
2Q24

Cleveland Office Market Overview



NEWMARK

Market Observations

Economy

- The Cleveland-Elyria-Mentor Metro’s economy gained back a modest number of jobs in the second quarter of 2024, as total nonfarm employment increased annually by 0.7% in May. National nonfarm employment increased by 1.8%. The unemployment rate for the Cleveland-Elyria-Mentor Metro rose to 4.0% in May 2024 after sitting at 3.8% from January to March and increasing to 3.9% in April.
- Two of the three office-occupying industries saw annual job losses, with business and professional being the only office-occupying sector to make gains at 0.8%.
- The number of office-using jobs in the Cleveland market as of May 2024 was approximately 238,625, the market’s highest tally since October of 2023.

Major Transactions

- Several notable companies made news regarding lease signings of 35,000 SF or larger in the Central Business District (CBD) during the second quarter.
- The Cuyahoga County Board of Elections received approval for a \$91 million, 17-year lease at the former Cleveland Plain Dealer headquarters at 1801 Superior Ave. E. The 223,000 SF lease should commence after November’s election, and would likely also house the county’s health and human services operations.
- Cleveland-Cliffs, a longtime tenant of 200 Public Square, committed to keep its headquarters at the Class A property for another 10 years, while right-sizing its footprint to approximately 100,000 SF. The company once leased around 185,000 SF but has adjusted its space through sublease and adjustments in recent years.
- U.S. Bank Centre, located at 1350 Euclid Ave., will soon be getting a new name, as longtime tenant Cohen & Co. renewed its 38,000 SF lease for 10 years while also obtaining the building’s naming rights.

Leasing Market Fundamentals

- Total leasing was 250,162 SF in the second quarter of 2024, the second lowest quarterly total in the last 16-plus years.
- The Cleveland office market absorbed 92,328 SF in the second quarter of 2024, after a first quarter total of negative 191,467 SF. The market still shows negative absorption for the year thus far and has experienced negative absorption in six of the past 10 quarters and annually in the past four years.
- The second quarter’s vacancy rate decreased to 23.2%, down 20 basis points from the first quarter. The year-to-date vacancy rate for 2024 stands at 23.3% after two quarters.
- The Cleveland office market’s average asking rental rate decreased slightly by \$0.04/SF from the first quarter of 2024 to \$19.95/SF in the second quarter of 2024.

Outlook

- The Cleveland office market is by no means immune to the persistent macroeconomic uncertainty that continues throughout the United States. The U.S. Federal reserve signaled a potential rate cut later this year, which could provide some much-needed breathing room. Though far from robust, the Cleveland office market has avoided catastrophe during the economic downturn as a result of over 5.5 million SF of office space being removed over the last 10 years for conversion, and another 2.1 million SF of inventory that is either proposed or rumored to be conversion candidates.
- Despite showing a flicker of life in the second quarter with a small amount of positive absorption, the Cleveland office market is still in the negative for the year. Shifting sentiment toward smaller spaces continued to dominate, while limited new rentable construction has enabled lease rates to generally remain on an upward trend. Uncertainty will persist until economic conditions become more favorable.

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

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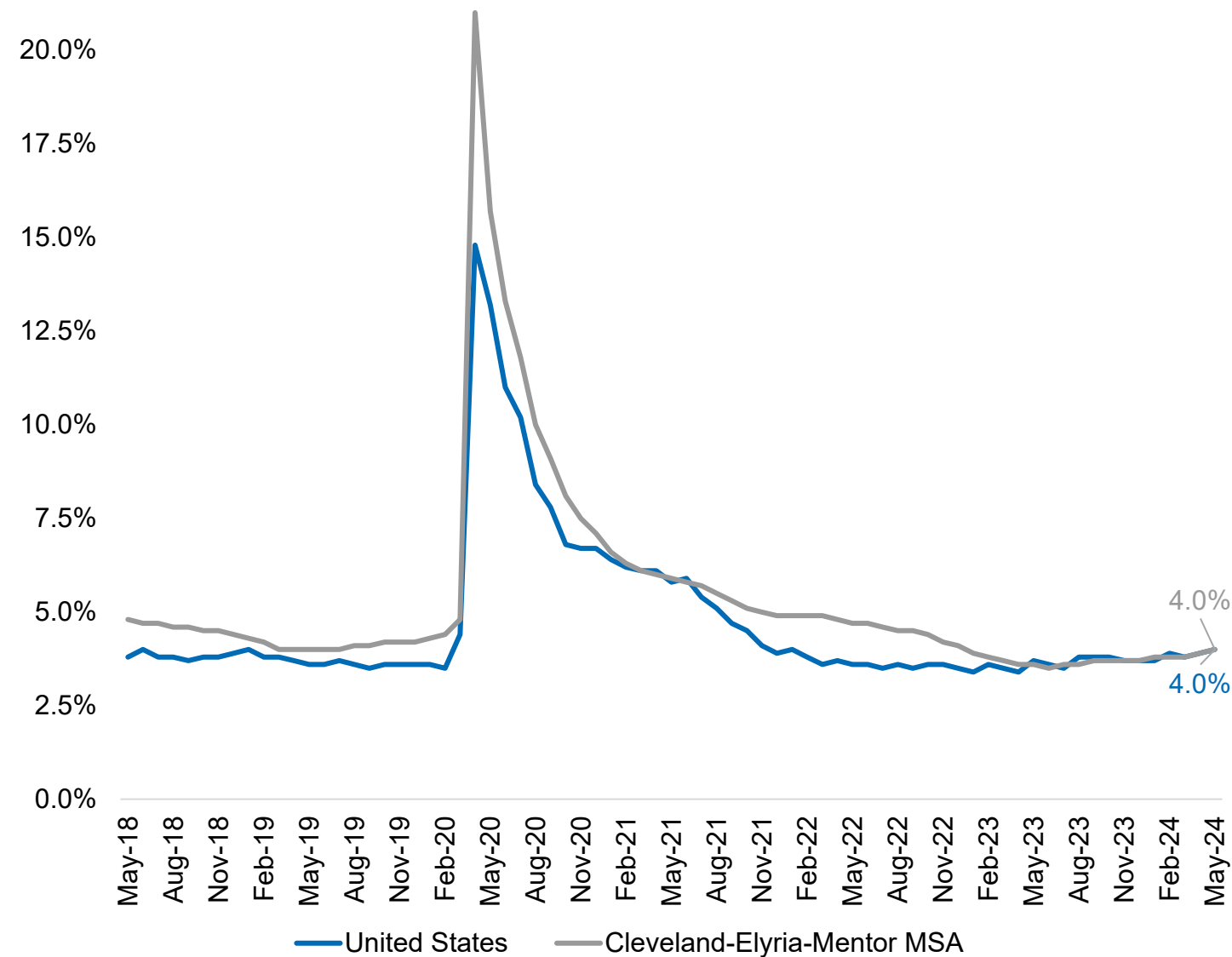
Economy



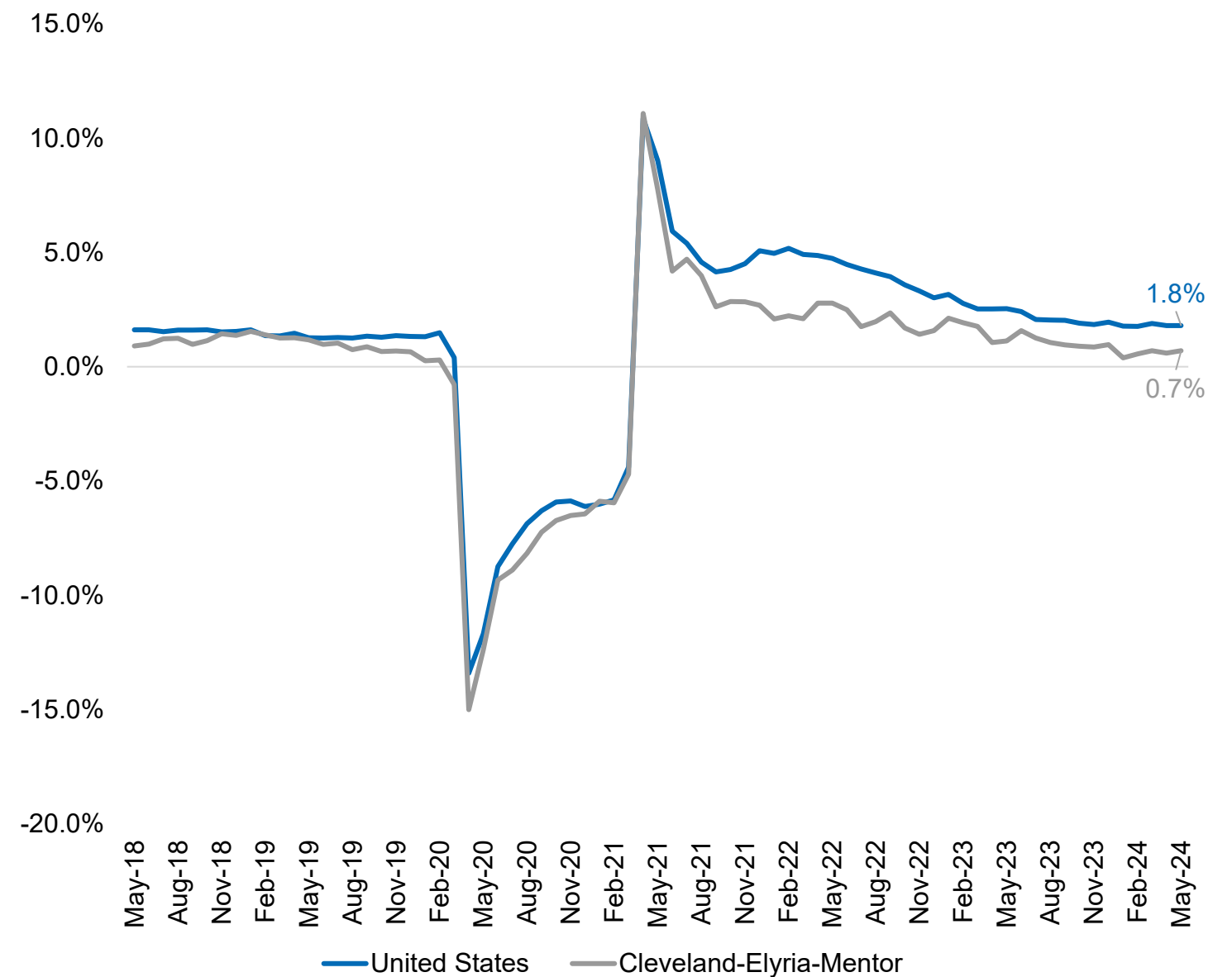
Cleveland and United States Unemployment and Employment Trends

The Cleveland-Elyria-Mentor Metro's economy gained back a modest number of jobs in the second quarter of 2024, as total nonfarm employment increased annually by 0.7% in May. National nonfarm employment increased by 1.8%. The unemployment rate for the Cleveland-Elyria-Mentor Metro rose to 4.0% in May 2024 after sitting at 3.8% from January to March and increasing to 3.9% in April. The national unemployment rate followed the same path as Cleveland from March to May.

Unemployment Rate, Seasonally Adjusted



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



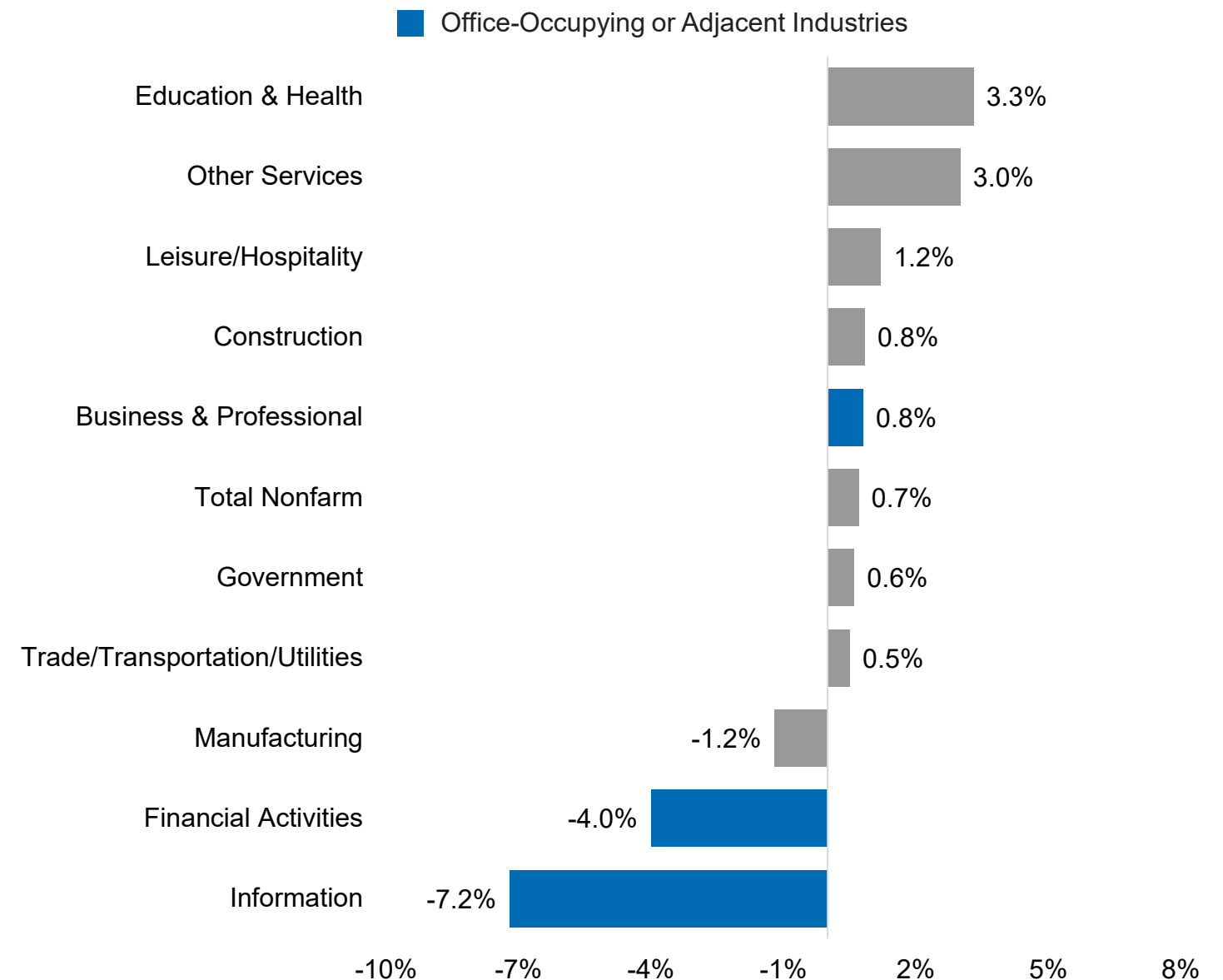
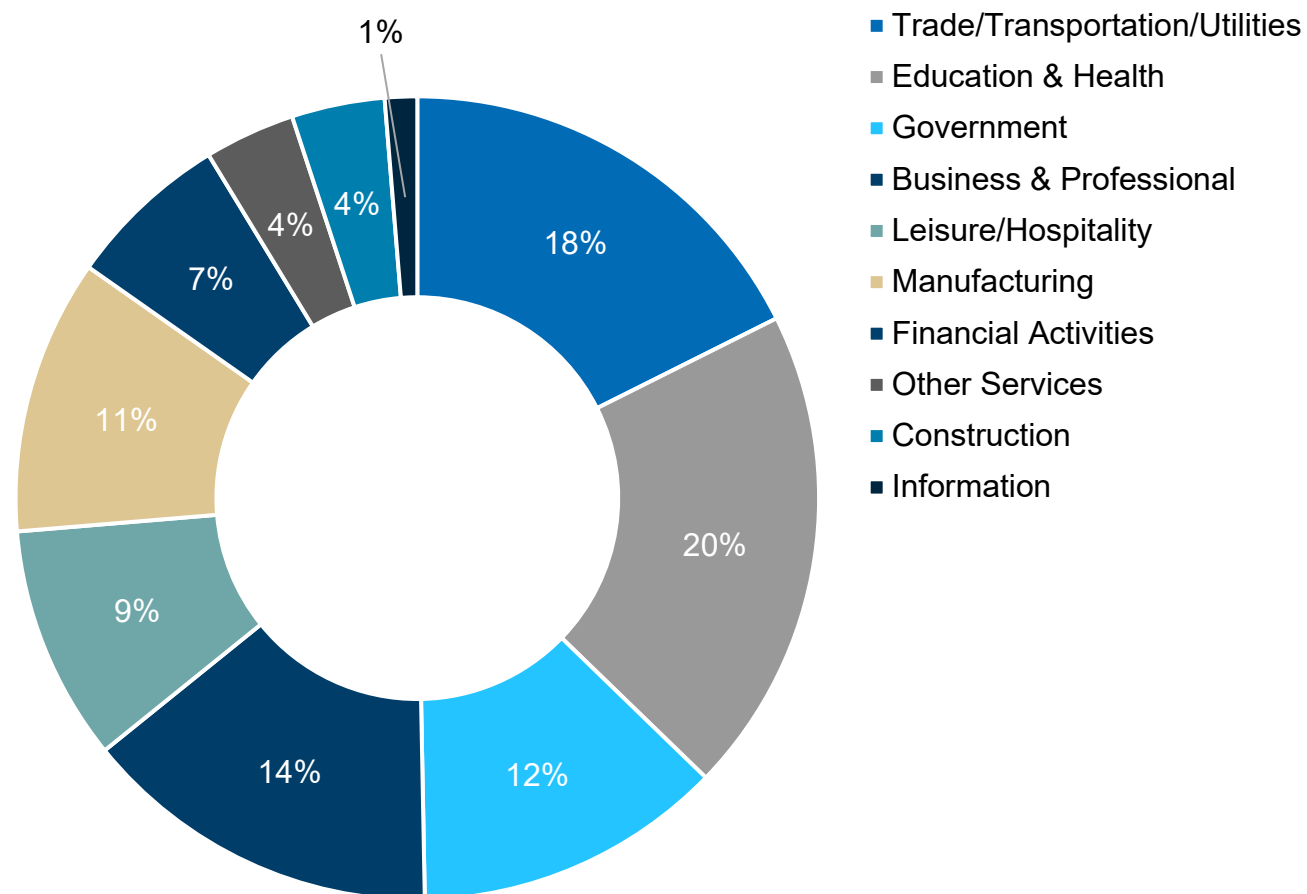
Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

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

Seven industry sectors in the Cleveland market saw employment gains from May 2023 to May 2024. Two of the three office-occupying industries saw annual job losses, with business and professional being the only office-occupying sector to make gains at 0.8%. The education and health sector saw the biggest increase of all the industries from May 2023 to May 2024 for the second quarter in a row at 3.3%.

Employment by Industry, May 2024

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

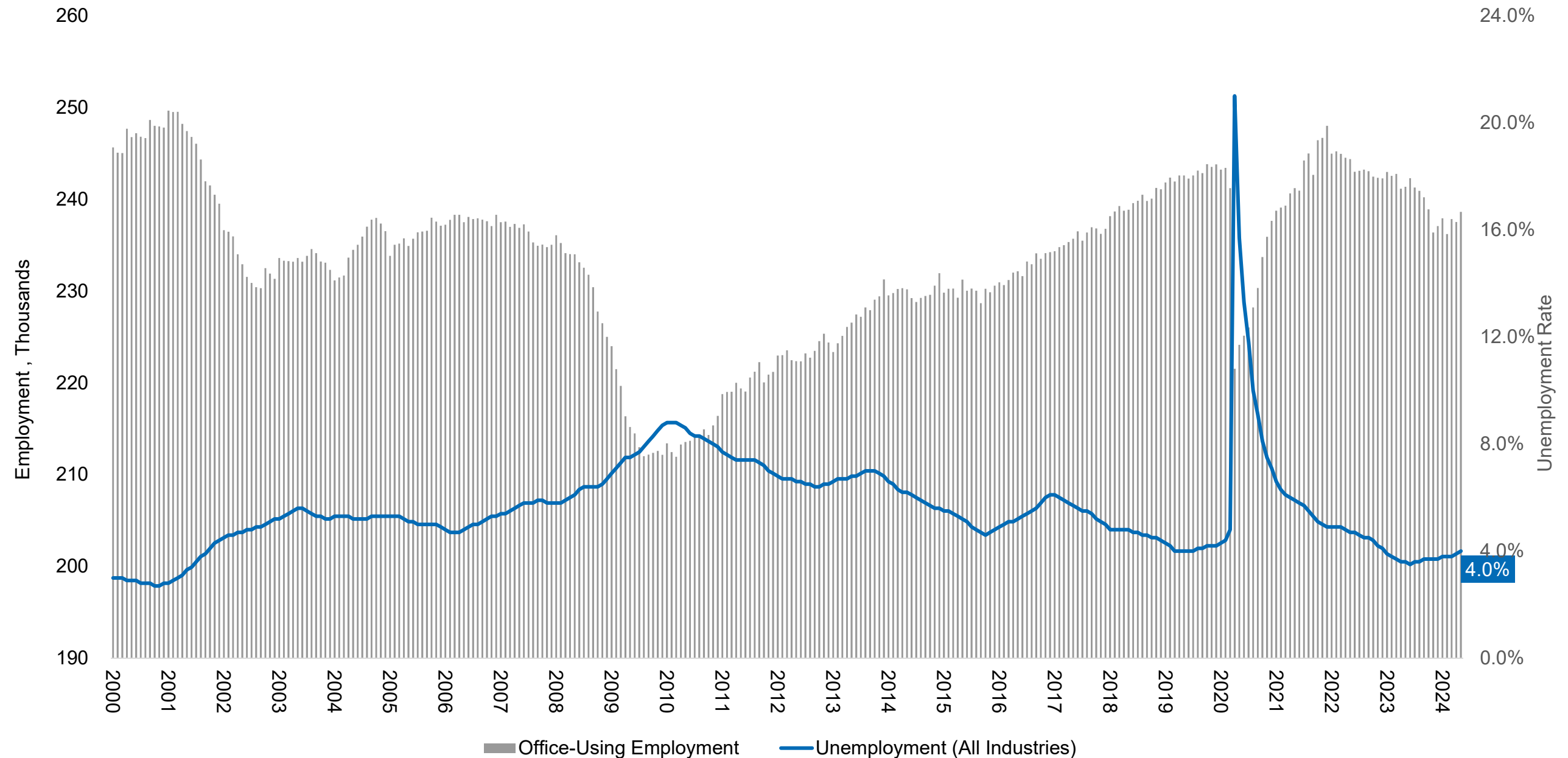


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

Office-Using Employment Up Slightly

The number of office-using jobs in the Cleveland market as of May 2024 was approximately 238,625, the market's highest tally since October of 2023.

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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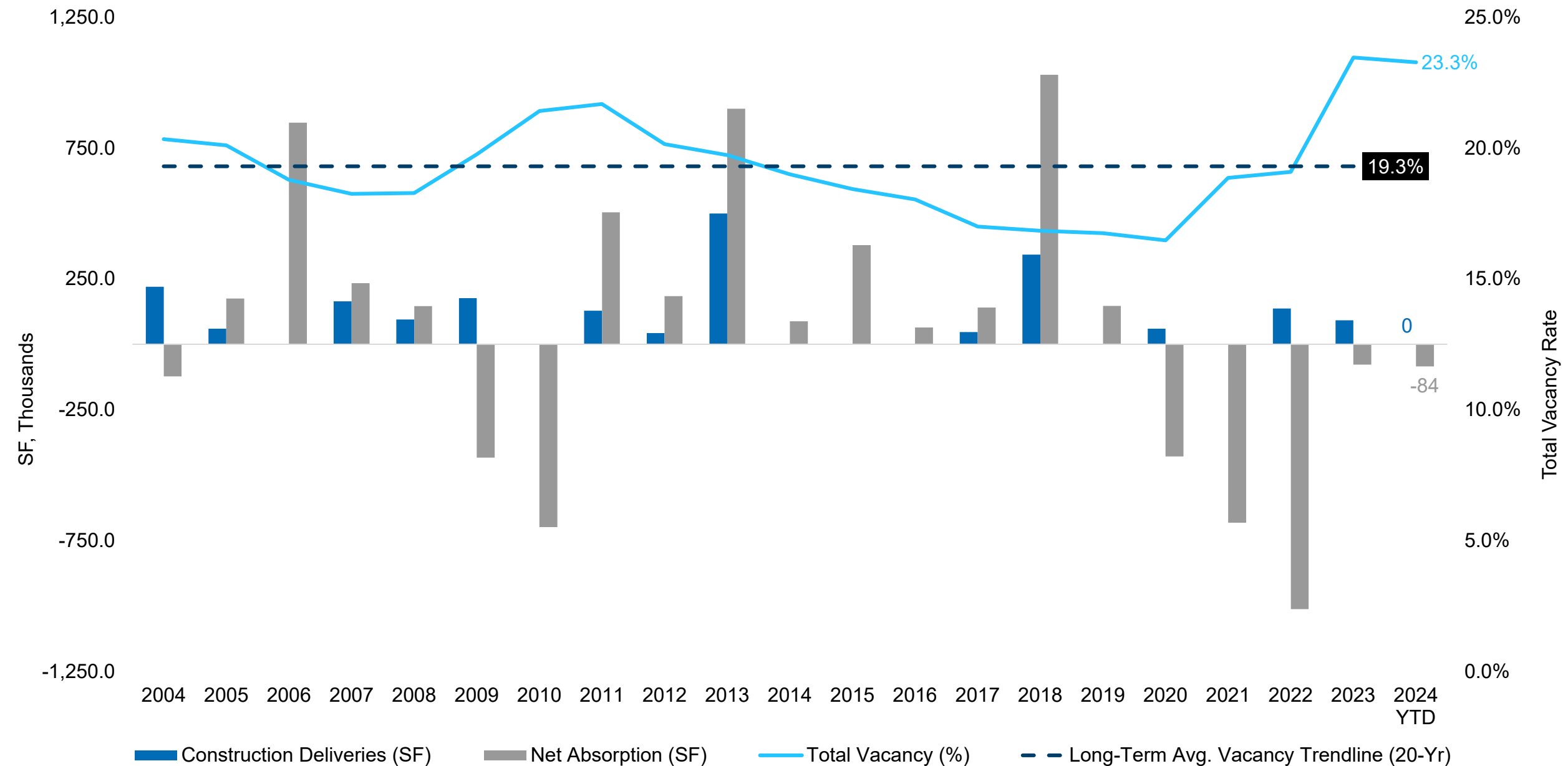
Leasing Market Fundamentals



Absorption Bounces Back to Positive in the Second Quarter

The Cleveland office market absorbed 92,328 SF in the second quarter of 2024, after a first quarter total of negative 191,467 SF. The market still shows negative absorption for the year thus far and has experienced negative absorption in six of the past 10 quarters and annually in the past four years. The second quarter's vacancy rate decreased to 23.2%, down 20 basis points from the first quarter. The year-to-date vacancy rate for 2024 stands at 23.3% after two quarters. The 20-year vacancy average remains at 19.3%.

Historical Construction Deliveries, Net Absorption, and Vacancy

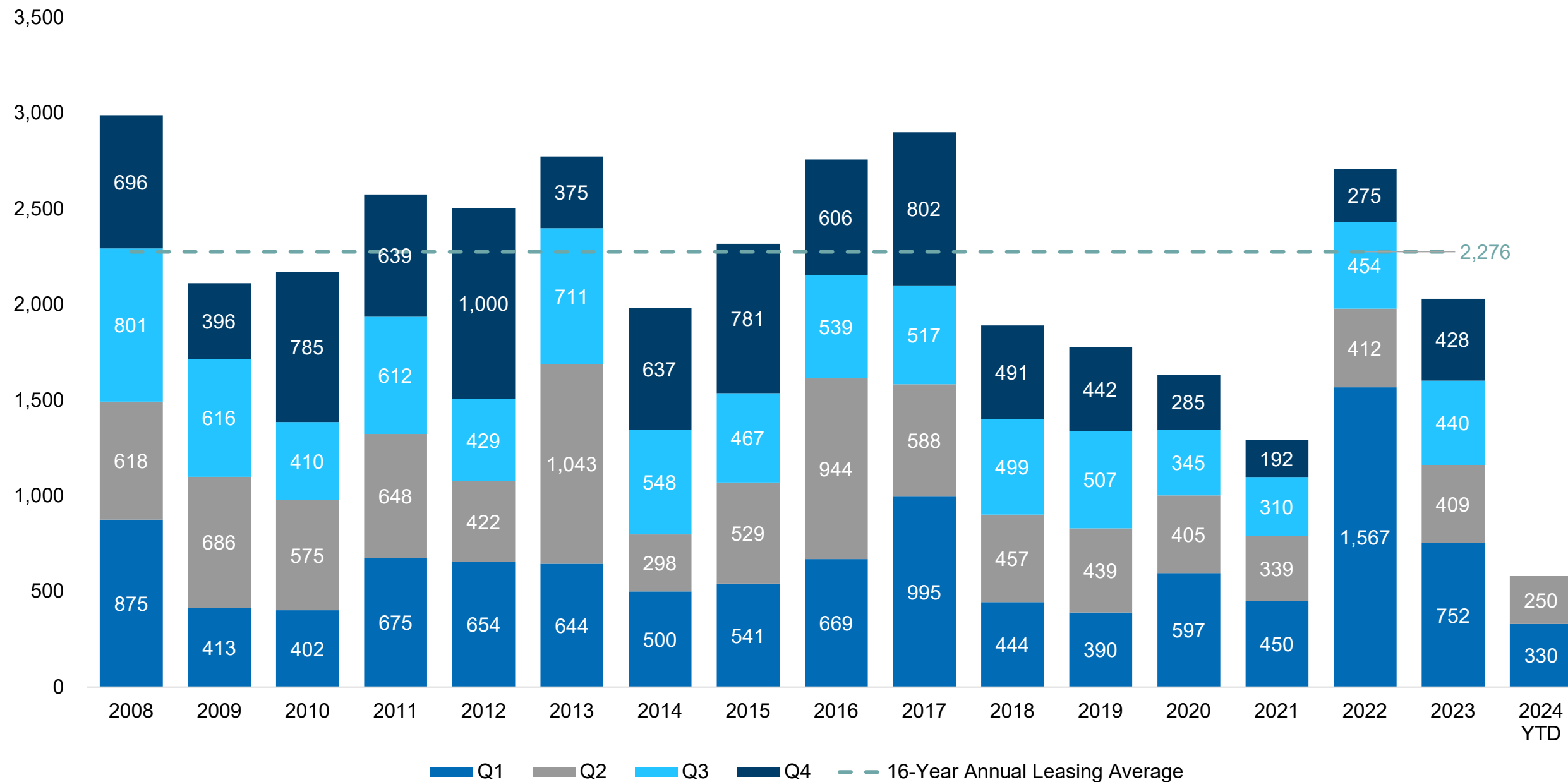


Source: Newmark Research

Quarterly Leasing Activity Second Lowest in Recent History

Total leasing was 250,162 SF in the second quarter of 2024, the second lowest quarterly total in the last 16-plus years (the fourth quarter of 2021 had the lowest activity in recent history at 191,907 SF). The 16-year leasing activity average was 2.2 MSF from 2008 to 2023.

Total Leasing Activity (thousands SF)

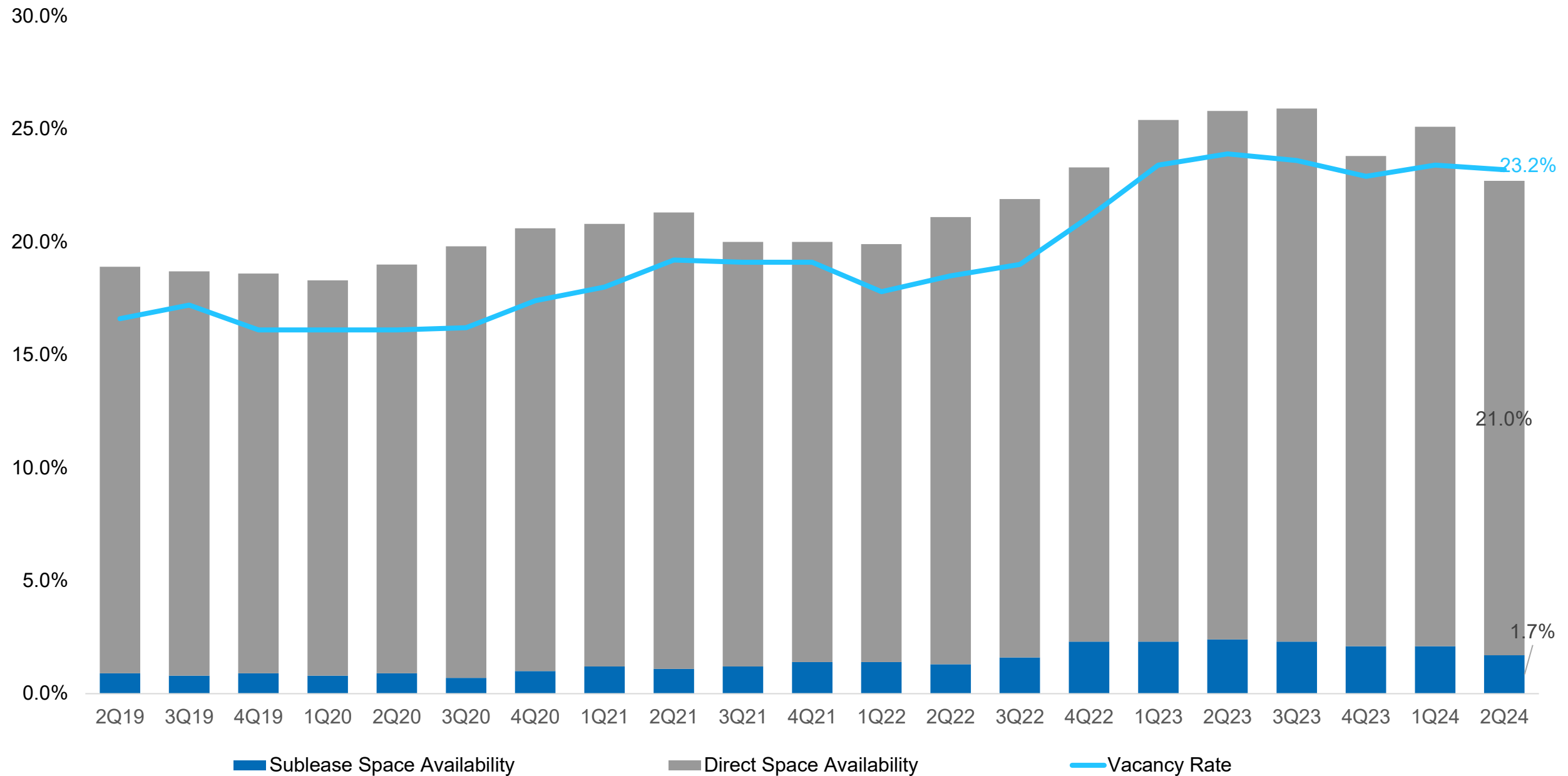


Source: Newmark Research, CoStar

Both Direct and Sublease Availability Dip

Direct space availability ticked down in the second quarter of 2024 by 200 basis points from the first quarter of 2024 to 21.0%; sublease space availability dipped by 40 basis points to 1.7%. Overall vacancy decreased to 23.2%, down 20 basis points from the first quarter of 2024.

Available Space as Percent of Overall Market

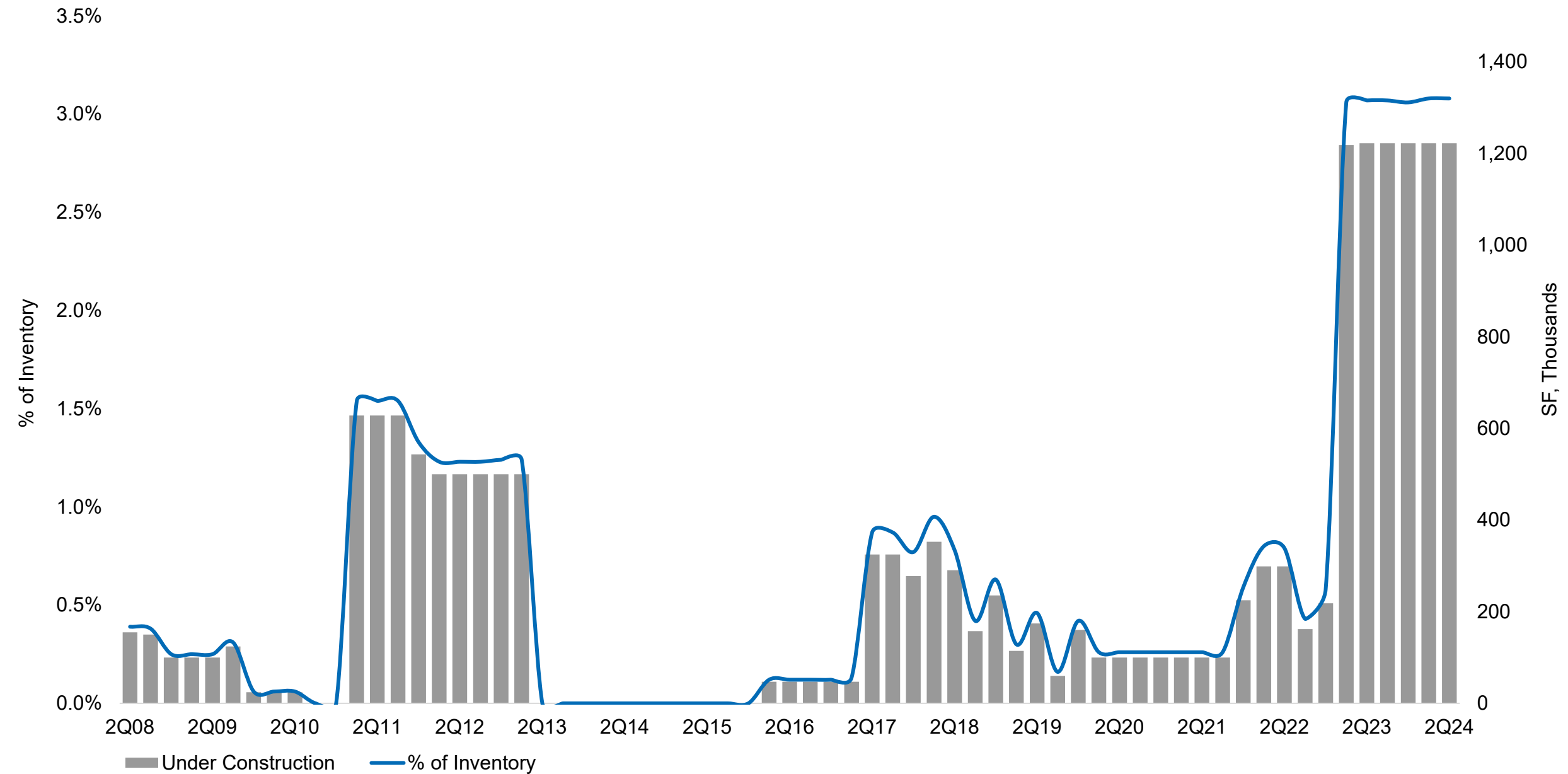


Source: Newmark Research

Office Construction Activity Remains Unchanged

Office construction in recent years has been minimal; 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 as of the second quarter of 2024, which has been unchanged for five straight quarters. Construction activity has been 3.1% of inventory since the first quarter of 2023.

Office Under Construction and % of Inventory

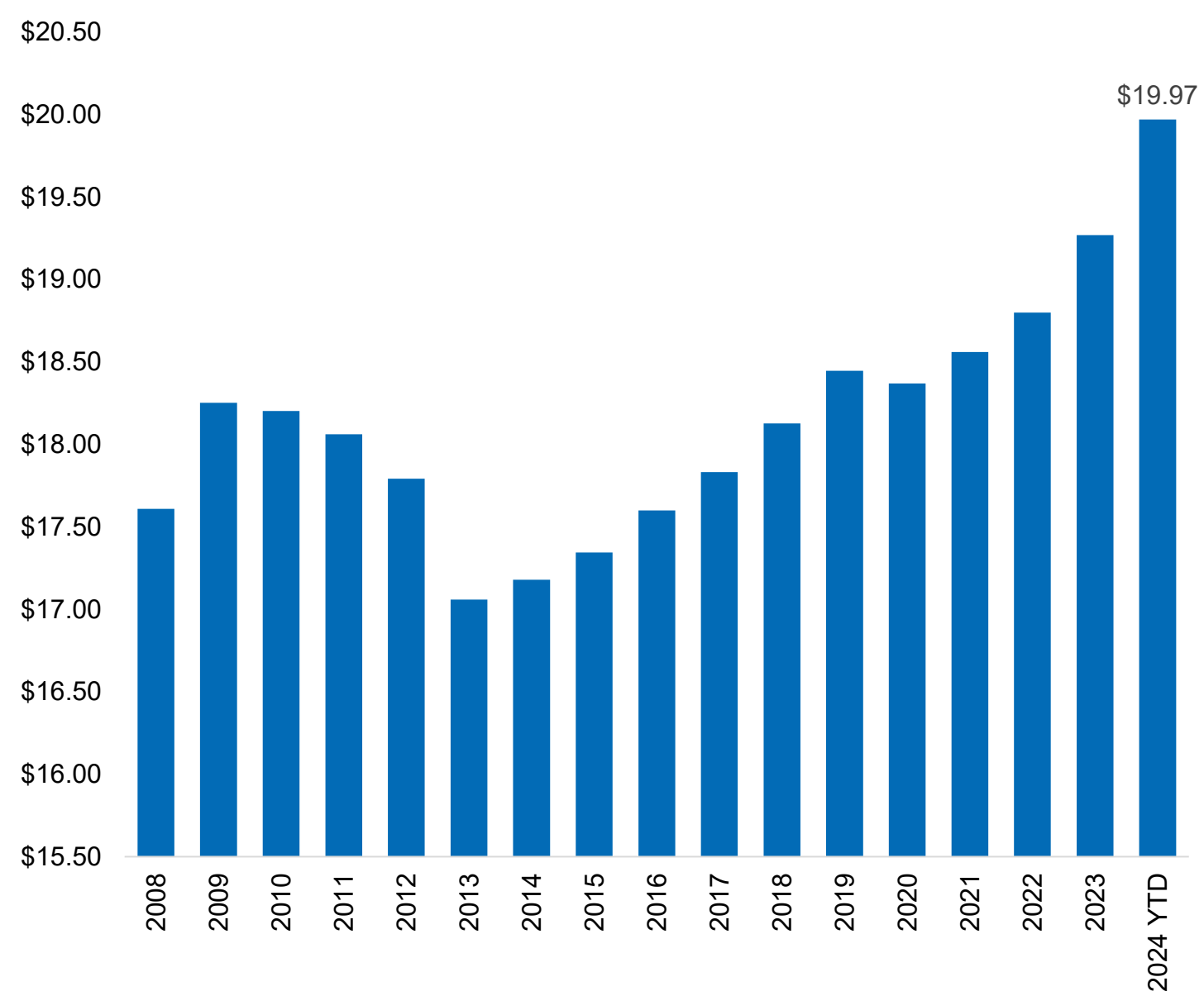


Source: Newmark Research

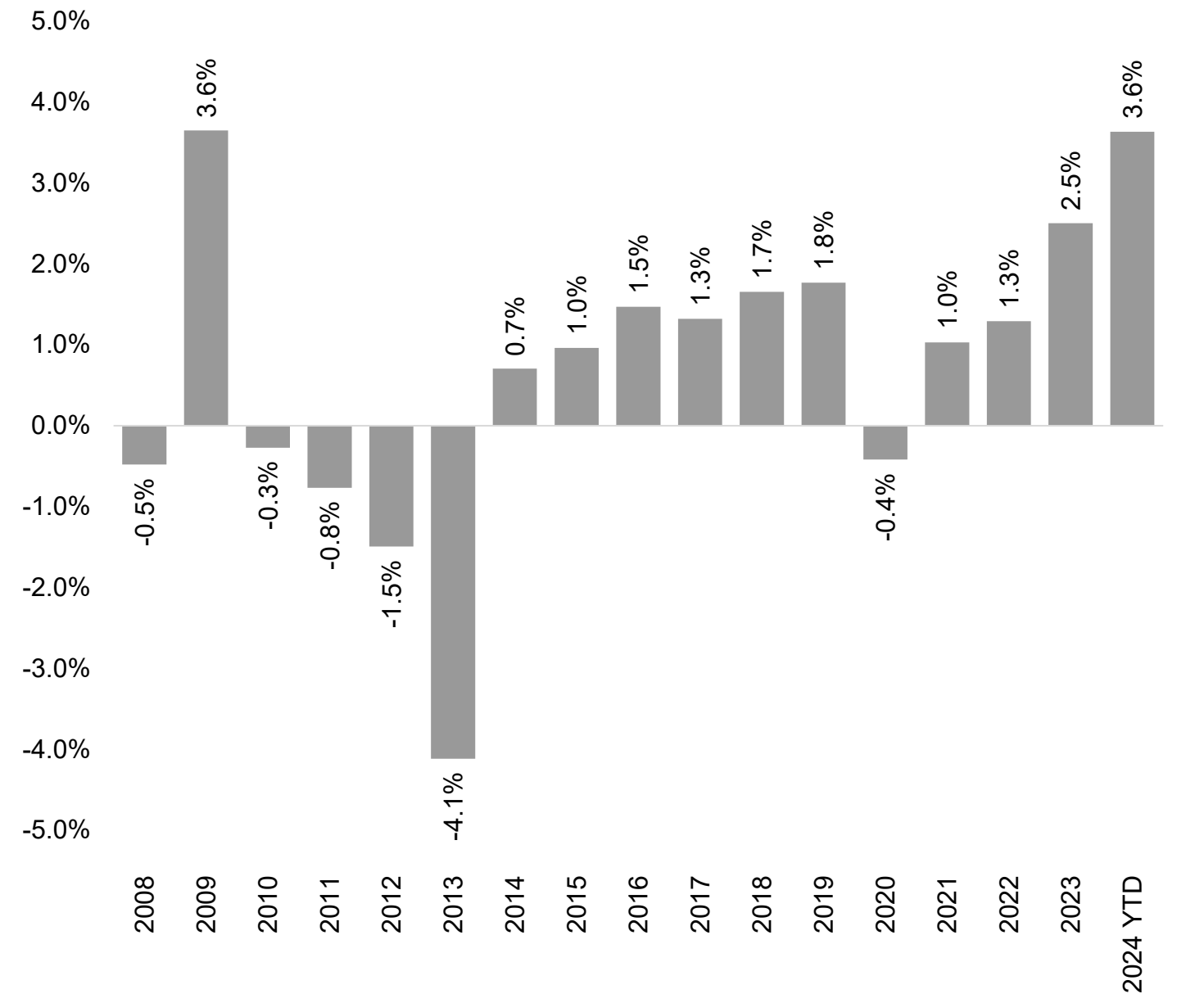
Overall Asking Average Rent Falls Slightly

The Cleveland office market's average asking rental rate decreased slightly by \$0.04/SF from the first quarter of 2024 to \$19.95/SF in the second quarter of 2024. The overall 2024 average asking rental rate year-to-date was \$19.97/SF, a decrease of \$0.02/SF from the first quarter.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

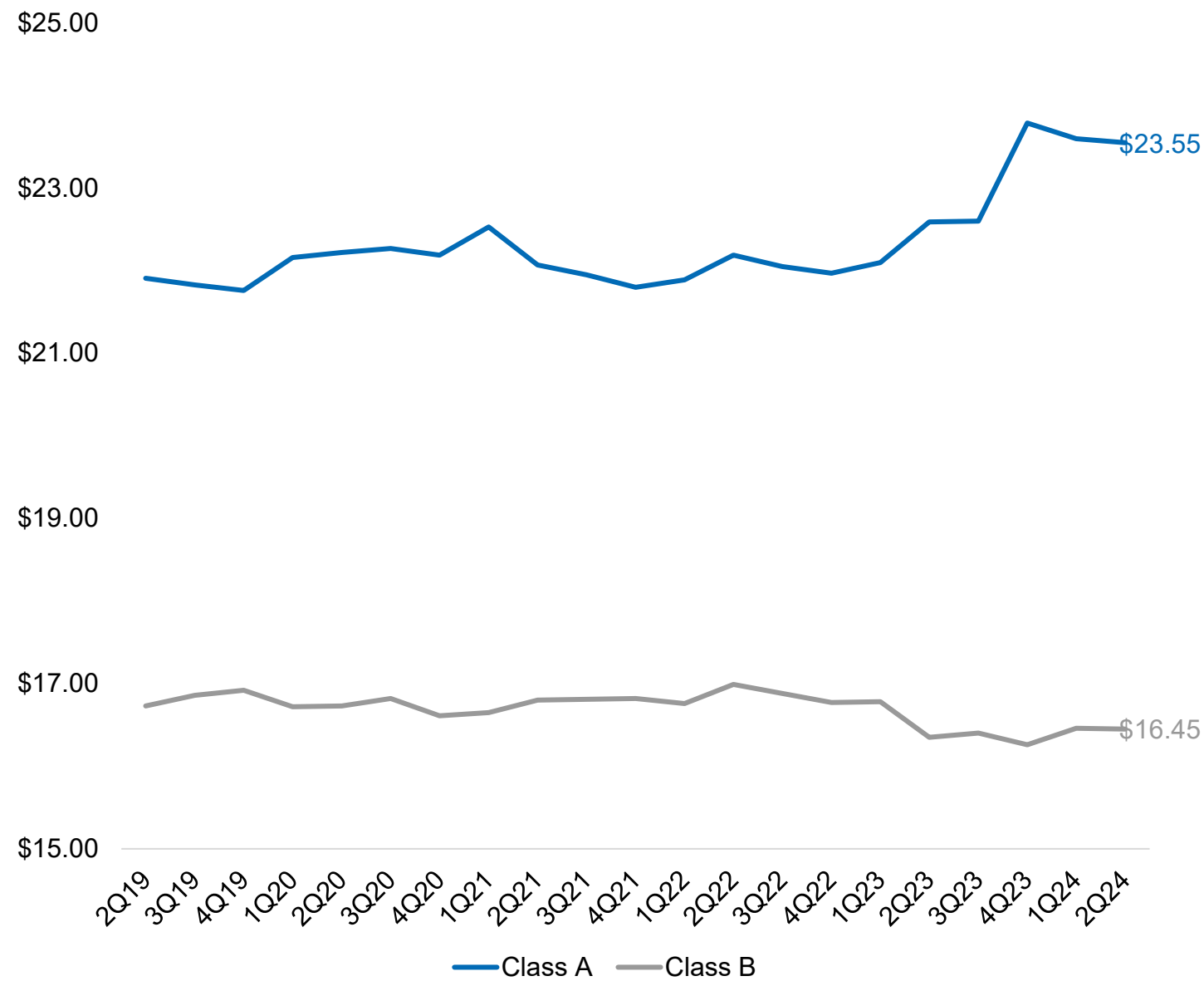


Source: Newmark Research

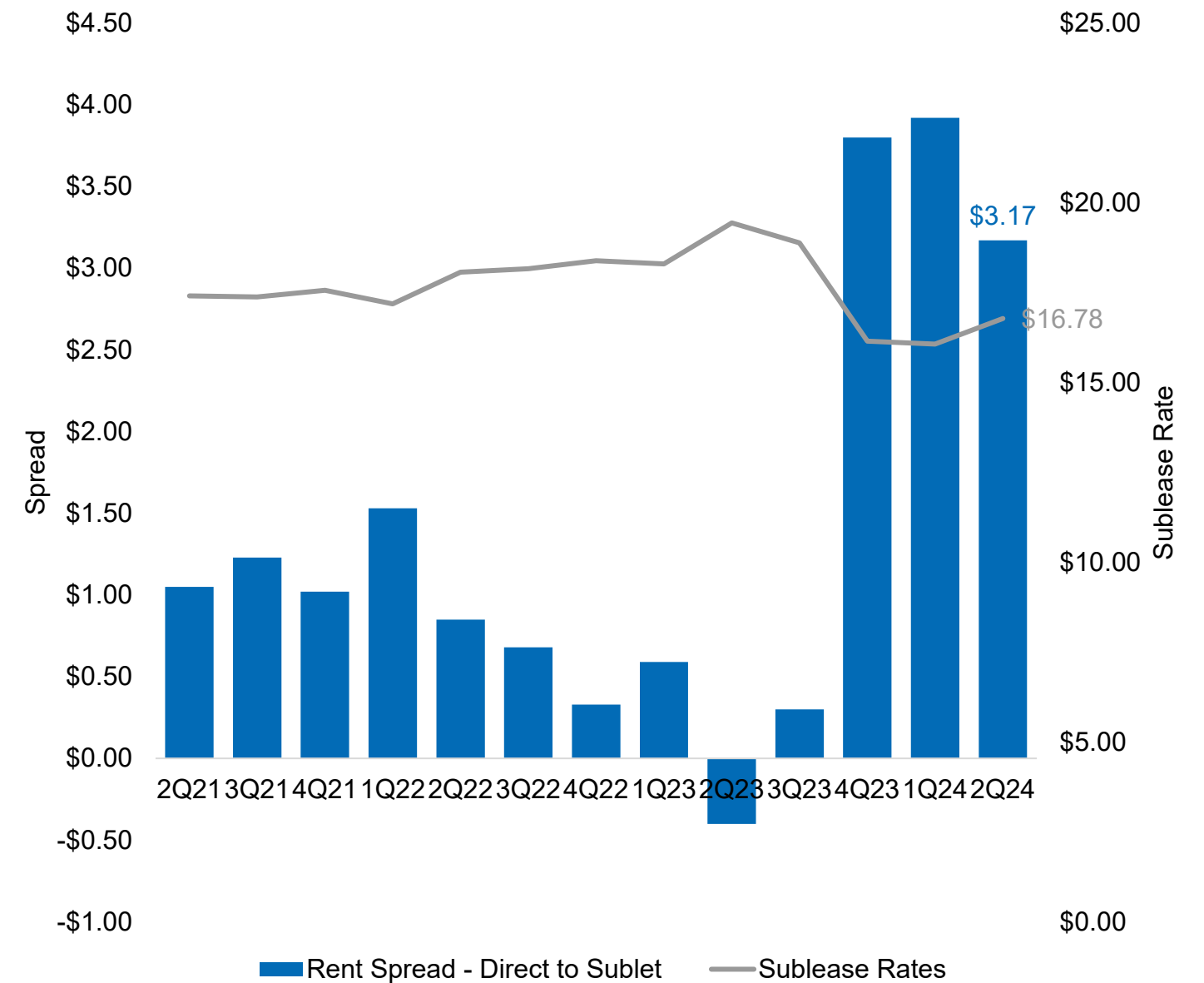
Class A & B Asking Rents Down Slightly; Sublease Rate Up

Class A average asking rental rates in the second quarter decreased by \$0.05/SF from the first quarter of 2024 to \$23.55/SF, while Class B rates decreased by \$0.01/SF to \$16.45/SF, which decreased the gap between Class A and B rents to \$7.10/SF from \$7.14/SF in the previous quarter. The second quarter of 2024's average sublease rate increased by \$0.71/SF to \$16.78/SF, which tightened the gap between sublease and direct rents to \$3.17/SF from \$3.92/SF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Lease and Sale Transactions in 2Q24

Select 2Q24 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Cuyahoga County	1801 Superior Ave. E	CBD	Direct	223,000
Cleveland-Cliffs	200 Public Square	CBD	Extension	100,000
CHN Housing Partners	3711 Chester Ave.	CBD	Direct	42,500
Cohen & Co.	1350 Euclid Ave.	CBD	Renewal	38,000
Great Lakes Commercial Mortgage, LLC	1300 E. 9th St.	CBD	Direct	14,972
CGI Federal Inc.	1100 Superior Ave. E	CBD	Extension	11,056
Reaching New Heights, LLC	6960-7000 S. Edgerton Rd.	South	Extension	10,072
Parsons Brinckerhoff, Inc.	1660 W. Second St.	CBD	Extension	7,007

Select 2Q24 Sale Transactions

Buyer	Building	Submarket	Sale Price	Square Feet	Price Per SF
Spark GHC and Cleveland Construction	Rose Building - 2060 E. 9th St.	CBD	Unpublished	381,174	Unpublished
Enterprise Data Solutions	6993 Pearl Rd.	Southwest	\$1,100,000	13,584	\$80.98
Jupiter Texas Real Estate Investment Group	19-Property Jefferson Park, Etc. Portfolio	Multiple	\$15,500,000	223,450	\$69.34
Park Place Technologies	747 & 755 Alpha Dr.	East	\$17,000,000	340,268	\$49.96

Source: Newmark Research, CoStar

East Overtakes CBD As Submarket With the Highest Vacancy

Please reach out to your
Newmark business contact for this information

All Submarket Asking Rents Up Year Over Year

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Appendix



Submarket Overview

Please reach out to your
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Cleveland - Submarket Map

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Additional Market Statistics

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