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4Q24

# Cleveland Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- In the fourth quarter, the Cleveland-Elyria-Mentor metro’s economy gained back the most jobs it has seen since December 2023, as total nonfarm employment increased annually by 0.9% in November. National nonfarm employment increased by 1.4%. The unemployment rate for the Cleveland-Elyria-Mentor MSA decreased to 3.8% in November 2024.
- Six of 11 industry sectors in the Cleveland market saw employment gains from November 2023 to November 2024. Two of the three office-occupying industries experienced annual job losses, with Business and Professional being the only office-occupying sector to make gains at 2.5%.
- The number of office-using jobs in the Cleveland market as of November 2024 was approximately 237,251.

## Major Transactions

- Office building sales activity in the Cleveland market began to emerge from several quarters of uninspired action, though trade values and volume of deals continued to be below where they were prior to interest rates skyrocketing. A small mixed-use office and retail building in the Cleveland State University area of the Central Business District (CBD) fetched the highest price per square foot for the quarter. The 12,686-square-foot property, located at 1938 Euclid Ave., was purchased by Pro Land Holdings LLC for \$2.0 million, or \$157.65/SF, well above what traditional office buildings have sold for in recent quarters. The Rose Building, Medical Mutual’s former headquarters located at 2060 E. 9th Street in the CBD submarket, officially sold to Spark GHC and Cleveland Construction for just under \$11 million, or \$28.74/SF. The building is slated for a \$120 million conversion to apartments and a boutique hotel.
- Sequoia Financial inked a 20,000 SF lease in the East submarket at 5910 Landerbrook Dr. in Mayfield Hts., where the company intends to consolidate offices to this location by mid-2025; ADP signed an 8,428 SF extension at 6200 Oak Tree Blvd. in the South submarket; and University Hospitals renewed its 6,406 SF space at 25651 Detroit Rd. in the West submarket.

## Leasing Market Fundamentals

- Direct space availability decreased significantly in the fourth quarter of 2024 by 160 basis points from the third quarter to 19.7%, representing 7.8 million SF. This is the lowest that direct space availability has been since the second quarter of 2022. Sublease space availability stayed at a flat 1.5%.
- The market accrued 160,328 SF of positive absorption in the fourth quarter of 2024, propelling the market out of the negative for a yearly total of 138,705 SF in net positive absorption. The market finished the year in the positive for the first time since 2019. The quarterly positive absorption caused the vacancy rate to dip by 30 basis points to 27.8%. For the year 2024, the vacancy rate came in at 23.1%.
- The Cleveland office market’s average asking rental rate decreased by \$0.01/SF from the third quarter of 2024 to \$19.96/SF in the fourth quarter. As a result, the 2024 year-to-date average asking rent total held steady at \$19.96/SF.

## Outlook

- Despite a historically lackluster 2024 in terms of leasing activity, noticeably fuller parking garages and lots, improving economic conditions, and companies beginning to gravitate more towards heavier and consistent return-to-office mandates, bodes well for a better office leasing ecosystem in 2025.
- Office buildings were still low priorities for investors in 2024 due to continued risks and bleak refinancing prospects for that asset class both locally and nationally. However, some hope has emerged nationally for office assets going forward in 2025 as it is expected that investors and lenders will begin to reconsider office assets with some distress as the interest rate landscape becomes more favorable and accepted.
- Economic challenges continue for several prominent CBD office buildings, as lenders assuming ownership, pending foreclosures, special servicing assignments, and difficulties in securing financing/re-financing continued to impact several skyscrapers as the year ended.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables



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# Economy

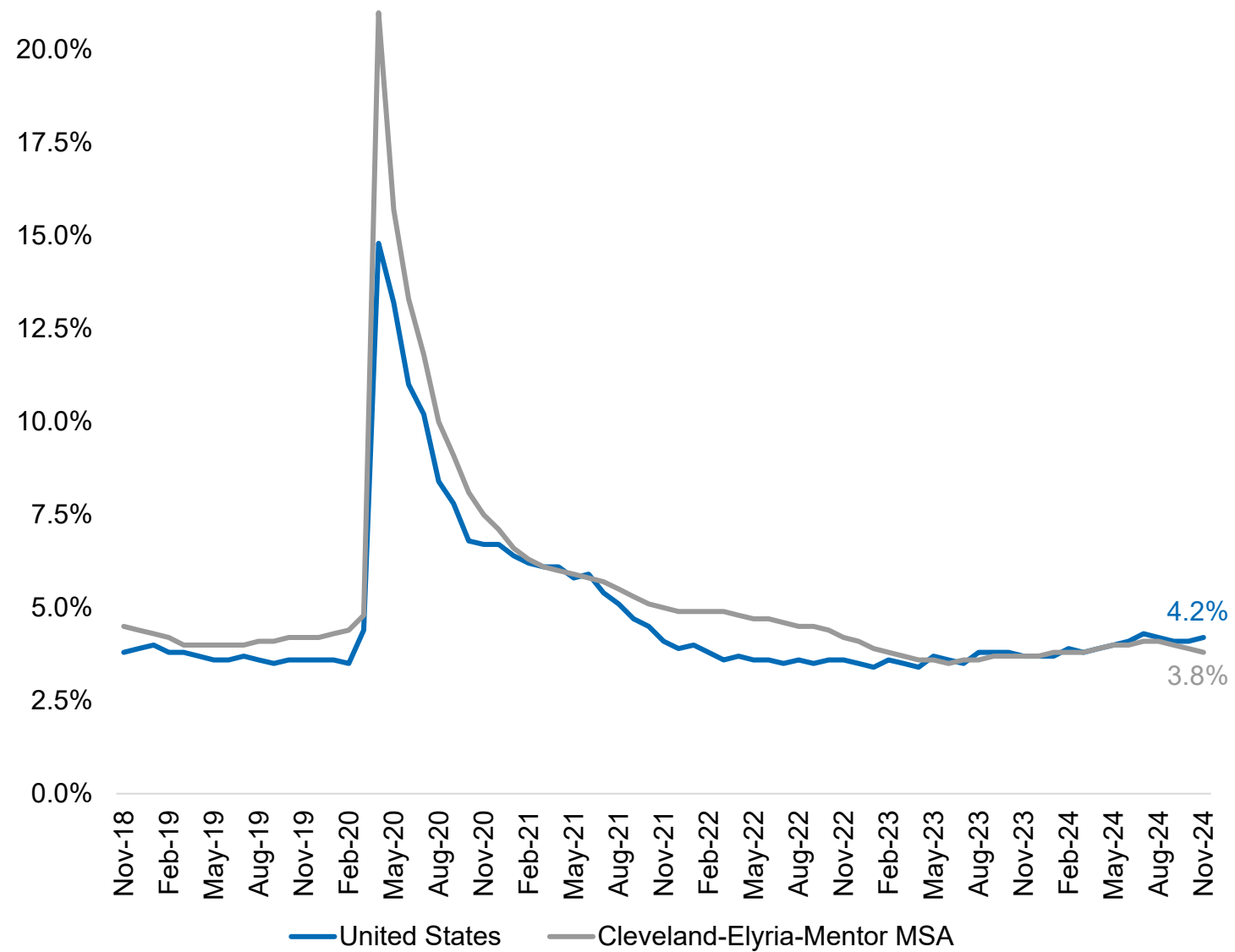




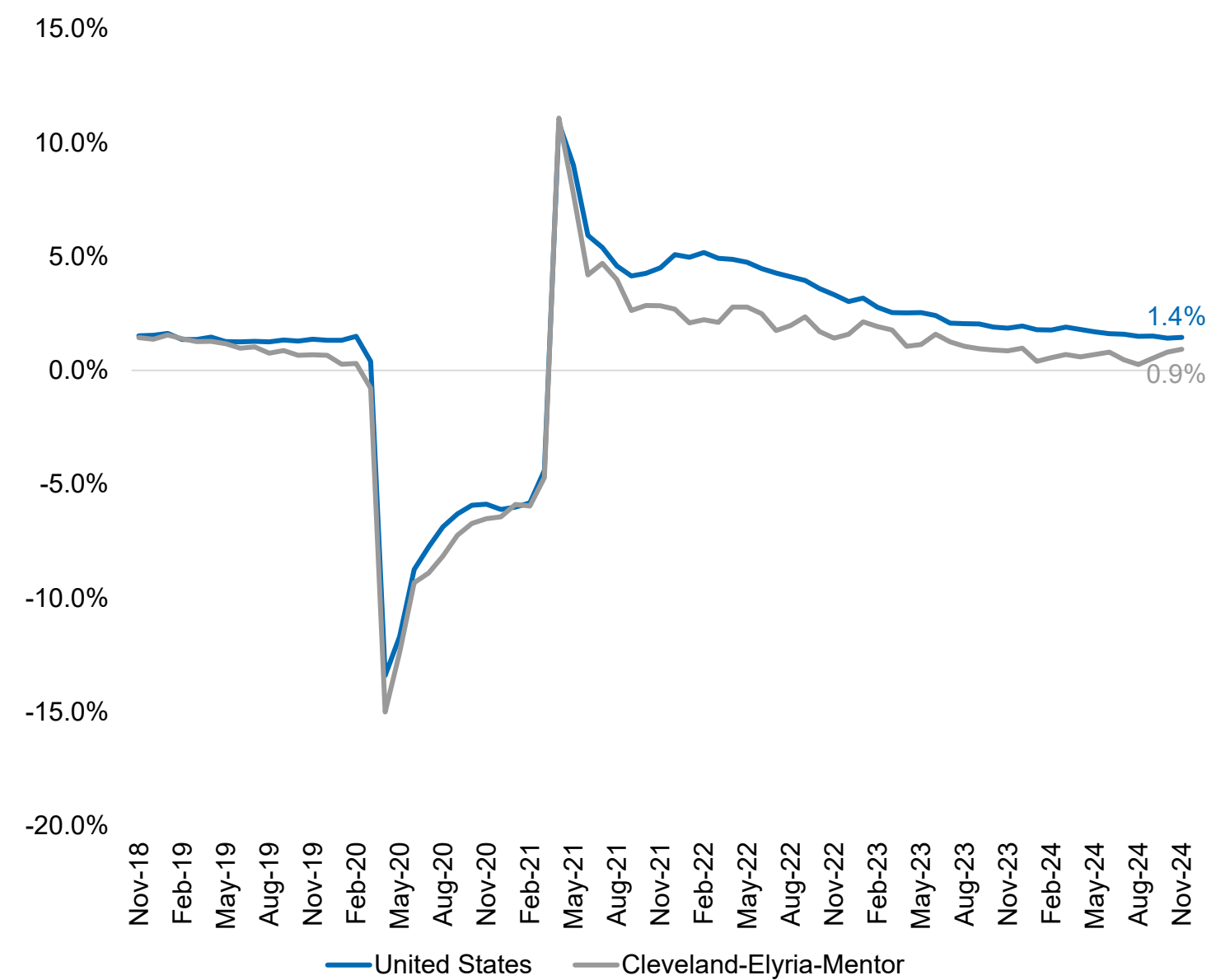
# Cleveland and United States Unemployment and Nonfarm Employment Trends

In the fourth quarter, the Cleveland-Elyria-Mentor metro's economy gained back the most jobs it has seen since December 2023, as total nonfarm employment increased annually by 0.9% in November. National nonfarm employment increased by 1.4%. The unemployment rate for the Cleveland-Elyria-Mentor MSA decreased to 3.8% in November 2024 – returning that figure to where it was at the beginning of the year before slowly rising to its highest point of 4.1% in July and August, then coming back down. Cleveland's most recent unemployment low came in June of 2023 at 3.5%. The national unemployment rate rose higher than Cleveland in November, to 4.2% and has remained equal to or higher than Cleveland's unemployment rate since February of 2024.

Unemployment Rate, Seasonally Adjusted



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



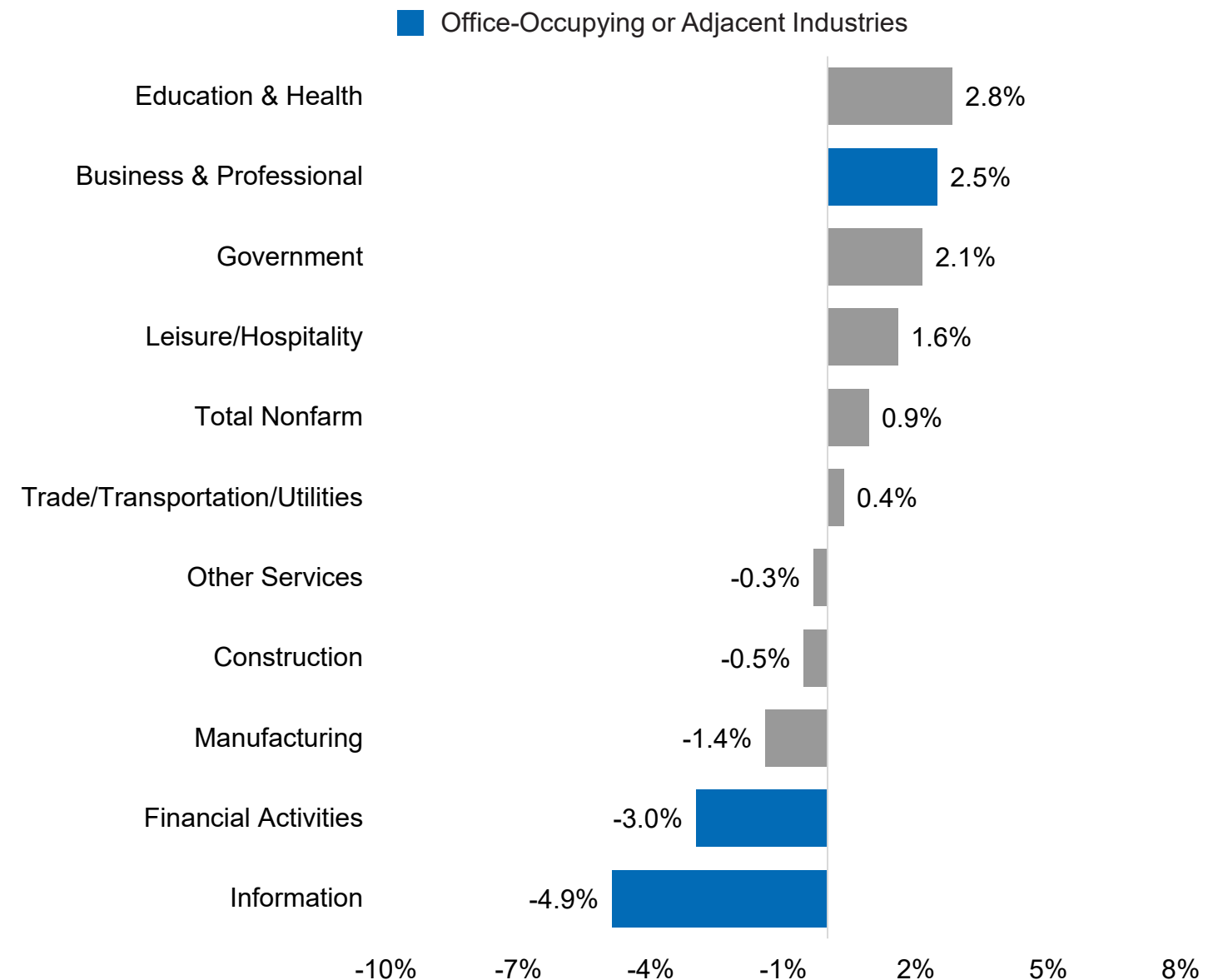
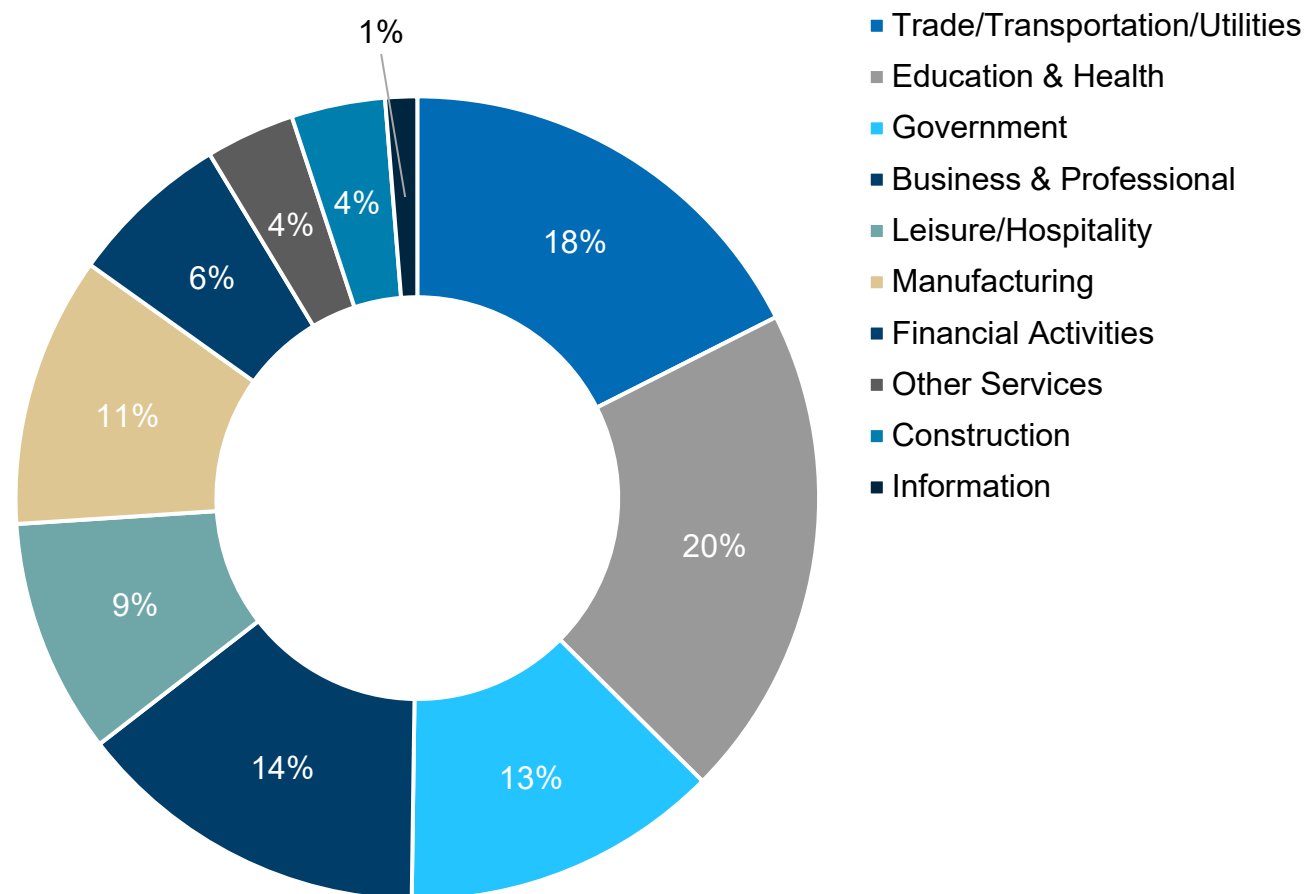
Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

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

Six of 11 industry sectors in the Cleveland market saw employment gains from November 2023 to November 2024. Two of the three office-occupying industries experienced annual job losses, with Business and Professional being the only office-occupying sector to make gains at 2.5%. The Education and Health sector once again had the biggest increase of all the industries for the fourth quarter at 2.8%. The two other office-occupying industries, the Information sector and Financial Activities sector, accrued year-over-year job losses at negative 4.9% and negative 3.0%, respectively.

Employment by Industry, November 2024

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

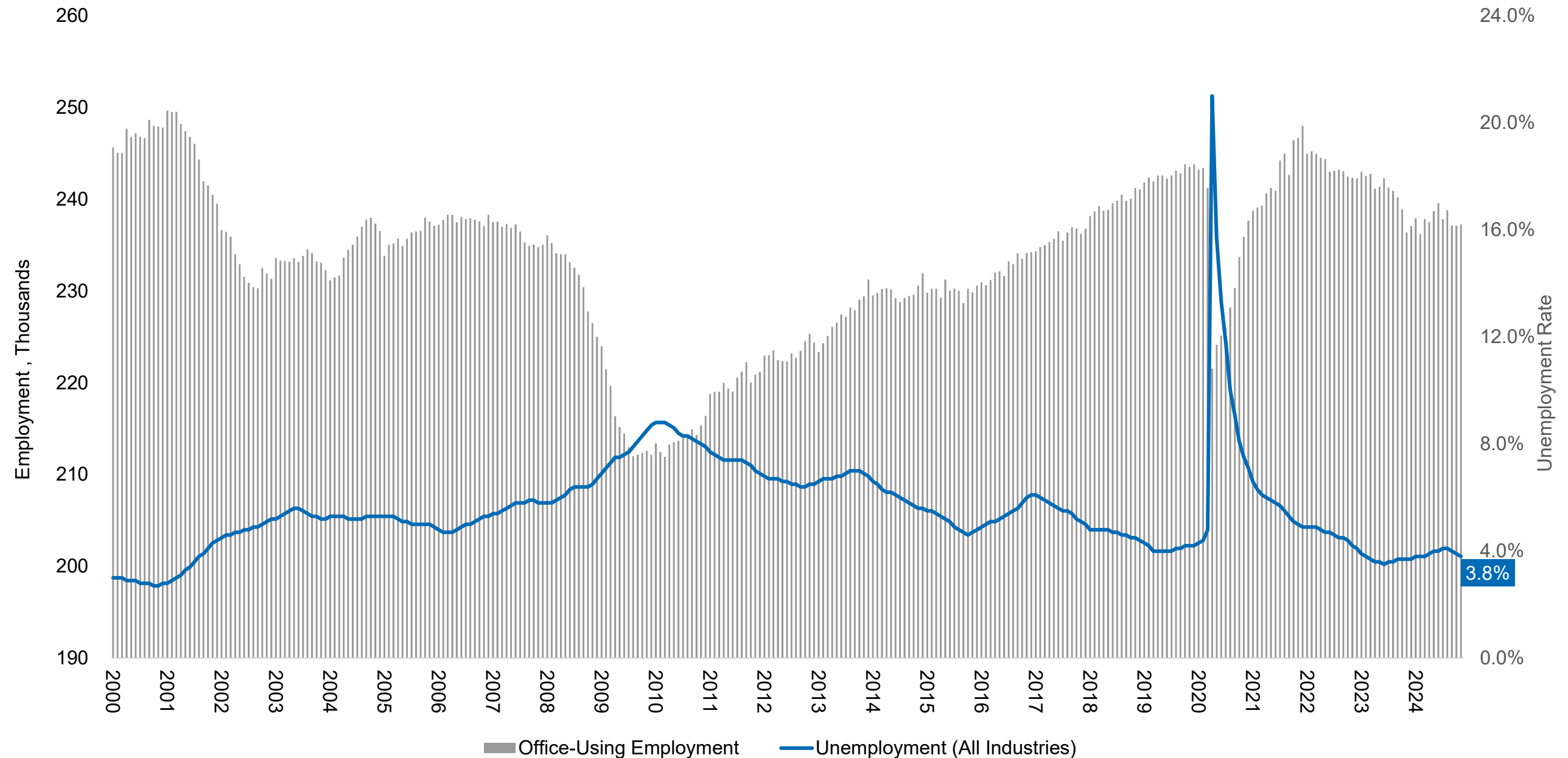


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

# Office-Using Employment

The number of office-using jobs in the Cleveland market as of November 2024 was approximately 237,251, which was slightly higher than September and October of 2024, but lower than figures from March through August 2024.

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

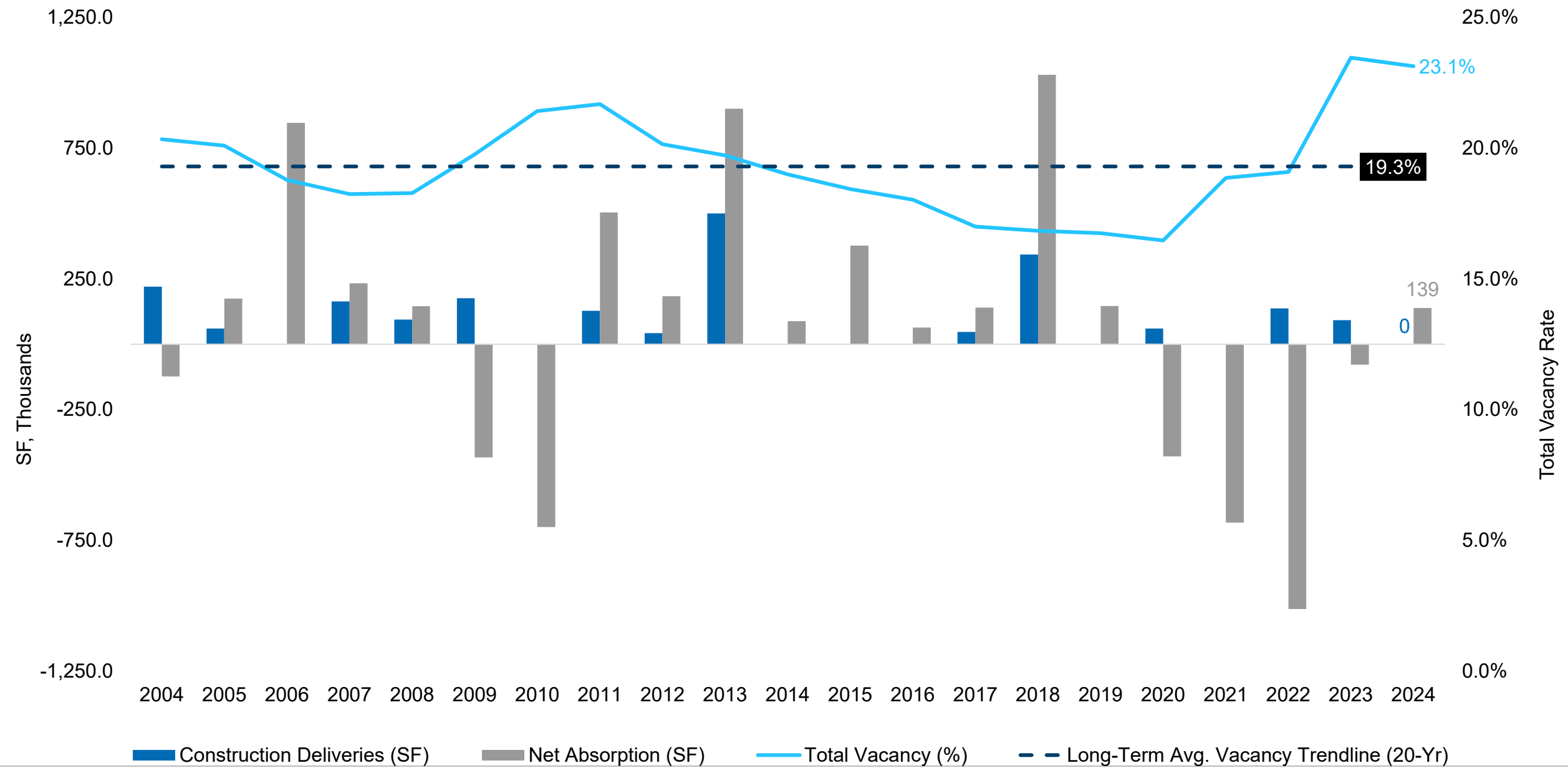




# Office Market Achieves Yearly Total of Net Positive Absorption

The Cleveland office market accrued 160,328 SF of positive absorption in the fourth quarter of 2024, propelling the market out of the negative for a yearly total of 138,705 SF in net positive absorption. The market finished the year in the positive for the first time since 2019. The quarterly positive absorption caused the vacancy rate to dip by 30 basis points to 27.8% in the fourth quarter of 2024. For the year 2024, the vacancy rate came in at 23.1%, 40 basis points lower than the 2023 year-end total. Despite a subtle rebound year for the Cleveland office market, the vacancy rate of 23.1% for the year still ended up higher than the long-term 20-year average vacancy trendline of 19.3% for the second year in a row.

Historical Construction Deliveries, Net Absorption, and Vacancy

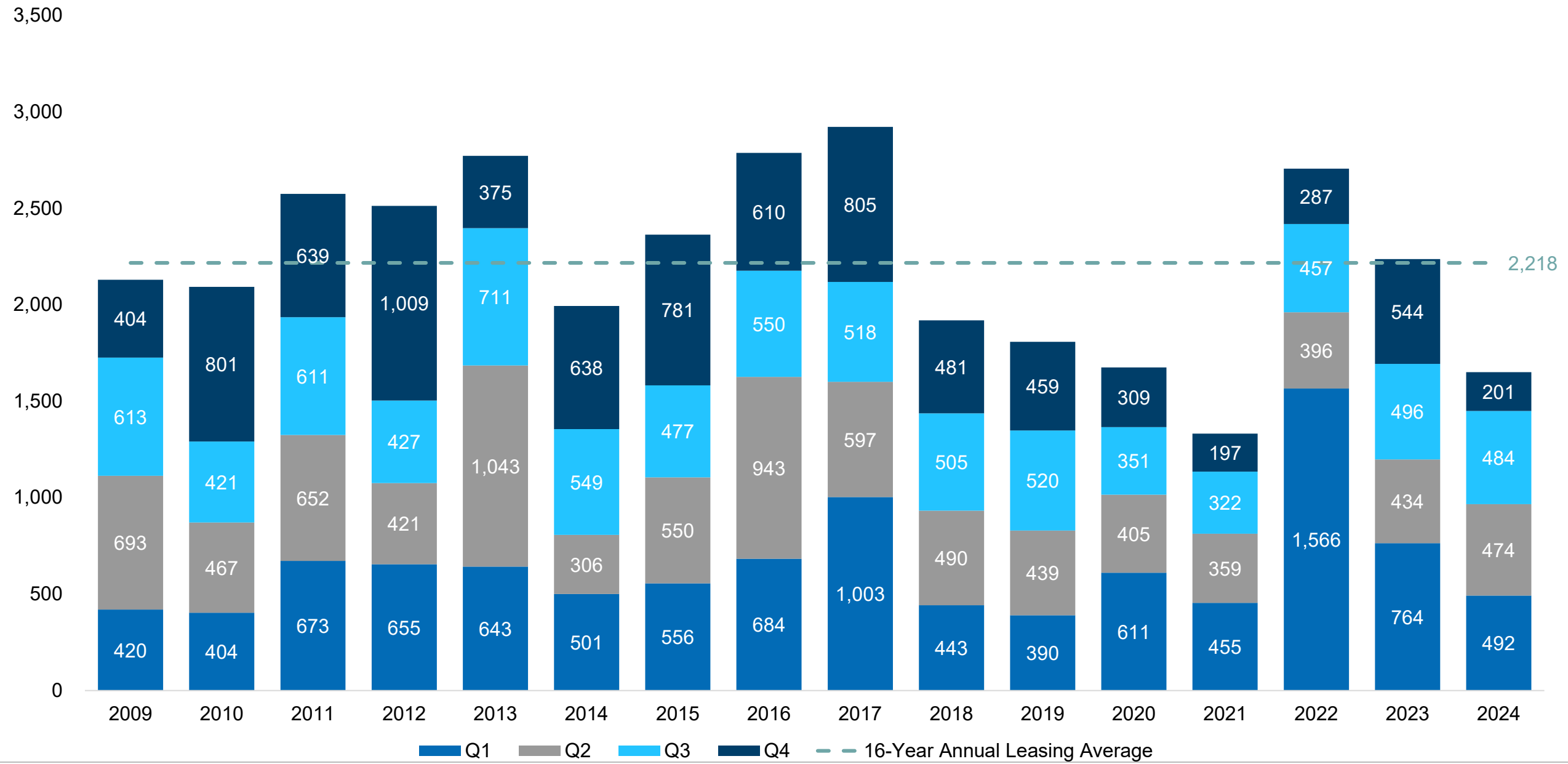


Source: Newmark Research

# Leasing Activity for 2024 Second Lowest in Last 16 Years

Total leasing activity for non-owner-occupied office buildings measuring 10,000 SF and greater in the Cleveland MSA was 1.65 million SF, the second lowest yearly total in the last 16 years. The fourth quarter of 2024 was the second lowest fourth quarter total in the last 16 years as well as the second lowest quarterly total of any quarter in the last 16 years. The 16-year annual leasing activity average was 2.2 million SF. Despite a historically lackluster 2024 in terms of leasing activity, improving economic conditions, along with companies beginning to trend more towards heavier and consistent return-to-office mandates, bodes well for a better office leasing ecosystem in 2025.

**Total Leasing Activity (thousands SF)**



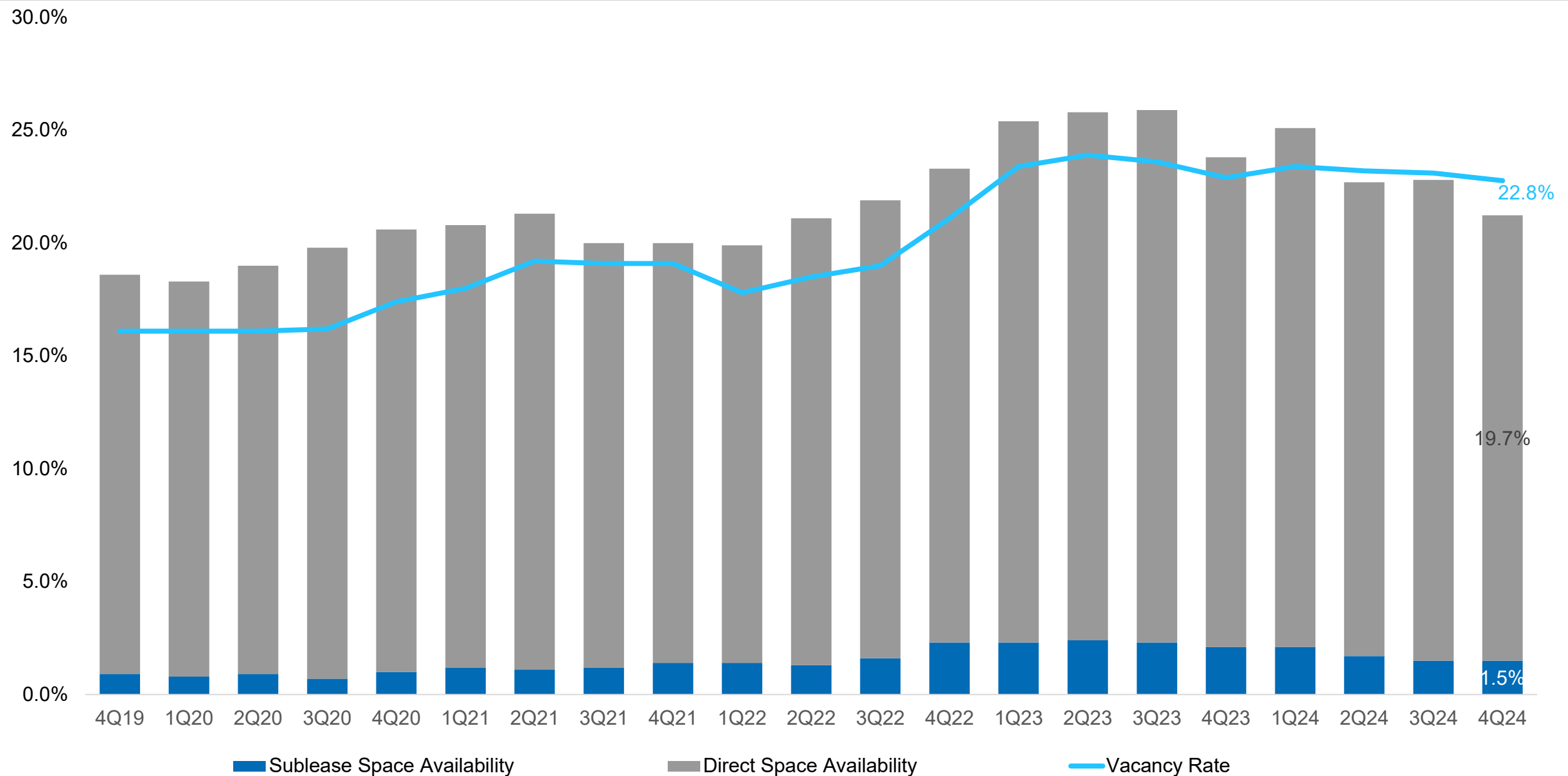
Source: Newmark Research, CoStar



# Direct and Sublet Both Dip in Available Square Footage

Direct space availability decreased significantly in the fourth quarter of 2024 by 160 basis points from the third quarter to 19.7%, representing 7.8 million SF. This is the lowest that direct space availability has been since the second quarter of 2022. Sublease space availability stayed at a flat 1.5%, though its available square footage decreased by 18,631 SF. Sublet availability has maintained a fairly steady and slow downward trajectory since the fourth quarter of 2022. Overall vacancy decreased to 22.8%, down 30 basis points from the prior quarter. Despite tepid leasing activity, the drop can be attributed to occupations taking hold from lease signings that took place in previous quarters. In recent quarters, vacancy has been higher than availability as a result of space that is considered vacant during redevelopment but isn't formally available to be leased.

Available Space as Percent of Overall Market

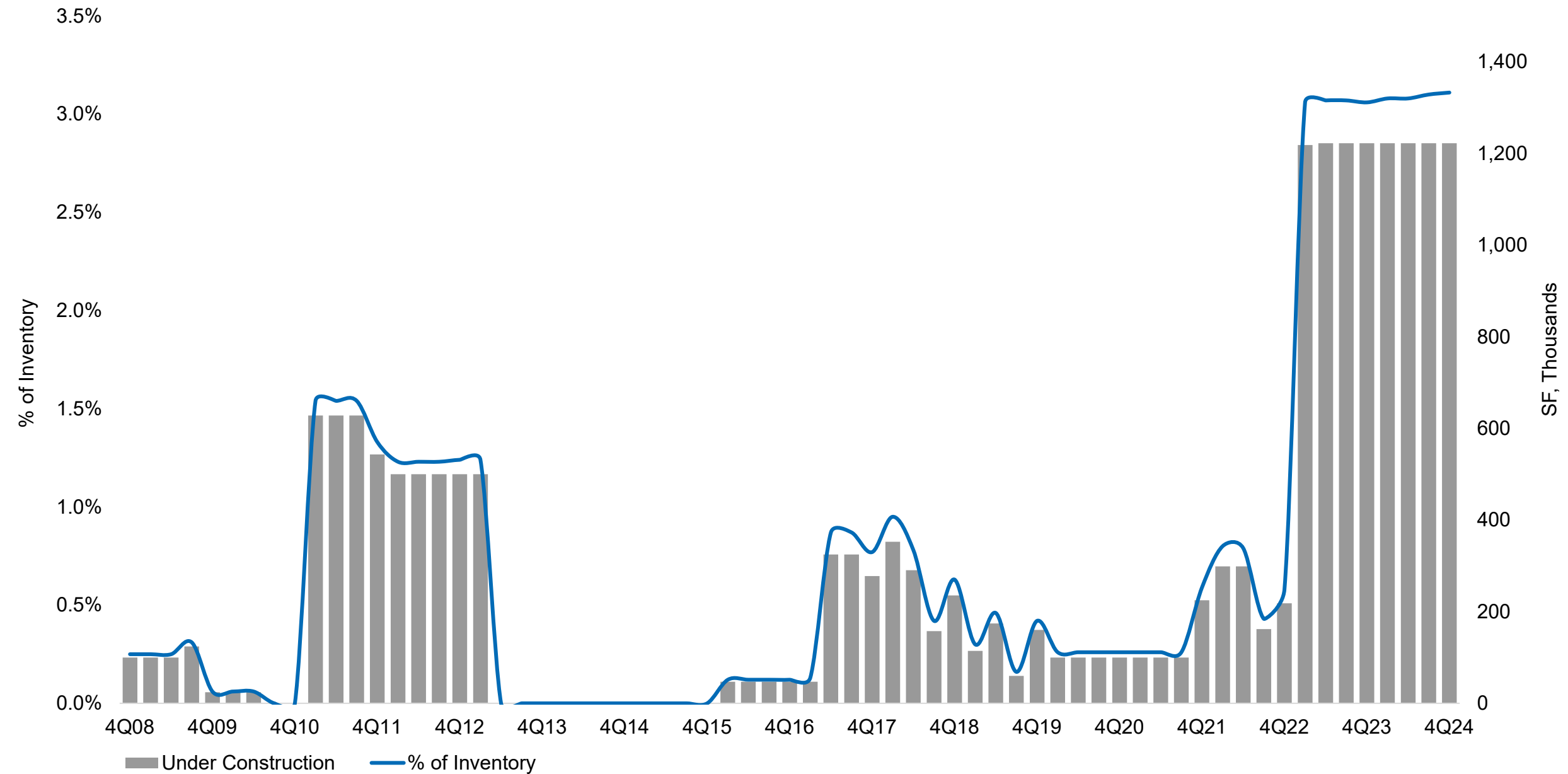


Source: Newmark Research

# Office Construction Activity Remains Unchanged

New 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. That project is due to deliver at some point in 2025. Construction activity has been unchanged for seven straight quarters and has amounted to 3.1% of inventory since the first quarter of 2023.

Office Under Construction and % of Inventory



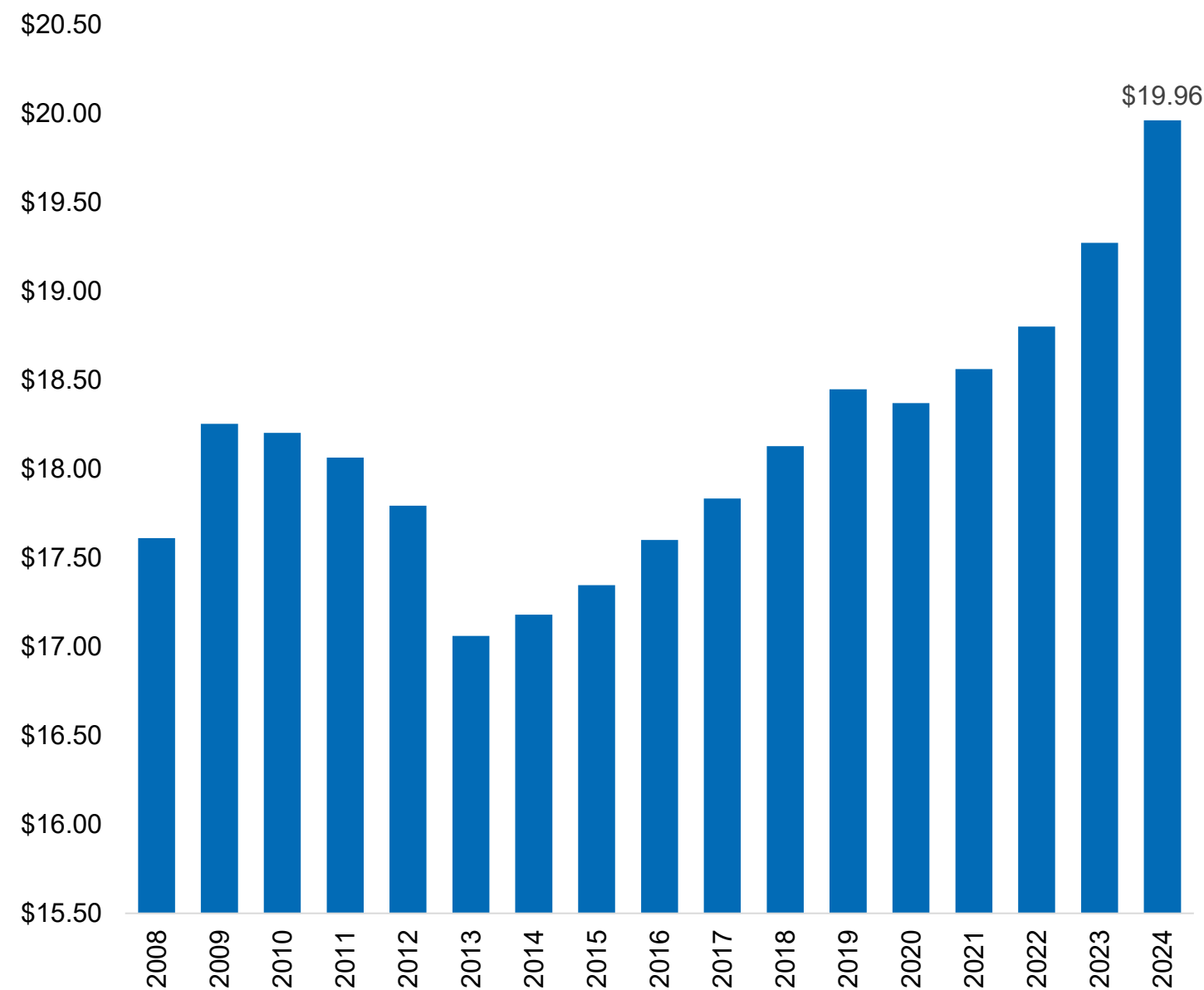
Source: Newmark Research



# Overall Rents Continue to Increase Year to Year

The Cleveland office market's overall average asking rental rate decreased by \$0.01/SF from the third quarter of 2024 to \$19.96/SF in the fourth quarter. As a result, the 2024 year-to-date average asking rent total held steady at \$19.96/SF (and matched the fourth quarter's rate) once the fourth quarter average was factored in, and the year-over-year asking rent growth rate stayed at 3.6% to end 2024. 10 of the last 11 years (the exception being 2020 as the pandemic took hold) have all seen year-over-year asking rental rate growth, and that trend continued through the end of 2024. Despite a jump in the yearly average rental rate from 2023 to 2024, quarterly rental rates throughout 2024 stayed within 10 to 20 basis points of each other.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

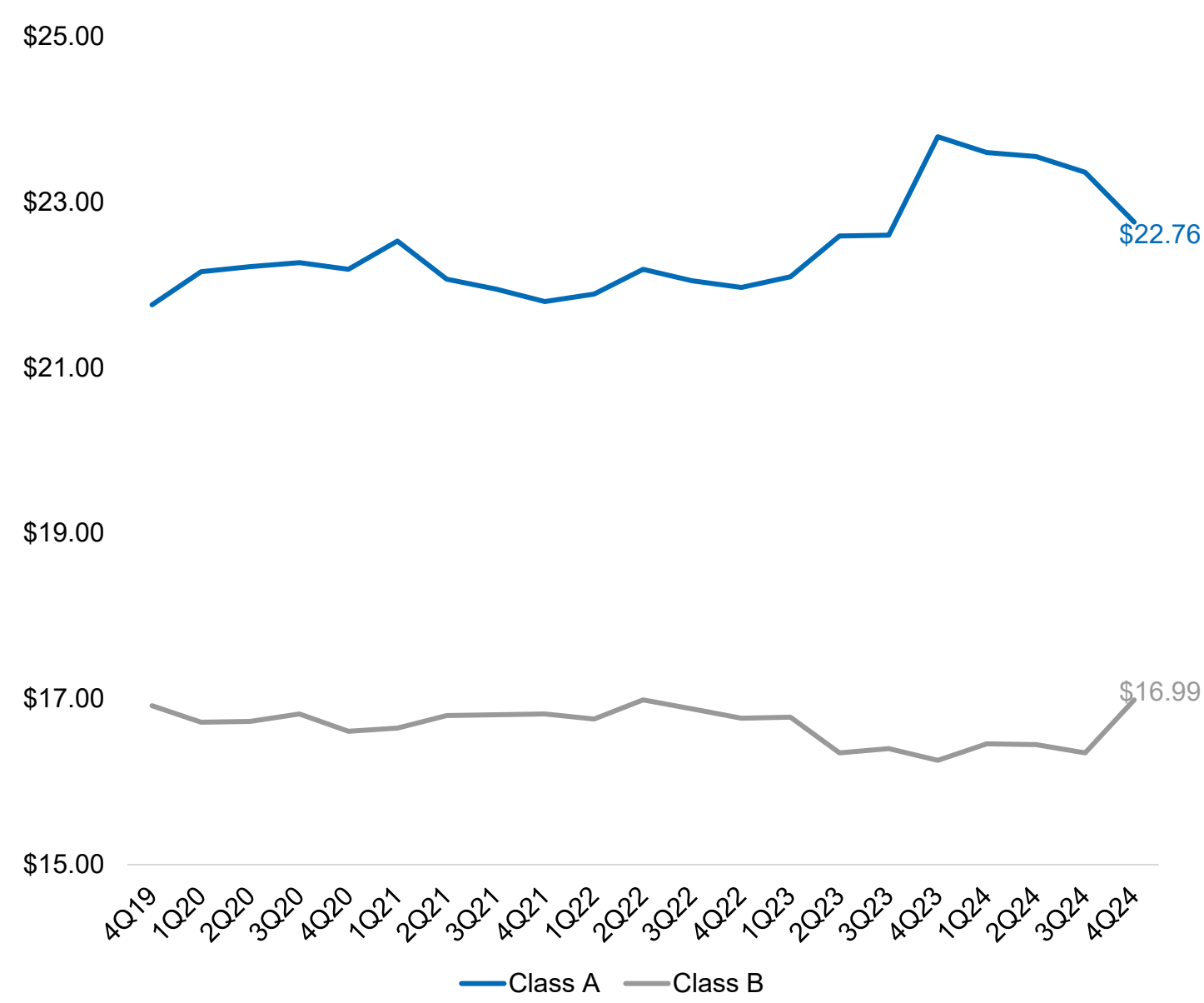


Source: Newmark Research

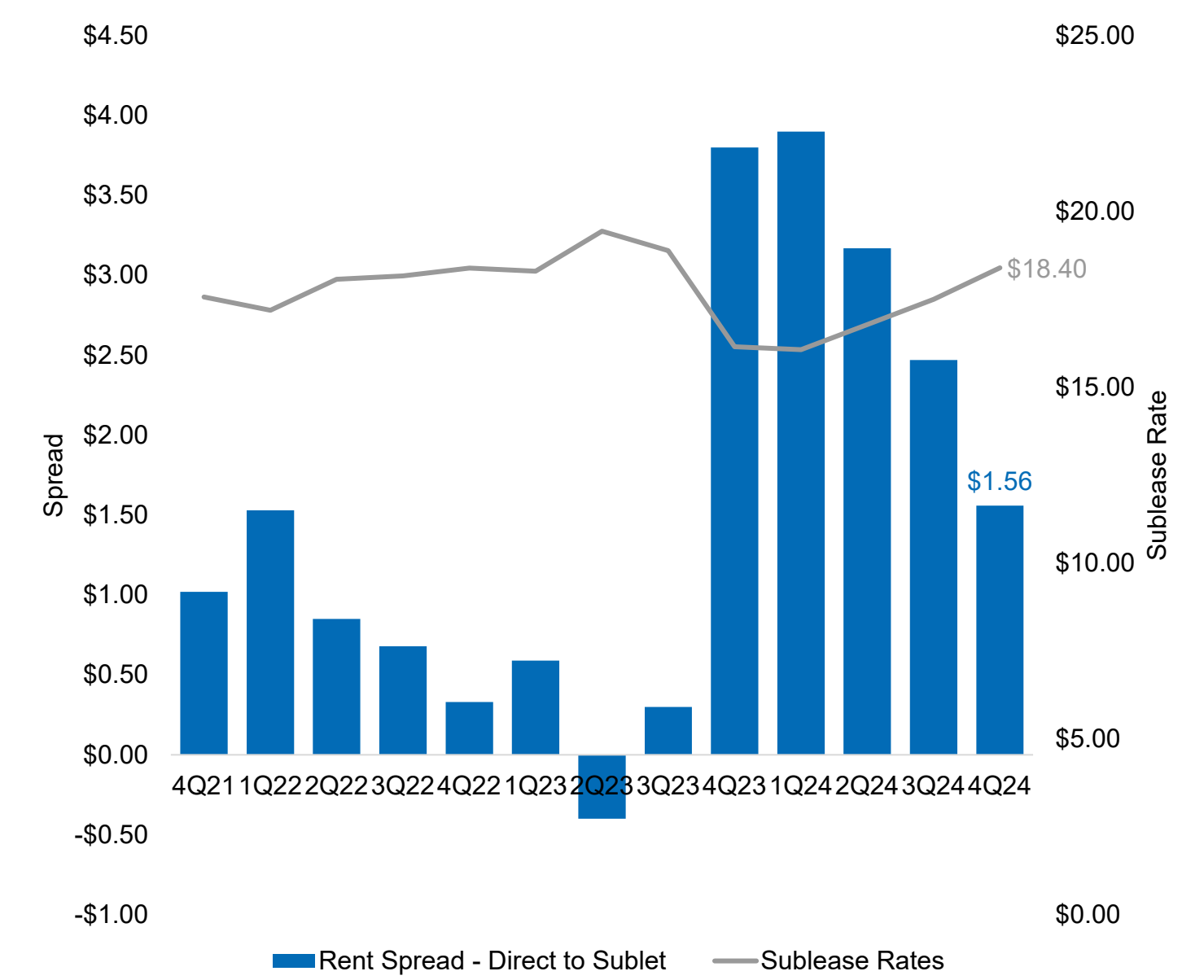
# Class A Asking Rents Down, While Class B Rents Rise; Sublease Rates Up

Class A average asking rental rates in the fourth quarter decreased by \$0.60/SF from the third quarter of 2024 to \$22.76/SF, while Class B rates increased by \$0.64/SF to \$16.99/SF, which further narrowed the gap between Class A and B rents to \$5.77/SF from \$7.01/SF in the previous quarter – the closest gap between the two classes of office buildings since the first quarter of 2023. In fact, Class B rents were up across the board for every submarket for the fourth quarter. The fourth quarter of 2024’s average sublease rate increased by \$0.90/SF to \$18.40/SF, which tightened the gap between sublease and direct rents to \$1.56/SF from \$2.47/SF. The sublease rental rate has increased for three consecutive quarters. Sublet availability has maintained a solid downward trajectory since the fourth quarter of 2022.

**Class A and Class B Asking Rents**



**Sublease Rates**



Source: Newmark Research



# Lease and Sale Transactions in 4Q24

## Select 4Q24 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Sequoia Financial	6085 Parkland Blvd.	East	Direct	20,000
ADP	6200 Oak Tree Blvd.	South	Extension	8,428
University Hospitals	25651 Detroit Rd.	West	Renewal	6,406
VPA, PC	7251 Engle Rd.	Southwest	Direct	3,671
Marein & Bradley, LLC	1300 E. 9th St.	CBD	Direct	3,522

## Select 4Q24 Sale Transactions

Buyer	Building	Submarket	Sale Price	Square Feet	Price Per SF
Pro Land Holdings LLC	1938 Euclid Ave.	CBD	\$2,000,000	12,686	\$157.65
AE 2500 Enterprise Pkwy, LLC (Great Day Improvements)	2500 E. Enterprise Pkwy.	South	\$2,000,000	26,716	\$74.86
The Hills at Home Property Holdings, LLC	7160 Chagrin Rd.	East	\$1,350,000	19,232	\$70.20
Ohio Department of Youth Services	17500 Rockside Rd.	East	\$4,800,000	121,164	\$39.62
Premier Development Partners	28501 Clemens Rd. (Part of a 2-Property Sale)	West	\$2,250,000	69,588	\$32.33
Premier Development Partners	28500 Clemens Rd. (Part of a 2-Property Sale)	West	\$4,000,000	134,298	\$29.78
Spark GHC and Cleveland Construction	2060 E. 9th St.	CBD	\$10,956,667	381,174	\$28.74

Source: Newmark Research, CoStar

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## Despite Positive Absorption, East Still Had the Most Vacancy

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## Two of Five Submarket Asking Rents Up Year Over Year

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# Appendix





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## Submarket Overview



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## Cleveland - Submarket Map

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## Additional Market Statistics

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