

KNOWLEDGE REPORT

Office Research & Forecast Report Q4 2017
Colliers International | Cleveland & Akron



Market Activity Slows, but Long-Term Trends Suggest Continued Steady Growth

The Cleveland office market posted virtually no net absorption during the final quarter of 2017 as a gain in Class B occupancy was offset by a similar-sized loss in the Class A market. However, the annual net absorption was positive totaling 442,024 square feet.

The overall market vacancy rate increased by 40 basis points to 13.1 percent due to the addition of new inventory, some of which delivered with vacant space. While up on a quarterly basis, vacancy has declined from 13.4 percent at the end of 2016.

The downtown Cleveland submarket (CBD) recorded an overall drop in vacancy from 17.9 percent to 17.6 percent at year-end, led by leasing activity in Class B properties.

The Cleveland suburban markets also posted a decline in overall vacancy of 40 basis points to 11.6 percent during the year, led again by transactions in Class B buildings, which recorded positive net absorption of 292,684 square feet.

The Akron/Canton submarkets witnessed positive activity totaling 229,161 square feet over the course of the year driving vacancy down to 11.1 percent.

Speculative construction remains relatively limited, reducing the risk of over-supply in the near term. During the quarter, projects totaling 182,000 square feet were added to the inventory. In addition to a few small fully-occupied build-to-suits, two buildings delivered vacancy space to the market.

In the Medina submarket, a 43,423-square-foot building at 1103 Medina Road was completed with no pre-leasing and the Link59 project was delivered vacant in Midtown, although 20,000 square feet is scheduled for occupancy by MCPc, Inc. in early 2018.

The overall market weighted asking rental rate is \$17.72 per square foot; a year-over-year increase of 1.3 percent.

Class A asking rents are currently \$20.68 per square foot in the Cleveland CBD and \$20.65 per square foot in the suburban markets. The long term trend over the past three years, while bumping up and down each quarter, has been stable.

The Chagrin Corridor and Cleveland East submarkets post the highest Class A asking rates at \$23.50 and \$22.21 per square foot, respectively. Both submarkets have recorded year-over-year gains with Chagrin Corridor up 3.5 percent and the East submarket up 2.7 percent.

Market Indicators

Relative to prior period

	Q4 2017	Q1 2018*
VACANCY	↑	↓
NET ABSORPTION	■	+
CONSTRUCTION	↑	↔
RENTAL RATE**	↑	↑

* Projected, relative to prior period
** Class A rents

MARKET STATS AT A GLANCE



13.1%

VACANCY RATE



\$17.72

MARKET ASKING RENT
(Psf/Yr, FSG)



-1.6

NET ABSORPTION
(Thousand SF)



758.9

UNDER CONSTRUCTION
(Thousand SF)

Summary & Outlook

The Cleveland office market continues its steady recovery, recording a decrease in overall vacancy of nearly three percentage points since peaking at 16 percent in 2011. As manufacturing makes up a decreasing share of the region's economy, job growth has shifted to healthcare and knowledge-based industries. While total employment in the office-using sectors stands 13.5 percent above the recession low, it is still slightly below its pre-recession peak. But the pace of growth has accelerated over the past year and is projected to increase over the next two years.

Job growth historically has translated into demand for office space, but this maxim is no longer a sure bet. Disruption in workplace design and strategy is driving the trend toward less space per employee. Open floor plan concepts, hoteling and remote work all contribute to the need for less physical office space. Additionally, co-working is becoming more of a viable option in corporate real estate planning. In the future, competition for labor will drive many companies to properties located in prime submarkets with easy access to high quality amenities that are desired by the Millennial generation.

Contrary to this trend, the Cleveland office market experienced more demand for Class B space over the past year. Some of this activity was downtown where Class B translates to cool and hip workplaces, but it's an interesting trend to see in the suburban markets. Job growth in the white-collar sectors is forecast to continue in 2018, so demand for office space should remain at elevated levels. The lack of new premium Class A product in the market will keep rental rates in check, with the exception of Class A+ space in high demand submarkets, such as the East and Chagrin Corridor, where diminishing availability could push rates higher.

Notable Office Sales | 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
5900, 5910, 5920 Landerbrook Dr & 22901 Millcreek Blvd	Jun-17	\$53,822,500	499,146	Shelbourne Global Solutions LLC	Lone Star Funds	A	Multiple
Park Center Plaza I, II & III	Jan-17	\$49,500,000	422,259	Park Center Plaza LP	Five Mile Capital Partners	A	Cleveland South
2060 E 9th St	Sep-17	\$37,900,000	381,176	Medical Mutual of Ohio	Bentley Forbes	B	Cleveland CBD
UH Avon Health Center	May-17	\$33,429,841	54,800	Healthcare Trust of America Inc	Duke Realty Corporation	Medical	West
One & Two Chagrin Highlands	Apr-17	\$24,045,201	224,988	Shelbourne Global Solutions LLC	Jacobs Real Estate Services LLC	A	East
Post Office Plaza	Aug-17	\$15,000,000	477,400	K&D Group	Forest City Realty Trust Inc	B	Cleveland CBD
158 Euclid & 2025 Ontario	Aug-17	\$14,000,000	741,505	Bedrock LLC	Morgan Reed Group	C	Cleveland CBD
GSA Office Portfolio (4 bldgs)	Jun-17	\$9,015,000	43,781	RT Development Co	Downing Construction Co. Inc	B	Multiple
17800 Royalton Rd	May-17	\$8,300,000	125,006	Somera Road Inc	United Bank	A	Southwest

Notable Office Leases | 2017

PROPERTY NAME/ADDRESS	LEASE DATE	LEASE SF	ASKING RATE	LEASE TYPE	TENANT NAME	BUILDING CLASS	SUBMARKET
3711 Chester Ave	Jul-17	69,223	\$10.00	NNN	Revenue Group	C	CBD
AES Business Campus	Jan-17	54,060	\$18.50	MG	Homesite Insurance	A	Akron
Tower City Center	Dec-17	48,450	\$19.50	MG	Electronic Merchant Services	B	CBD
Halle Building	Aug-17	42,000	\$18.00	MG	NRP Group	B	Cleveland CBD
6200 Oaktree	Jun-17	39,798	\$17.50	MG	The General	B	Rockside Corridor
Summit Park 3	Nov-17	30,746	\$20.00	MG	Undisclosed Tenant	B	Rockside Corridor
Whitlatch Building	May-17	29,543	\$14.00	NNN	Ohio Means Jobs	B	CBD
Fifth Third Center	Jun-17	29,125	\$23.00	FSG	HWH	A	CBD
2279 Roming Rd	Mar-17	20,724	\$12.00	MG	ActionLink, LLC	B	Akron
The Tower at Erievue	May-17	19,766	\$22.50	FSG	Northcoast Research	A	CBD

*Renewal or Expansion

Summary Statistics

Q4 2017 Cleveland Office Market

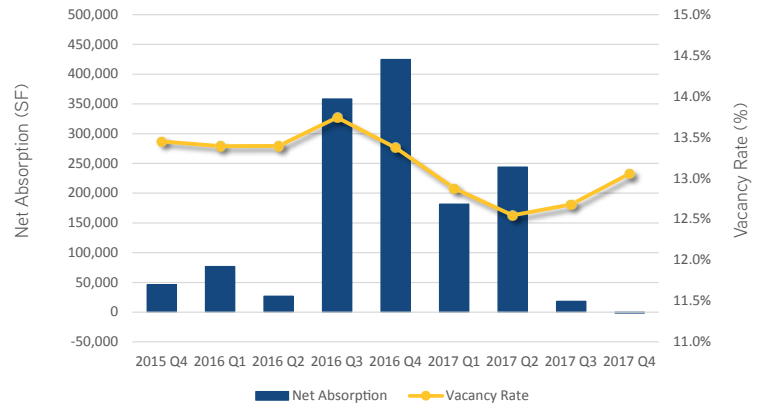
	Market	CBD	Suburban
Vacancy Rate	13.1%	17.6%	11.4%
Change From Q3 2017 (basis points)	-40	+10	-50
Absorption (Thousand Square Feet)	-1.6	62.7	-64.3
New Construction (Thousand Square Feet)	182.5	0	182.5
Under Construction (Thousand Square Feet)	758.9	0	758.9

Asking Rents

Per Square Foot Per Year

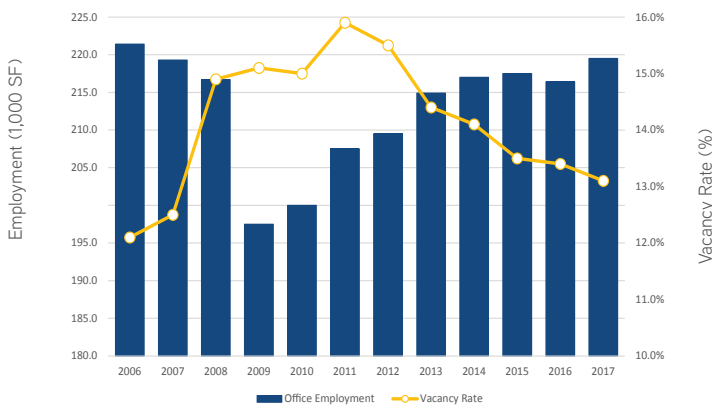
Market	\$17.72
Market Class A	\$20.67
Downtown Class A	\$20.68
Suburban Class A	\$20.65

Office Vacancy/Absorption



Vacancy has increased since mid-2017 due to additions to inventory and virtually no gains in occupancy over the second half of the year.

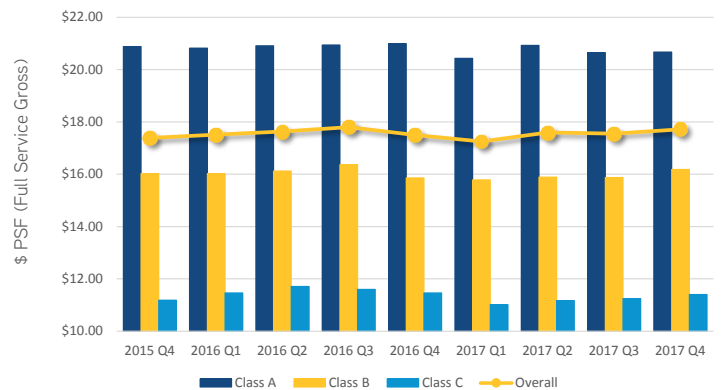
Office Employment



After three years of flat growth, employment in the office-using sectors has increased over the past 12 months and is nearing its pre-recession peak.

Sources: Colliers Research, Xceligent, CoStar, Bureau of Labor Statistics, Moody's Analytics

Office Average Asking Rates (FSG)



Average weighted asking rents record individual quarter-over-quarter variations, both up and down, but the long-term trend indicates a stable rent level.

COLLIERS INTERNATIONAL U.S. SPECIAL REPORT

Washington's Holiday Gift: Implications for the New Tax Bill on Commercial Real Estate

We are pleased to share our assessment of the impact of the new tax bill on various commercial real estate sectors. The recently-passed tax bill has far-reaching implications for every sector, including commercial real estate. While the full implications will not be understood for years owing to the complexity of the legislation much of the bill is sufficiently clear to gauge the impact on the various commercial real estate sectors—from the multifamily market, which should benefit substantially, to the office market, which will likely see more modest impacts.

[DOWNLOAD THE FULL PAPER HERE](#)

Cleveland | Q4 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 (F5G)
CLEVELAND - CBD	104	19,483,278	3,675,440	3,419,888	17.6%	125,929	62,713	-55,229	\$18.34
A	17	9,831,957	1,765,545	1,706,642	17.4%	74,737	63,004	-47,985	\$20.68
B	68	8,941,276	1,773,791	1,601,421	17.9%	51,192	-9,833	-7,964	\$16.45
C	19	710,045	136,104	111,825	15.7%	0	9,542	720	\$10.51
CLEVELAND - CHAGRIN CORRIDOR	88	4,379,022	667,164	493,273	11.3%	33,059	-26,064	608	\$19.27
A	14	1,456,179	245,543	148,340	10.2%	20,314	-15,036	-17,120	\$23.50
B	71	2,852,140	413,255	336,567	11.8%	12,745	-11,028	17,728	\$17.77
C	3	70,703	8,366	8,366	11.8%	0	0	0	\$12.00
CLEVELAND - EAST	78	2,978,401	212,041	160,113	5.4%	14,647	-13,731	20,987	\$20.41
A	11	938,688	107,294	99,544	10.6%	7,750	-19,477	-7,702	\$22.21
B	56	1,703,106	69,583	32,705	1.9%	0	-6,854	6,989	\$18.20
C	11	336,607	35,164	27,864	8.3%	6,897	12,600	21,700	\$14.30
CLEVELAND - NORTHEAST	154	5,257,708	646,235	623,391	11.9%	20,000	23,959	208,474	\$14.99
A	5	737,704	40,000	61,000	8.3%	0	0	0	\$24.00
B	124	3,680,374	513,294	469,450	12.8%	20,000	25,796	202,561	\$14.23
C	25	839,630	92,941	92,941	11.1%	0	-1,837	5,913	\$12.67
CLEVELAND - ROCKSIDE	43	3,674,559	555,331	453,637	12.3%	21,342	-18,080	130,210	\$19.21
A	17	2,074,415	372,118	293,938	14.2%	21,342	-20,335	44,079	\$19.99
B	26	1,600,144	183,213	159,699	10.0%	0	2,255	86,131	\$17.66
CLEVELAND - SOUTH	102	2,966,378	577,370	497,001	16.8%	24,311	-82,306	-113,306	\$17.12
A	9	657,119	198,754	144,233	21.9%	10,924	-47,957	-67,514	\$20.44
B	82	1,965,321	317,022	294,952	15.0%	13,387	-7,733	-57,869	\$15.20
C	11	343,938	61,594	57,816	16.8%	0	-26,616	12,077	\$11.27
CLEVELAND - SOUTHEAST	110	2,906,256	300,542	223,047	7.7%	61,999	-11,869	23,717	\$16.52
A	1	78,000	0	0	0.0%	0	0	0	
B	98	2,567,934	296,223	218,728	8.5%	61,999	-9,560	26,026	\$16.52
C	11	260,322	4,319	4,319	1.7%	0	-2,309	-2,309	
CLEVELAND - SOUTHWEST	128	4,349,836	520,448	476,177	10.9%	20,703	-16,398	-29,640	\$16.62
A	4	710,052	131,162	131,162	18.5%	0	2,016	2,016	\$19.81
B	105	2,968,356	353,946	323,691	10.9%	20,703	-20,556	-24,936	\$15.56
C	19	671,428	35,340	21,324	3.2%	0	2,142	-6,720	\$11.68
CLEVELAND - WEST	136	5,631,456	692,157	640,381	11.4%	23,396	-15,502	-19,745	\$15.84
A	10	1,468,000	104,161	85,652	5.8%	3,988	-5,605	-704	\$17.95
B	103	3,489,024	497,918	464,651	13.3%	19,408	-4,895	-13,365	\$15.56
C	23	674,432	90,078	90,078	13.4%	0	-5,002	-5,676	\$12.61
EAST LAKE & GEAUGA COUNTY	47	1,093,847	252,318	241,607	22.1%	3,641	8,289	-801	\$11.74
B	37	837,212	182,872	178,366	21.3%	0	10,081	-1,619	\$12.97
C	10	256,635	69,446	63,241	24.6%	3,641	-1,792	818	\$10.07
LORAIN COUNTY	82	1,661,641	266,672	250,906	15.1%	1,663	42,294	47,588	\$17.32
B	73	1,375,046	119,302	108,636	7.9%	1,663	45,744	51,038	\$18.11
C	9	286,595	147,370	142,270	49.6%	0	-3,450	-3,450	\$12.50
AKRON	244	9,866,979	1,425,934	1,204,097	12.2%	32,987	-41,395	28,437	\$14.58
A	12	1,653,706	168,048	150,145	9.1%	0	-39,170	-6,478	\$18.79
B	189	7,285,374	1,172,026	969,072	13.3%	32,411	-2,441	45,709	\$14.22
C	43	927,899	85,860	84,880	9.1%	576	216	-10,794	\$9.91
SUMMIT COUNTY	111	3,593,529	431,793	291,756	8.1%	30,352	57,613	179,239	\$15.12
A	5	433,697	31,848	29,760	6.9%	0	30	126,050	\$21.33
B	80	2,729,713	373,716	235,767	8.6%	22,602	54,911	39,797	\$14.85
C	26	430,119	26,229	26,229	6.1%	7,750	2,672	13,392	\$5.40
MEDINA COUNTY	51	1,061,398	149,025	136,397	12.9%	18,415	34,187	29,944	\$18.99
A	2	139,423	71,711	71,711	51.4%	0	-12,031	-12,031	\$21.82
B	47	879,476	68,964	56,336	6.4%	18,415	40,002	34,243	\$15.48
C	2	42,499	8,350	8,350	19.6%	0	6,216	7,732	\$12.67
PORTAGE COUNTY	25	469,842	35,071	14,071	3.0%	109,072	620	1,115	\$18.23
B	21	380,384	35,071	14,071	3.7%	109,072	620	1,115	\$18.23
C	4	89,458	0	0	0.0%	0	0	0	
STARK COUNTY	155	4,438,620	552,001	513,368	11.6%	1,256	-5,890	-9,574	\$11.98
A	12	633,194	120,216	120,216	19.0%	0	-15,529	-35,492	\$16.29
B	127	3,284,236	272,283	234,650	7.1%	1,256	-1,548	29,162	\$12.11
C	16	521,190	159,502	158,502	30.4%	0	11,187	-3,244	\$9.93
Grand Total	1,658	73,812,750	10,959,542	9,639,110	13.1%	542,772	-1,560	442,024	\$17.72



396 offices in 60 countries on 6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **192**

EMEA: **112**

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