

INVESTMENT FORECAST

Office
Cleveland Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Signs of Recovery Provide Optimism for Investors Amid Urban Revitalization

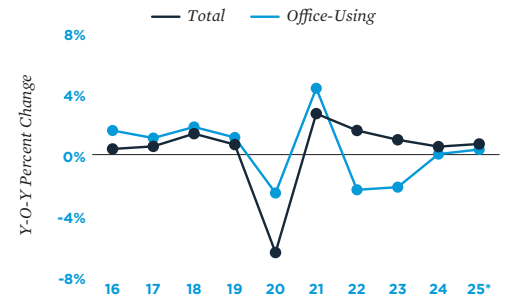
Green shoots sprout as tenant demand moves forward. After climbing to 11.9 percent in 2023, overall office vacancy then fell to sub-11 percent entering this year as demand for space in all classes picked up. The metro's first vacancy improvement since 2021 coincided with a decrease in direct and sublet space over 2024, with occupancy improving across most submarkets. Only Carroll County, Northeast and South Cleveland recorded vacancy rates above 15 percent exiting last year. Recent urban appeal has led to increased demand in the urban core and in areas to the west and south. This trend should continue as businesses like Sherman Williams and Delve Underground relocate to prime locations in Downtown and West Cleveland, with both move-ins set for 2025. The metro's CBD noted triple-digit basis-point drops in both Class A and B/C vacancy last year, as a concentration of upcoming slated move-ins aid conditions here. Still, an increase in supply-side pressures marketwide will drive overall upward vacancy momentum.

Smaller office spaces draw investor appeal. Assets near Downtown and along Interstate 271 from Mayfield to Bedford Heights continued to change hands in 2024 despite a challenging lending market. Class B and C assets under 50,000 square feet and in the sub-\$3 million price range saw heightened appeal here — a trend that should continue as more businesses seek smaller spaces following re-evaluations. Notably, areas near Beachwood may see elevated demand with the expected relocation of Millenium Control Systems in spring 2025. The city's willingness to provide incentives like tax credits and loan forgiveness aided this move and may draw additional firms seeking similar benefits. As traditional office spaces see greater confidence from private buyers, medical office space trades may keep subsiding over this year after a slowdown in deals over 2024.

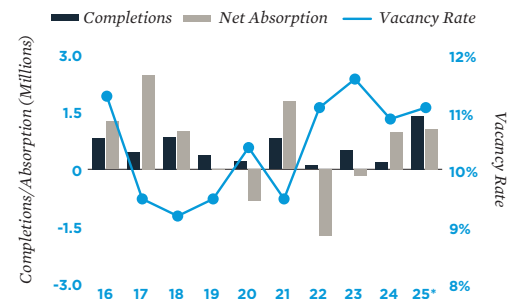
2025 MARKET FORECAST

- +0.7%** **EMPLOYMENT:** The labor market will expand by 7,500 roles in 2025 to regain its pre-pandemic 2019 headcount. Traditionally office-using job growth of 0.3 percent will account for 800 new positions.
 - 1,408,000 sq. ft.** **CONSTRUCTION:** Excluding the downtown delivery of Sherman Williams Corporate Headquarters, which was delayed into 2025, the metro expects 408,000 square feet of new space this year.
 - +20 bps** **VACANCY:** A heavier delivery slate will push up vacancy up to 11.1 percent by year-end amid softer net absorption trends. Still, this is below the long-term average of 11.6 percent.
 - 1.2%** **RENT:** Cleveland's average asking rent will decrease for a second straight year. The metro's overall mean marketed rate will end the year at \$16.80 per square foot.
- INVESTMENT:** A vacancy rate below its local pre-pandemic measure, coupled with greater availability for financing with smaller assets, may aid sales activity near Solon, Bedford Heights and Beachwood this year.

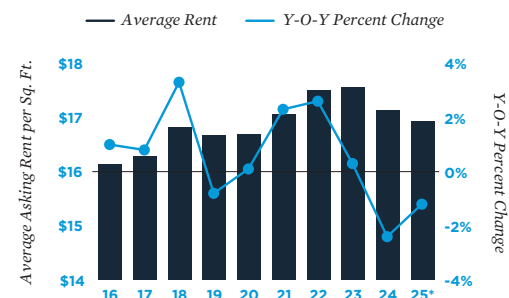
Employment Trends



Supply and Demand



Rent Trends



* Forecast

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

Cleveland Office:

Grant Fitzgerald

Vice President, Regional Manager

Crown Centre, 5005 Rockside Road, Suite 800

Independence, OH 44131

Tel: (216) 264-2000 | grant.fitzgerald@marcusmillichap.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.