# MARKET REPORT

**Office**

*Cleveland Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

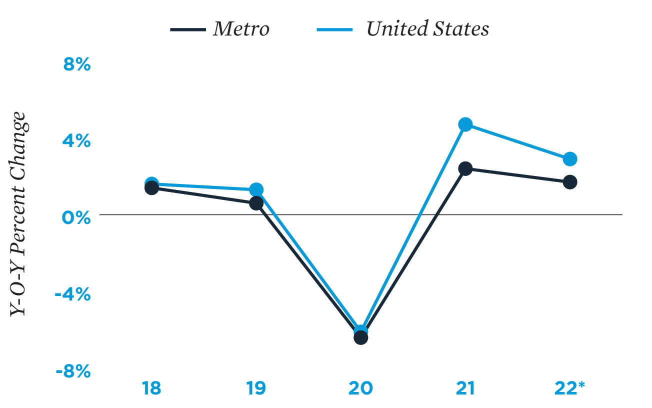
2Q/22

## Vacancy Nationally Low as Few Arrivals Steer Tenants to Existing Properties

**Elevated leasing brightens near-term office sector outlook.** After reporting one of the lowest vacancy rates among major U.S. markets in 2021, Cleveland's office availability is poised to further compress this year. The implementation of return-to-office policies by major employers, such as Sherwin-Williams and JPMorgan Chase, has aided the metro in recording positive net absorption since the beginning of last year. Additionally, the elevated number of leases signed in the first five months of this year related to the same period in 2021 is indicative of a larger return to in-person operations. Moving forward, the lack of speculative space slated for near-term completion should guide growing companies to existing floor plans, enabling year-end vacancy to nearly match the prior record low.

**Suburban and CBD vacancy nearly in-line.** The metro's downtown is off to an encouraging start to the year, as the number of leases signed in the CBD during the first quarter surpassed the 2021 total. This has contributed to core vacancy compressing below the pre-pandemic benchmark. Meanwhile, suburban areas have made an even more stark recovery as vacancy has reduced 130 basis points below the March 2021 mark to 10.4 percent, only 40 basis points above the prior sector low. This reduction is even more notable, given the 750,000 square feet of space delivered in the suburbs over the past two years. With new suburban properties already highly leased, more tenants may look toward older existing floor plans, where comparatively lower rents are available.

### Employment Trends




* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2022 Outlook

**18,000 JOBS**
*will be created*

### EMPLOYMENT:

As the metro continues to recover jobs lost during the onset of the health crisis, the number of traditionally office-using positions will surpass the 2019 high. Positive hiring in this sector will support an overall 1.7 percent rate of employment growth.

**300,000 SQ. FT.**
*will be completed*

### CONSTRUCTION:

Mid-tier properties comprise the majority of supply additions slated for 2022 completion. Cuyahoga County, encompassing downtown and adjacent submarkets, is expected to receive the bulk of new builds.

**50 BASIS POINT**
*decrease in vacancy*

### VACANCY:

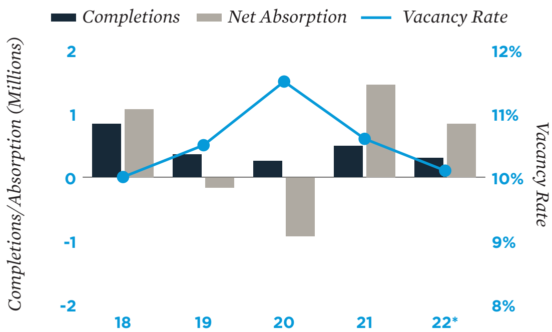
Vacancy will compress within 10 basis points of the metro's record low as it reaches 10.1 percent. The combination of net absorption surpassing 800,000 square feet and total inventory growing by just 0.2 percent annually supports this reduction.

**0.7% INCREASE**
*in asking rent*

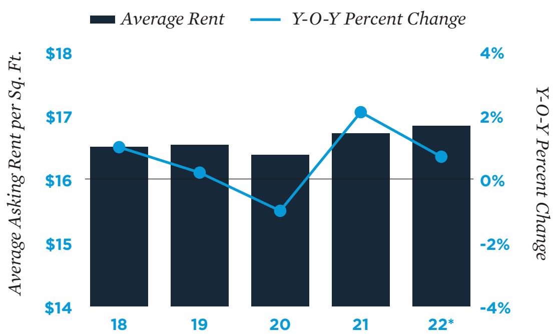
### RENT:

The average asking rent will reach $16.84 per square foot in 2022, rising for the second consecutive year. This year-end rate will represent a record mark for the metro and the highest rent among major Ohio markets.

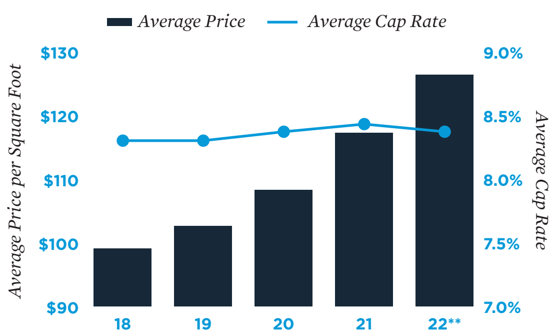
## Supply and Demand




## Rent Trends




## Sales Trends




** Forecast ** Through 1Q*

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

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*Price: $250*

## 1Q 2022 - 12-Month Period

### CONSTRUCTION

**140,000 sq. ft. completed**

- The 12-month period ended in March reported the lowest delivery volume since at least 2007.
- With minimal completions coming online at the tail end of 2021 through the first quarter of this year, total inventory only grew by 0.1 percent over the yearlong span.

### VACANCY

**120 basis point decrease in vacancy Y-O-Y**

- After dropping 120 basis points in the final three quarters of 2021, the vacancy rate held steady at 10.6 percent in the first quarter of this year.
- The absorption of 317,000 square feet of Class A space helped stabilize overall market vacancy, as availability in lower-tier properties ticked up to 9.8 percent in this year's opening quarter.

### RENT

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

- The average asking rent in the metro has remained consistent at $16.72 per square foot for the last two quarters, maintaining the record high.
- The mean CBD asking rate rose in the last two quarters. Entering April, the average marketed rent stood at $18.65 per square foot, just below the previous high recorded in 2020.

## Investment Highlights

- Investors paid a mean of $126 per square foot for assets during the yearlong span preceding April, a 14 percent boost in pricing. As the sale price increased, the mean cap rate fell, averaging near 8.4 percent. With the lowest sale price among major U.S. markets and one of the highest mean cap rates, Cleveland's relatively tight office vacancy is attracting investors.
- Transaction velocity last year reflects growing investor interest in the market as annual deal flow more than doubled the tally record in 2019. The first quarter of this year recorded a slight slowdown from 2021's elevated flow, but remains consistent with prior periods.
- Last year saw a greater number of Class B/C sales in the $15 million and above price tranche, with larger properties that closed generally located in the CBD. Demand for high-yield office properties will be buoyed by the near record-low metro vacancy rate.
- Cleveland medical offices reported a vacancy rate of 6.6 percent in the first quarter of this year, 370 basis points below the Midwestern mean. Most sales concerning these assets took place in Cuyahoga County and Northeast and Southwest Cleveland.