

# Office Snapshot Q4 2015

Cleveland, OH



## CLEVELAND OFFICE

### Economic Indicators

	Q4 14	Q4 15	12-Month Forecast
Cleveland Employment	1,041k	1,056k	▲
Cleveland Unemployment	5.8%	5.4%	▼
U.S. Unemployment	5.7%	5.0%	▼

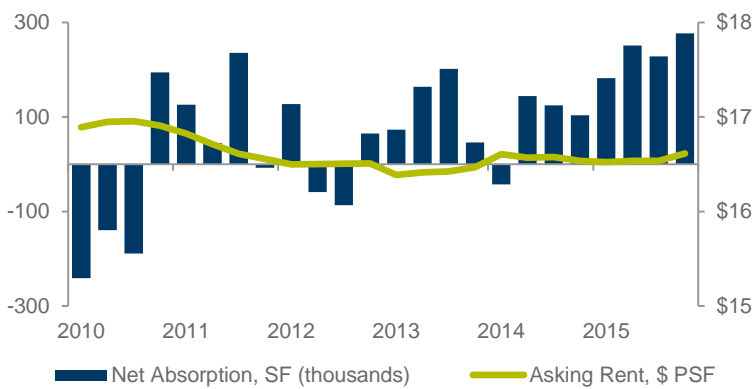
### Market Indicators (Overall, All Classes)

	2014	2015	12-Month Forecast
Vacancy	11.8%	11.5%	▼
Net Absorption (sf)	414k	1.1M	■
Under Construction (sf)	1.3M	1.2M	■
Average Asking Rent*	\$16.47	\$16.79	▲

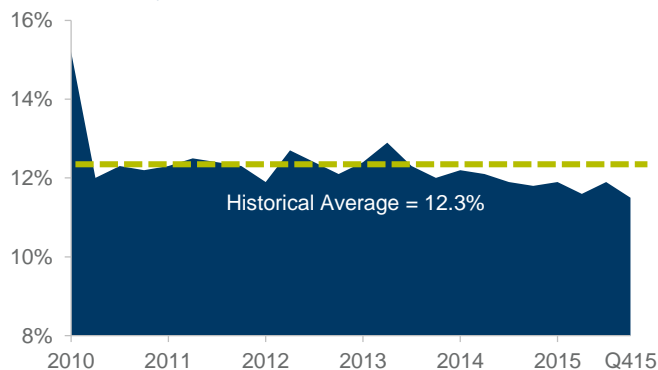
\*Rental rates reflect gross asking \$psf/year

### Overall Net Absorption/Asking Rent

#### 4Q TRAILING AVERAGE



### Overall Vacancy



## Economy

Expanded economic activity continued in the Cleveland market and the Federal Reserve's Fourth District during the last quarter of 2015. Higher unit sales and increased prices in the housing market were accompanied by strong activity in the commercial building sector. Nonresidential contractors reported healthy activity with revenues rising above year-ago levels. Demand remains strong in commercial building, multifamily housing, and higher education. Compared with the prior year, auto dealerships, restaurants and retail businesses reported increased revenues. Signs of pressure in the labor supply and wages were accompanied by gains in employment within construction and banking sectors. Difficulty finding highly-skilled craft and professional workers is reportedly driving up wages in some job categories. Same-store revenues for retailers during 2015 rose slightly as compared with last year, with a portion of this modest growth resulting from gasoline sales volume and home furnishings. In the banking sector, balances on deposits remain solid although the decline in bank branch locations continues as the move toward mobile banking grows.

## Market Overview

The Cleveland market exhibited further signs of improvement in 2015 as employment rates increased, asking rents strengthened and vacancy rates declined, as compared with 2014. Investment activity in prime office, retail, hospitality, multi-family and industrial projects remained vibrant as demand continued to be robust for quality properties in the region. Office properties in the central business district (CBD) and Suburban locations both reported sustained activity during 2015. Prime suburban properties benefitted from ongoing positive absorption and firming rental rates. In the CBD however, Key Bank's decision to reduce occupancy in Key Tower by more than 200,000 square feet had a negative impact on net absorption in the CBD market.

## Outlook

As 2016 begins, we anticipate continued pressure on wages for quality employees in most sectors. In retail, employers are facing stiffer labor competition. Increased turnover of managerial staff and hourly workers, coupled with a smaller pool of qualified workers, is driving up wages. In manufacturing, difficulty finding high-skilled craft and professional workers is driving up wages in some job categories. The construction industry is likely to remain tested by a labor shortage, including laborers and skilled craftsmen. In the year ahead, the energy sector may provide a sharp contrast, where wage deflation could potentially occur as a result of decline in that industry.

MARKETBEAT

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Cleveland, OH



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	32,708,516	30,901	5,758,611	17.7%	42,106	99,083	574,007	377,000	\$19.37	\$21.76
Akron	26,481,245	15,351	3,196,814	12.1%	11,514	35,751	511,305	28,310	\$15.56	\$23.66
Chagrin, East & Lander	12,111,664	8,052	759,472	6.3%	34,566	121,628	340,152	0	\$18.85	\$22.01
Stark County	11,129,916	16,500	930,988	8.5%	34,424	18,339	91,616	0	\$13.52	N/A
Rockside & South	9,430,403	11,772	914,588	9.8%	(23,303)	198,175	364,151	17,210	\$18.03	\$20.67
West	7,943,542	13,771	797,331	10.2%	11,434	80,561	98,693	660,000	\$14.92	\$18.61
Southwest	8,549,777	38,737	826,577	10.1%	(11,277)	(3,226)	94,919	92,242	\$16.25	\$22.89
Northeast & Lake County	8,202,796	1,190	868,751	10.6%	33,098	96,841	48,622	16,100	\$15.55	\$19.28
Midtown	6,899,688	15,998	774,311	11.5%	65,523	139,814	52,637	0	\$13.81	\$20.86
Lorain County	5,424,950	0	476,571	8.8%	14,455	59,277	42,650	12,000	\$12.61	N/A
Fairlawn & Montrose	4,158,378	16,079	368,288	9.2%	13,416	67,094	113,055	0	\$16.46	\$21.29
Portage & Geauga	3,865,461	420	235,271	6.1%	4,137	48,668	19,975	0	\$16.55	\$25.27
Southeast	3,481,178	0	231,752	6.7%	66,697	108,480	115,511	0	\$17.14	\$20.38
Medina	3,061,863	3,972	221,931	7.4%	4,302	38,306	40,594	0	\$15.92	N/A
<b>CLEVELAND TOTALS</b>	<b>143,449,377</b>	<b>172,743</b>	<b>16,361,256</b>	<b>11.5%</b>	<b>301,092</b>	<b>1,108,791</b>	<b>2,507,887</b>	<b>1,202,862</b>	<b>\$16.79</b>	<b>\$21.52</b>

\*Rental rates reflect gross asking \$psf/year

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Class A	24,771,211	32,490	2,556,959	10.5%	-11,818	54,811	1,102,216	1,202,862	\$21.52	21.63
Class B	73,906,985	75,905	8,755,241	11.9%	186,522	814,424	1,046,666	0	\$16.74	16.71
Class C	44,771,181	64,348	5,049,056	11.4%	126,388	239,556	359,005	0	\$13.90	13.90

## Key Lease Transactions 2015

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1300 East 9 <sup>th</sup> Street, Cleveland	70,750	AECOM	Direct	CBD
31500 Solon Rd, Solon	54,000	Saint-Gobain Performance Plastics	Direct	Southeast
6100 Rockside Woods, Independence	31,055	Vox Mobile	Direct	Rockside & South
3700 Park East Drive, Beachwood	20,612	Real Alloy Recycling	Direct	Chagrin, East & Lander

## Key Sales Transactions 2015

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
925 Euclid Avenue, Cleveland	1,400,000	Optima International/Hudson Holdings	\$22,500,000 / \$16	Cleveland CBD
Skylight Office Tower, 230 W Huron, Cleveland	321,000	Forest City / Hertz Acquisition Corp	\$35,400,000 / \$110	Cleveland CBD
East Point, 6085 & 6095 Parkland Blvd, Mayfield Heights	171,000	Piedmont Office Realty Trust / Founders Properties, LLC	\$18,500,000 / \$50	Northeast
Tower East, 20600 Chagrin Blvd, Beachwood	173,087	Tower East Operating Associates LP/ Equity Engineering Group Inc.	\$3,600,000 / \$30	Chagrin, East & Lander

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CRESCO Real Estate  
3 Summit Park Drive, #200  
[www.crescorealestate.com](http://www.crescorealestate.com)

For more information, contact:  
Bill Saltzman, Exec Vice President  
Tel: +1 216 520 1200  
[bsaltzman@crescorealestate.com](mailto:bsaltzman@crescorealestate.com)

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