to be minimal, as the 1.0 million SF Sherwin-Williams headquarters project in the CBD is the largest development and makes up the majority of the 1.2 million SF of office construction in the market. Construction activity has been unchanged for six straight quarters and has amounted to 3.1% of inventory since the first quarter of 2023.

Office Under Construction and % of Inventory

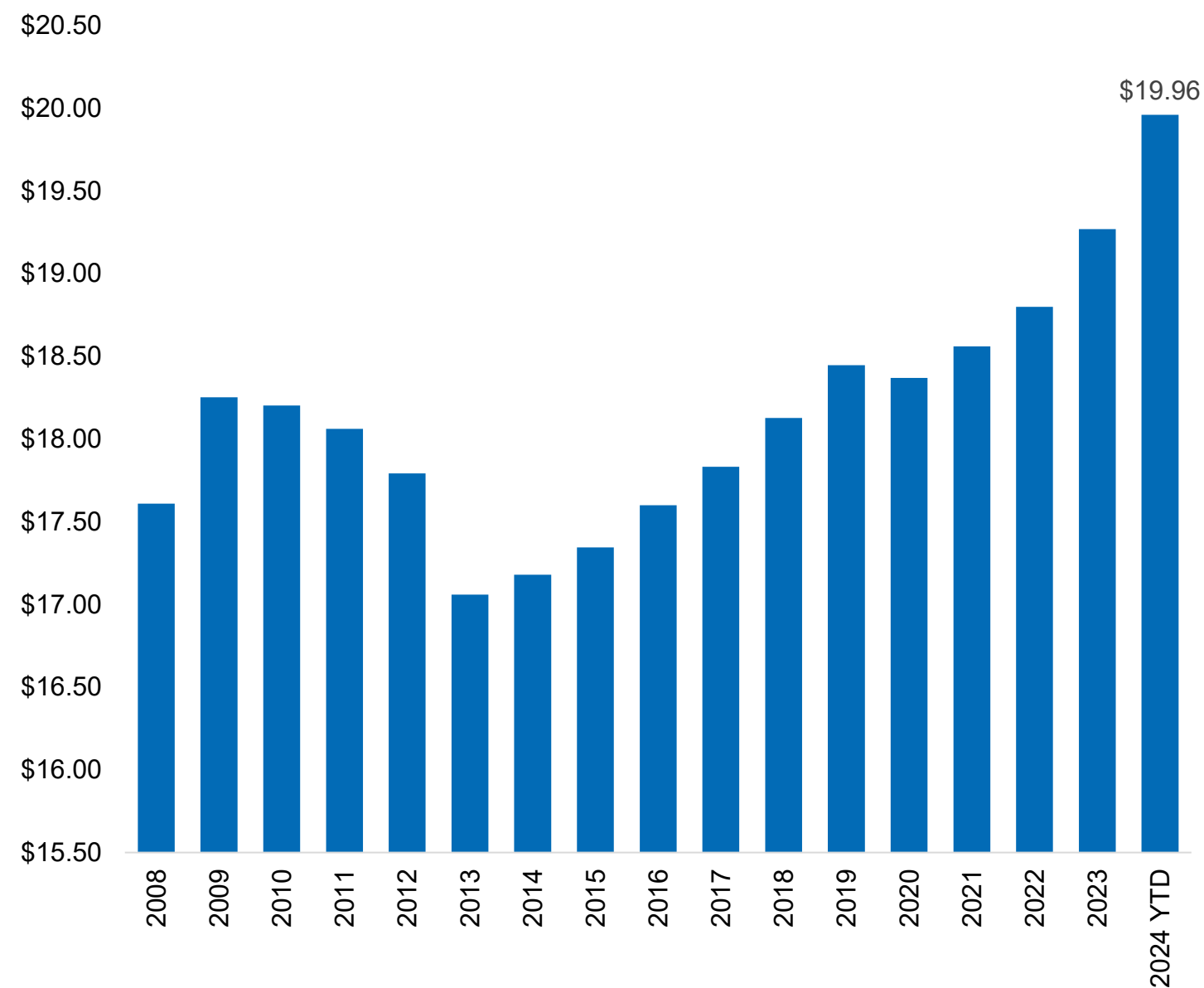


Source: Newmark Research

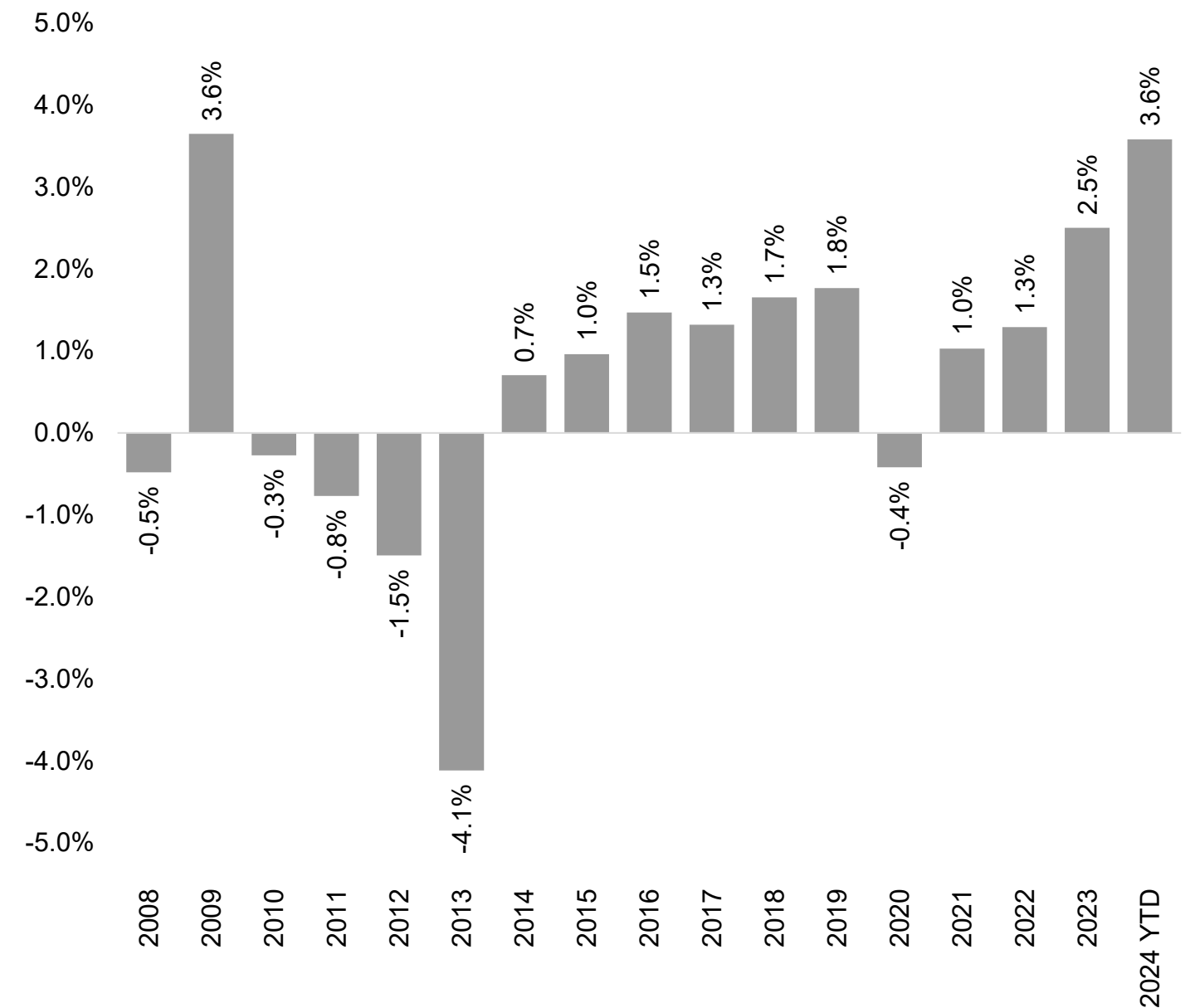
Year-to-Date Overall Asking Average Rent Falls Slightly

The Cleveland office market's average asking rental rate increased slightly by \$0.01/SF from the second quarter of 2024 to \$19.96/SF in the third quarter of 2024. The overall 2024 average asking rental rate year-to-date matched the third quarter's total at \$19.96/SF, a decrease of \$0.01/SF from the second quarter. Annual rent growth year-to-date stood at 3.6%, tied for the market's highest growth rate in recent history with 2009.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

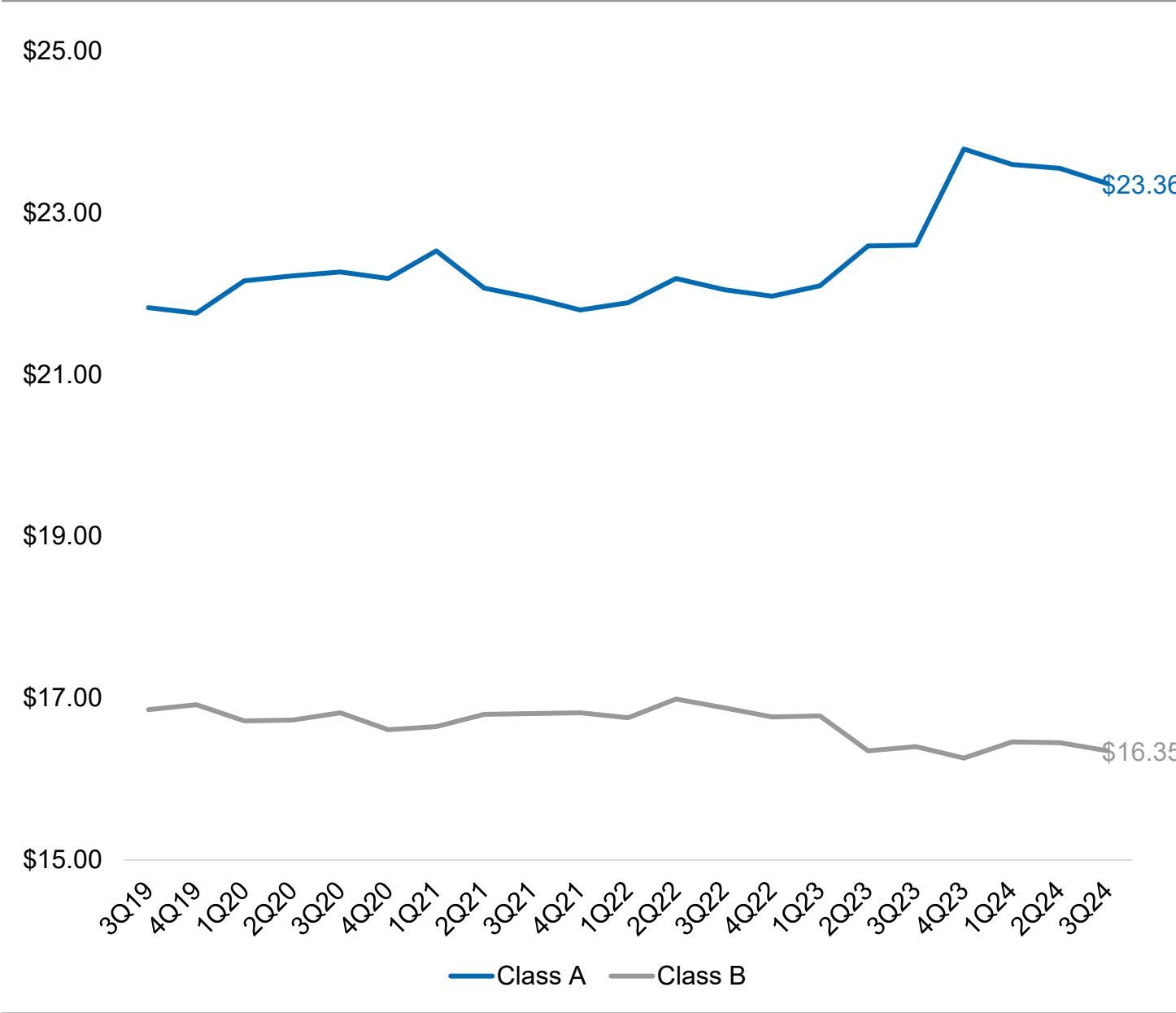


Source: Newmark Research

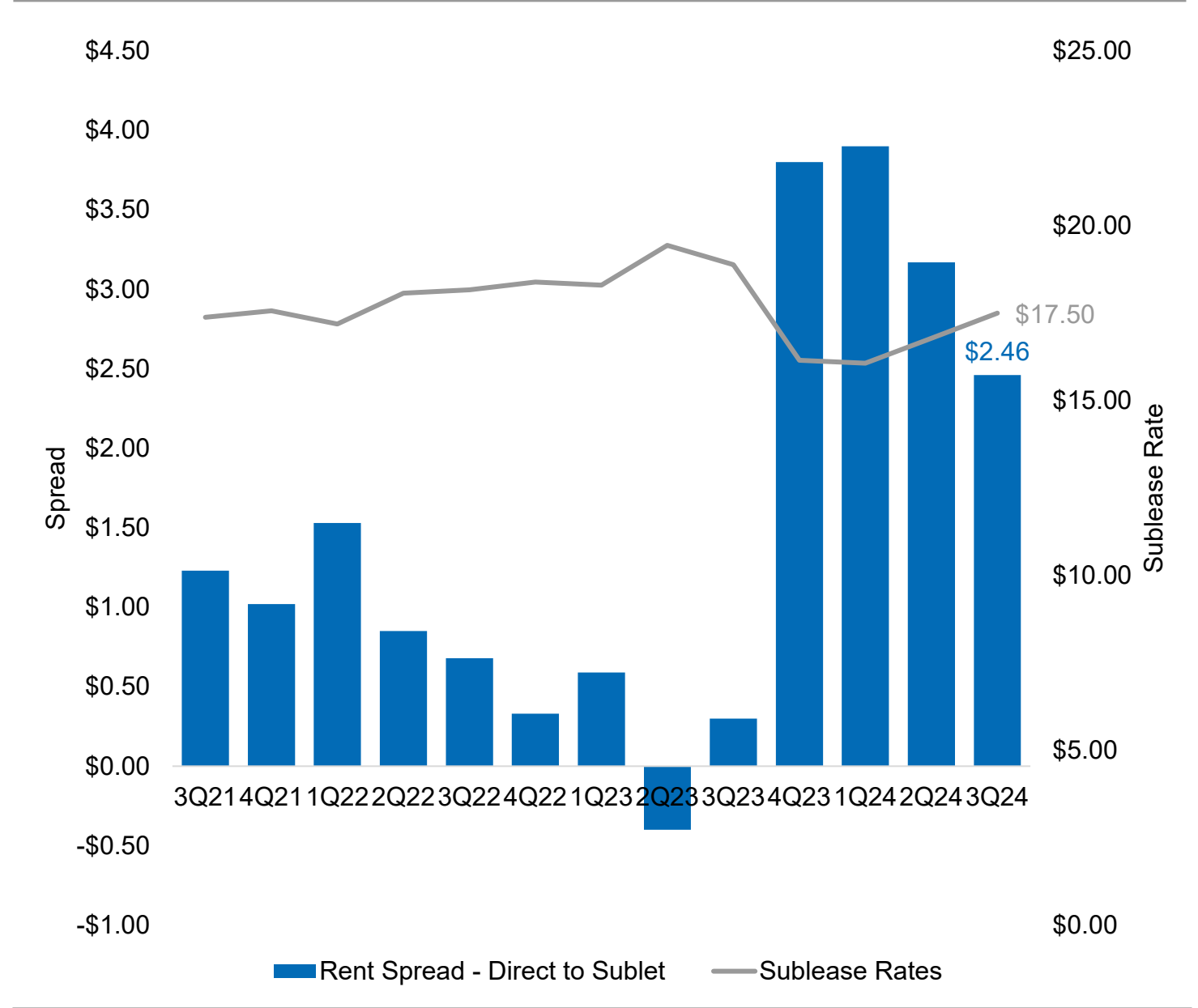
Both Class A & B Asking Rents Down, Sublease Rate Up For Second Straight Quarter

Class A average asking rental rates in the third quarter decreased by \$0.19/SF from the second quarter of 2024 to \$23.36/SF, while Class B rates decreased by \$0.10/SF to \$16.35/SF, which decreased the gap between Class A and B rents to \$7.01/SF from \$7.10/SF in the previous quarter - still a significant gap that demonstrates how tenants that command high-end office space have traditionally had to pay top-of-the-market rates. That premise continues today despite uneven macroeconomic and market conditions, along with sluggish lease demand. The third quarter of 2024's average sublease rate increased by \$0.72/SF to \$17.50/SF, which tightened the gap between sublease and direct rents to \$2.46/SF from \$3.17/SF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Lease and Sale Transactions in 3Q24

Select 3Q24 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Current Lighting	6085 Parkland Blvd.	East	Direct	30,000
Facil North America	6200 Oak Tree Blvd.	South	Direct	18,479
Case Western Reserve University	6700 Euclid Ave.	CBD	Direct	16,647
Request A Test Ltd.	6900-6950 S. Edgerton Rd.	South	Direct	7,029
CESO	2012 W. 25th St.	CBD	Direct	5,805

Select 3Q24 Sale Transactions

Buyer	Building	Submarket	Sale Price	Square Feet	Price Per SF
Primrose Schools	23825 Commerce Park	East	\$2,300,000	18,120	\$126.93
Greater Cleveland Food Bank	9830 Lorain Ave.	West	\$3,500,000	30,000	\$116.67
Premier Real Estate Investments, LLC	29325 Chagrin Blvd.	East	\$2,525,000	31,920	\$79.10
Snow and Chevy Property LLC	6120 Parkland Blvd.	East	\$1,648,000	34,426	\$47.87
Industrial Commercial Properties, LLC	280 Executive Pkwy. W.	South	\$2,522,500	56,818	\$44.40
Peak Grand Bay, LLC	6900-6950 & 6960-7000 S. Edgerton Rd.	South	\$2,500,000	56,744	\$44.06

Source: Newmark Research, CoStar

East Remains Submarket With the Highest Vacancy

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Newmark business contact for this information

All But One Submarket's Asking Rents Up Year Over Year

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Appendix



Submarket Overview



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Cleveland - Submarket Map

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Additional Market Statistics

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