

Office Market Trends Indicate Further Growth Potential

Key Takeaways

- › During the first three months of 2017 the Cleveland office market recorded positive net absorption of 181,676 square feet, marking the thirteenth consecutive quarter of occupancy gains. The overall market vacancy rate fell further and now equals 12.9 percent.
- › Vacancy in the region's key submarkets range from a high of 17.8 percent in the Central Business District to a low of 6.5 percent in the Cleveland East submarket.
- › Beginning mid-2015, leasing activity increased, as evidenced by both the number of transactions and square footage leased over that timeframe. This trend suggests further gains in occupancy over the course of 2017.
- › The average transaction has also increased in size each of the last three years, and this trend continued in the first quarter, recording an additional 200-square-foot increase in the average amount of space leased.
- › Both Class A and overall market average asking rental rates recorded year-over-year and quarter-over-quarter declines. However, it may be the lack of high-quality Class A vacancies that are skewing these weighted averages.
- › Class A product averages an asking rate of \$20.43 per square foot in the Cleveland market, while the overall market rental rate averages \$17.25 per square foot, a year-over-year decline of 1.5 percent.
- › Even as the market continues to tighten, significant speculative construction remains non-existent. With the exception of the office space tied to a few mixed-use developments, no other speculative building has commenced construction. It would not be surprising, though, to see announcements for new speculative construction in the very near future.
- › Investment sales activity during the quarter stayed pretty close to home. The Key Center Tower was acquired by local multifamily developer, The Millennia Companies, who purchased the 1.3 million-square-foot, 58-story tower for \$231.5 million, along with the attached Marriott Hotel and parking structures. The entire transaction totaled \$267.5 million. Millennia will occupy two floors and Forest City Realty signed a lease to occupy 147,000 square feet on seven floors, bringing Ohio's tallest office tower's occupancy to 94 percent.
- › Additionally, a local group of private investors acquired the three-building Park Center Plaza in the Rockside Corridor submarket for \$49.5 million or approximately \$117 per square foot and plan to hold the property for a long term.

Market Indicators

Relative to prior period

	Q1 2017	Q2 2017*
VACANCY	↓	↔
NET ABSORPTION	+	+
CONSTRUCTION	↑	↔
RENTAL RATE**	↓	↑

* Projected, relative to prior period

** Class A rents

Summary Statistics

Q1 2017 Office Market

	Market	CBD	Suburban
Vacancy Rate	12.9%	17.8%	11.1%
Change From Q4 2016 (basis points)	-50	+40	-70
Absorption (Thousand Square Feet)	181.7	155.0	336.7
New Construction (Thousand Square Feet)	47.1	0.0	47.1
Under Construction (Thousand Square Feet)	828.5	0.0	828.5

Asking Rents

Per Square Foot Per Year

Market	\$17.25
Market Class A	\$20.43
Downtown Class A	\$20.63
Suburban Class A	\$20.18

Cleveland | Q1 2017 Office Submarket Data

MARKET	# OF BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	SUBLEASE AVAILABLE (SF)	QTRLY NET ABSORPTION (SF)	YTD TOTAL NET ABSORPTION	AVG WTD ASKING RATE (FSG)
CLEVELAND - CBD	104	19,483,278	3,639,564	3,458,663	17.8%	112,501	-154,986	-154,986	\$18.21
A	17	9,831,957	1,711,242	1,626,730	16.5%	34,177	-29,055	-29,055	\$20.63
B	68	8,941,276	1,799,222	1,720,112	19.2%	75,924	-126,655	-126,655	\$16.13
C	19	710,045	129,100	111,821	15.7%	2,400	724	724	\$10.19
CLEVELAND - CHAGRIN CORRIDOR	88	4,379,022	585,621	483,949	11.1%	36,507	20,213	20,213	\$18.58
A	14	1,456,179	166,858	143,050	9.8%	20,682	-1,046	-1,046	\$22.69
B	71	2,852,140	410,397	332,533	11.7%	15,825	21,259	21,259	\$17.86
C	3	70,703	8,366	8,366	11.8%	0	0	0	\$12.00
CLEVELAND - EAST	78	2,978,401	240,208	192,850	6.5%	15,802	-24,350	-24,350	\$19.91
A	11	938,688	120,003	84,724	9.0%	15,802	7,118	7,118	\$22.22
B	56	1,703,106	78,441	67,662	4.0%	0	-27,968	-27,968	\$18.34
C	11	336,607	41,764	40,464	12.0%	0	-3,500	-3,500	\$13.01
CLEVELAND - NORTHEAST	153	5,196,708	653,673	580,237	11.2%	22,329	185,828	185,828	\$13.98
A	4	676,704	0	0	0.0%	0	0	0	
B	124	3,680,374	562,584	489,148	13.3%	22,329	178,063	178,063	\$14.33
C	25	839,630	91,089	91,089	10.8%	0	7,765	7,765	\$12.19
CLEVELAND - ROCKSIDE	43	3,674,559	623,032	543,167	14.8%	58,319	37,924	37,924	\$18.50
A	17	2,074,415	344,608	307,773	14.8%	21,342	30,244	30,244	\$19.22
B	26	1,600,144	278,424	235,394	14.7%	36,977	7,680	7,680	\$17.51
CLEVELAND - SOUTH	101	2,946,068	504,825	325,444	11.0%	0	32,216	32,216	\$16.75
A	9	657,119	173,975	74,059	11.3%	0	0	0	\$20.32
B	81	1,945,011	275,300	214,324	11.0%	0	2,449	2,449	\$15.00
C	11	343,938	55,550	37,061	10.8%	0	29,767	29,767	\$9.81
CLEVELAND - SOUTHEAST	110	2,906,256	312,780	244,605	8.4%	21,332	-841	-841	\$15.36
A	1	78,000	0	0	0.0%	0	0	0	
B	98	2,567,934	309,677	242,595	9.4%	21,332	-841	-841	\$15.36
C	11	260,322	3,103	2,010	0.8%	0	0	0	
CLEVELAND - SOUTHWEST	128	4,349,836	535,499	433,999	10.0%	1,301	5,227	5,227	\$14.51
A	4	710,052	133,178	133,178	18.8%	0	0	0	\$15.88
B	105	2,968,356	372,501	285,017	9.6%	1,301	6,427	6,427	\$14.68
C	19	671,428	29,820	15,804	2.4%	0	-1,200	-1,200	\$11.93
CLEVELAND - WEST	136	5,631,456	724,046	628,188	11.2%	6,398	-9,261	-9,261	\$15.52
A	10	1,468,000	99,582	78,411	5.3%	3,988	6,537	6,537	\$17.76
B	103	3,489,024	540,062	465,375	13.3%	2,410	-15,798	-15,798	\$15.21
C	23	674,432	84,402	84,402	12.5%	0	0	0	\$12.61
EAST LAKE & GEAUGA COUNTY	46	1,072,053	235,860	227,152	21.2%	0	-9,950	-9,950	\$11.85
B	36	815,418	170,809	165,703	20.3%	0	-10,750	-10,750	\$13.42
C	10	256,635	65,051	61,449	23.9%	0	800	800	\$9.78
LORAIN COUNTY	81	1,625,641	257,200	257,200	15.8%	1,663	-4,450	-4,450	\$13.15
B	72	1,339,046	118,380	118,380	8.8%	1,663	-4,450	-4,450	\$13.20
C	9	286,595	138,820	138,820	48.4%	0	0	0	\$12.50
AKRON	244	9,866,979	1,391,840	1,123,425	11.4%	119,505	103,092	103,092	\$14.21
A	12	1,653,706	138,221	68,917	4.2%	109,321	74,750	74,750	\$22.37
B	189	7,285,374	1,180,502	983,922	13.5%	10,184	28,342	28,342	\$14.26
C	43	927,899	73,117	70,586	7.6%	0	0	0	\$10.33
SUMMIT COUNTY	110	3,476,529	426,574	341,427	9.8%	12,650	12,568	12,568	\$15.82
A	4	316,697	48,379	38,810	12.3%	0	0	0	\$23.48
B	80	2,729,713	345,794	270,996	9.9%	0	4,568	4,568	\$15.13
C	26	430,119	32,401	31,621	7.4%	12,650	8,000	8,000	\$6.99
MEDINA COUNTY	50	1,017,975	144,743	122,603	12.0%	0	-1,203	-1,203	\$17.17
A	1	96,000	28,288	16,257	16.9%	0	0	0	\$20.56
B	47	879,476	101,889	91,780	10.4%	0	-1,203	-1,203	\$15.18
C	2	42,499	14,566	14,566	34.3%	0	0	0	\$15.91
PORTAGE COUNTY	25	469,842	18,047	15,186	3.2%	0	0	0	\$20.00
B	21	380,384	18,047	15,186	4.0%	0	0	0	\$20.00
C	4	89,458	0	0	0.0%	0	0	0	
STARK COUNTY	154	4,410,136	609,537	485,661	11.0%	1,469	-10,351	-10,351	\$12.59
A	12	633,194	116,206	98,724	15.6%	0	-14,000	-14,000	\$16.56
B	126	3,255,752	338,109	233,528	7.2%	1,469	1,800	1,800	\$12.22
C	16	521,190	155,222	153,409	29.4%	0	1,849	1,849	\$9.75
Grand Total	1,651	73,484,739	10,903,049	9,463,756	12.9%	409,776	181,676	181,676	\$17.25

Summary & Outlook

Cleveland's economy continues to grow and diversify, with an emphasis on the professional services and other white-collar sectors. Job growth is projected to benefit the office market and as evidenced by the recent acceleration in leasing activity, this trend is already under way. With the market tightening and large blocks of Class A space diminishing, it is only a matter of time before speculative construction makes its return to the region.

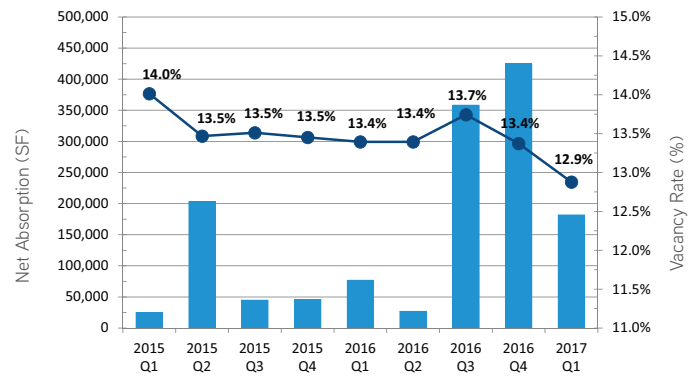
Currently, the only major speculative projects under construction are the office portions of the Pinecrest and Van Aken District mixed-use developments. At Pinecrest, Fairmount Properties broke ground with no pre-leasing commitments on two 75,000-square-foot buildings situated above ground level retail space. Since then, a combined 15,000 square feet of one building has been leased to Alliance Prime Associates, Continental Heritage Insurance and Tower 7 Partnership.

RMS Investment Corp., a subsidiary of Forest City Realty, has commenced construction on the first phase of the Van Aken District, which includes a 64,000-square-foot office building. To date, leasing commitments have been secured by McGlinchy Stafford, PLLC, ABA Insurance Services and Paragon Advisors, who will occupy a total of 41,800 square feet.

The growing popularity of mixed-use developments is in response to demand from both the millennial and baby-boom generations for walkable communities with convenient access to a wide variety of services and amenities. Although downtowns in many second tier cities are experiencing a robust renaissance. Not everyone wants to leave the suburbs and move to the urban core. In the Cleveland region, developments such as Crocker Park, Pinecrest and Van Aken are all responses to this demand for a "live, work, play" environment in a suburban setting.

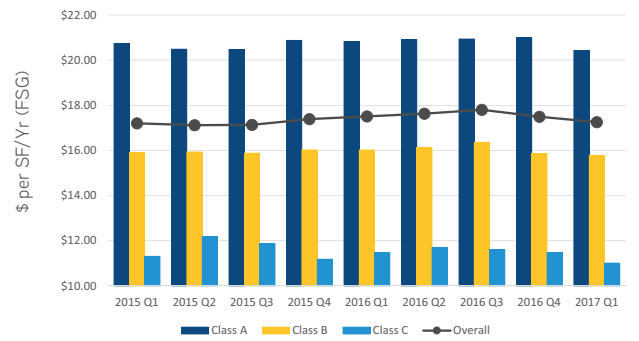
The office portions of many mixed-use projects are launched on a speculative basis so as not to subject future occupants, customers and visitors to the inconvenience of an ongoing construction project. Experience has shown that delivering the entire project or individual self-contained phases simultaneously results in a higher chance of success.

Office Vacancy/Absorption



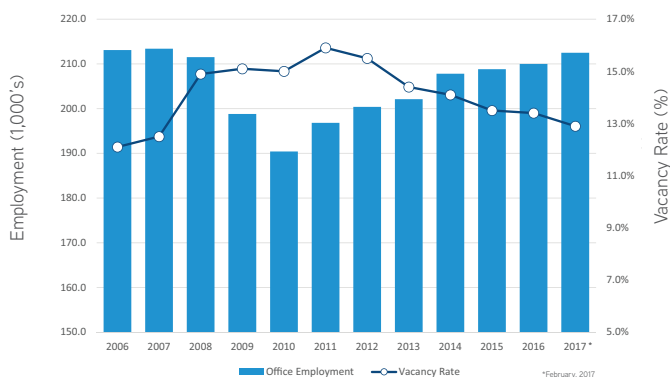
Over the past three years, the market has recorded a series of modest gains in occupancy, which have accelerated since mid-2015 and are anticipated to continue into the future.

Office Rental Rates (FSG)



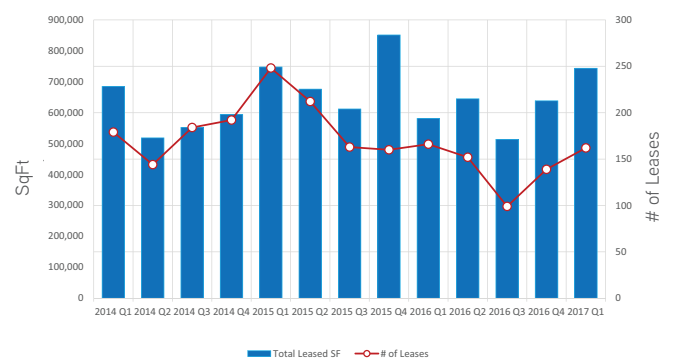
Rental rates have remained fairly flat over the past few years and this quarter's decline is related more to the lack of high-quality space on the market.

Office Employment vs Vacancy



The office-using employment sectors have recorded consistent annual job growth since the end of the recession and forecasts indicate further gains in the white-collar, tech and healthcare sectors in 2017.

Office Leasing Volume



Leasing volume has increased each of the past three years and recent data trends suggest additional gains in the future.

Sources: Colliers Research, Xceligent, CoStar, Bureau of Labor Statistics

Notable Office Sales | Q1 2017

PROPERTY NAME/ADDRESS	SALE DATE	SALE PRICE	BLDG SF	BUYER	SELLER	CLASS	SUBMARKET
Key Center Tower	Jan-17	\$231,500,000	1,325,000	The Millennia Companies	Columbia Property Trust	A	Cleveland CBD
Park Center Plaza I, II & III	Jan-17	\$49,500,000	422,259	Park Center Plaza LP	Five Mile Capital Partners	A	Cleveland South
Reserve Office Park - Phase I	Feb-17	\$4,600,000	35,017	Stark Enterprises Inc	Shore West Construction Co.	A	Cleveland West
4102 Rocky River Rd	Jan-17	\$4,468,817	63,176	Marty Healthcare Management	HCR Manor Care	Medical	Cleveland West
4244 Mt Pleasant St NW	Feb-17	\$3,714,000	30,984	DJB Matrix LLC	Selinsky Force	A	Stark County
Bainbridge Center	Jan-17	\$2,250,000	30,196	Bainbridge Real Estate LLC	Bainbridge Center Partners	A	East Lake & Geauga County
55 Erieview Plaza	Dec-16	\$1,530,000	94,080	Alto Partners	2105 Ontairo LLC	B	Cleveland CBD
Stonebridge Office Center	Dec-16	\$1,522,500	57,000	K&D Real Estate Services LLC	Starwood Property Trust Inc	B	Cleveland West
343 W Bagley Rd	Mar-17	\$1,000,000	38,100	Blaze Construction	Baldwin-Wallace College	B	Cleveland Southwest

Notable Office Leases | Q1 2017

PROPERTY NAME/ADDRESS	LEASE DATE	LEASE SF	ASKING RATE	LEASE TYPE	TENANT NAME	BUILDING CLASS	SUBMARKET
Key Tower	Jan-17	147,795	\$29.00	MG	Forest City Realty Trust	A	Cleveland CBD
AES Business Campus	Jan-17	54,060	\$18.50	MG	Homesite Insurance	A	Akron
Key Tower	Mar-17	45,027	\$27.00	MG	Millennia Companies	A	Cleveland CBD
Oswald Centre	Dec-16	25,622			CapitalWorks, LLC	A	Cleveland CBD
2279 Romig Rd	Mar-17	20,724	\$12.00	MG	ActionLink, LLC	B	Akron
2101 Superior Ave E	Mar-17	18,666	\$12.50	NNN	Global X	B	Cleveland East
4141 Rockside Rd	Mar-17	16,755	\$16.95	Gross	The Ohio Educational Credit Union	B	Cleveland South
One Cleveland Center	Dec-16	16,028	\$22.00	FSG	Lewis Brisbois Bisgaard & Smith LLP	A	Cleveland CBD
1111 Superior Ave E	Dec-16	15,044	\$17.50	FSG	Hyatt Legal Plans	A	Cleveland CBD
Signature Square I	Jan-17	13,146			Quadax	A	Cleveland East
Freedom Square II	Jan-17	11,894	\$19.00	FSG	Jonathan Rose	B	Cleveland South
The Keith Building	Mar-17	11,000	\$18.00	MG	On Shift	B	Cleveland CBD

554 offices in
66 countries on
6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **192**

EMEA: **112**

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