INVESTMENT FORECAST

Marcus & Millichap

OFFICE 2022

Cleveland Metro Area

Dearth of Speculative Deliveries Aids Existing Buildings; Properties in Eastern Suburbs Still a Buyer Favorite

Developers plan for long-term expansion as demand recovery lags. While Cleveland is projected to continue job growth at a rate on par with some other regional metros, employment recovery still lags far behind the national average. The appearance of new COVID-19 variants could create further challenges for demand, convincing some companies to downsize from current footprints. Despite tepid job growth, large employers are investing heavily in the metro. Sherwin-Williams broke ground in October 2021 on a 600,000-square-foot research and development facility, and plans to begin construction in 2022 on a new corporate headquarters in the CBD. Several other companies are currently engaged in redeveloping corporate properties or moving to new locations within the market. With nearly 1.5 million square feet under development entering 2022, the metro's substantial construction pipeline may weigh on rent growth in the mid-term. However, the large proportion of build-to-suit projects and Cleveland's typically high concentration of removal activity in the office-using sector will help to mitigate downward pressure on rent.

Eastern Cuyahoga County drawing noticeable investment. Transaction activity improved in 2021 as investors anticipated the eventual resumption of in-office operations. Leasing activity still favors amenity-rich properties in the CBD, but sales velocity is stronger in the metro's eastern suburbs. Here, the Chagrin Corridor remains the most popular submarket for its ample selection of low-entry-cost properties. Buyers here typically target smaller Class B and C assets in the $1 million to $6 million range to maintain as owner-user office space. The metro also observed a typical amount of Class A deals last year, including trades pursued by private buyers operating within the $1 million to $10 million tranche. These transactions were concentrated in suburban portions of Cuyahoga County west and southwest of the CBD.

2022 Market Forecast

Employment up 1.6% — Metro employers are projected to add 16,000 workers this year, with nearly half of this growth occurring in office-using sectors.

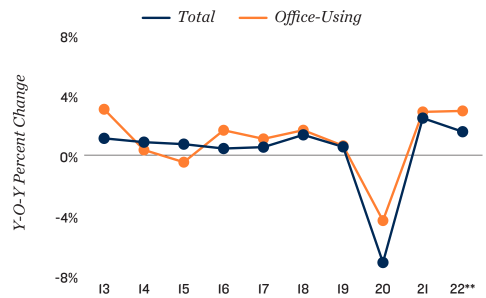
Construction 265,000 sq. ft. — Despite a hefty long-term pipeline, deliveries in 2022 are projected to be well below the market's annual average, with the majority of square footage comprising a build-to-suit project.

Vacancy down 50 bps — An uptick in employment growth and a sparse 2022 delivery schedule benefit existing properties with available space, dropping vacancy down to 10.8 percent.

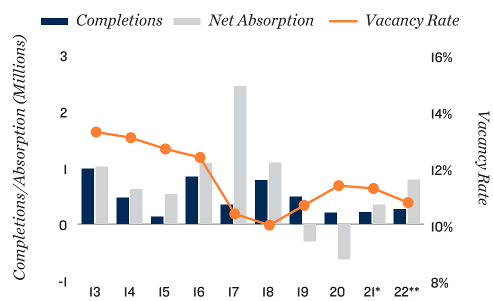
Rent up 0.7% — Positive net absorption compresses vacancy to its lowest point in the past three years, providing owners the impetus to raise the average asking rent to $16.22 per square foot.

Investment — Buyers active in Cleveland's CBD follow nationwide trends and compete for amenity-rich Class A and B properties or older buildings that are candidates for conversion.

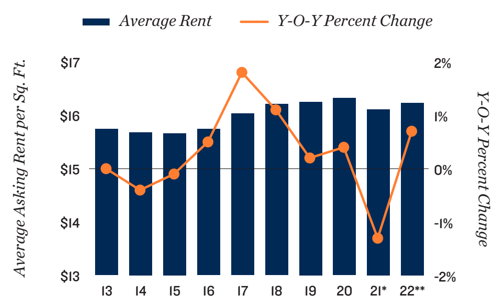
Employment Trends



Supply and Demand



Rent Trends



** Estimate; ** Forecast*
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Cleveland Office:

Grant Fitzgerald *Regional Manager*
Crown Centre, 5005 Rockside Road, Suite 800
Independence, OH 44131
Tel: (216) 264-2000 | grant.fitzgerald@marcusmillichap.com