

Cleveland Holds onto Coveted Status as One of the Least-Vacant Office Markets in the Country

Suburban demand supports metro's national standing. Among major Midwest markets, Cleveland entered the second half of this year with the tightest vacancy rate. Conditions in areas outside of the core are to credit, as availability here fell 30 basis points year-over-year in the second quarter to 10.8 percent, the fourth-lowest suburban rate nationally. Recent performance in the suburbs was highlighted by companies absorbing over 1.1 million square feet on a net basis throughout 2021. Since, some space has come back to the market; however, companies in Cleveland have exhibited a historical preference for Class B/C floorplans in the suburbs. If this trend persists, these properties are poised to maintain tighter vacancy rates than their CBD counterparts.

CBD also plays a role in the market's ranking. Despite a recent rise in availability, Downtown Cleveland entered July with the fifth-lowest vacancy rate among major national CBDs. Moving forward, reasons for optimism exist in the metro's core. As of September, an estimated 60 percent of workers were back in downtown offices on a given day, well above the national average. Additionally, the largest recent leases inked throughout the market have been for Class A space in the CBD. Should rising demand for higher-tier floorplans accelerate in the near term, existing properties with availabilities stand to benefit. As of August, a minimal volume of unaccounted for square footage was underway downtown, with office-to-apartment proposals potentially removing some vacant stock from inventory.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



24,500

JOBS
will be created

EMPLOYMENT:

Total employment in Cleveland will expand by 2.4 percent this year. The number of traditionally office-using positions will grow by 1.7 percent, allowing the sector's job count to surpass its pre-pandemic high.



500,000

SQ. FT.
will be completed

CONSTRUCTION:

Annual delivery volume reaches a four-year high, as developers expand local inventory by 0.5 percent. Over half of the space slated for 2022 finalization will come online in Southeast Cleveland.



60

BASIS POINT
increase in vacancy

VACANCY:

Availability in the metro will rise to 11.0 percent by year-end; however, the rate will remain one of the tightest nationally. More than 90 percent of the space underway as of August was highly pre-leased, aiding low vacancy.



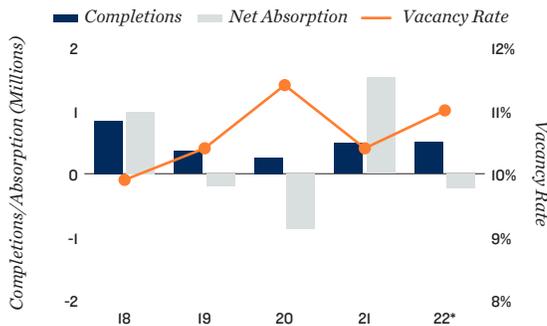
1.1%

INCREASE
in asking rent

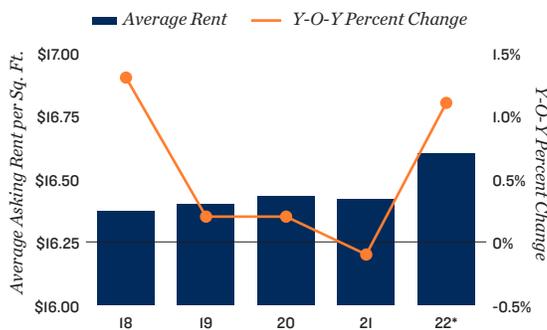
RENT:

The average asking rent will elevate to \$16.60 per square foot by year-end, slightly below the record high notched in March 2020. Despite this year's moderate gain, Cleveland's mean marketed rent will exceed that of Columbus and Cincinnati.

Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

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2Q 2022 - 12-Month Period

CONSTRUCTION

140,000 sq. ft. completed

- Deliveries in the second half of 2021 accounted for the majority of completions over the yearlong period ended in June, as minimal space came online in the first six months of this year.
- Recent supply additions were concentrated in Southeast and West Cleveland, maintaining the trend of developers targeting suburban areas.

VACANCY

20 basis point increase in vacancy Y-O-Y

- Despite a recent uptick in availability, Cleveland claimed the third-lowest vacancy rate among major U.S. markets in June at 11.1 percent.
- The suburban office sector logged a 30-basis-point drop year-over-year in vacancy to 10.8 percent, while CBD availability rose 110 basis points to 11.6 percent. Both rates are notably below each segments' long-term average.

RENT

1.8% increase in the average asking rent Y-O-Y

- The average asking rent in the second quarter reached \$16.53 per square foot, as comparable rates of growth were recorded in the CBD and suburbs, despite contrasting vacancy trends.
- The suburban mean asking rent rose to \$15.29 per square foot, and the average rent in the CBD reached \$18.68 per square foot.

Investment Highlights

- Transaction velocity in Cleveland rose by over 60 percent in the yearlong span ended in June. Deal flow remained above the pre-pandemic norm through all four quarters, as investors sought out properties in the \$1 million to \$10 million price tranche.
- Average pricing in Cleveland surged by 11 percent in the trailing year ended in June to \$128 per square foot. This was the largest mean price increase among major Midwest markets, yet Cleveland still retained the lowest price per square foot in the nation. The average cap rate in the metro remained in the low-8 percent band, a regional high. This comparatively reduced cost of entry and generally high return are likely to draw out-of-state buyers to the metro.
- In the trailing 12 months preceding July, transactions in Downtown Cleveland rose well above the pre-pandemic rate. Here, Class B/C properties built in the early 1900s traded around \$50 per square foot, well below the market average. The mean asking rent in the CBD has only fallen once annually since 2017, due to pandemic disruptions in 2020. Typically consistent rents, discounted entry costs and higher yields during a period of elevated inflation have attracted both local and out-of-state buyers.