

INVESTMENT FORECAST

OFFICE
Cleveland Metro Area

IPA
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PROPERTY
ADVISORS






2020

Demand Exceeds Supply for Fourth Consecutive Year; Buyers Compete for Class B Assets South of Downtown

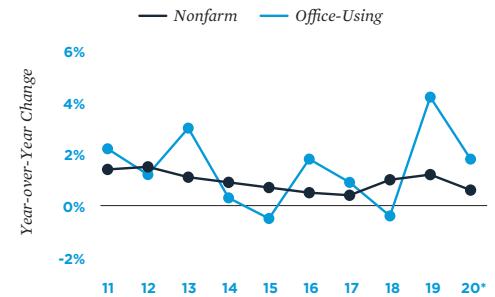
Education and healthcare sectors remain significant economic driver for employers expanding downtown. Cleveland Clinic and University Hospitals have been a major component in office demand growth throughout the metro as they expand to areas such as University Circle and Tremont. Small tenants gravitate toward these major employers, particularly independent medical-office-space users. As significant Class A office projects await financing, leasing for traditional office tenants has softened. Fox Sports, for example, plans to expand into 46,000 square feet at the proposed 400,000-square-foot Nucleus Class A office development. Pre-leasing has also begun for the proposed 455,000-square-foot Centennial office building downtown, scheduled for delivery in 2022. Competition for space and limited arrivals will result in tighter conditions downtown as businesses congregate near the city's burgeoning amenities. Vacancy will dip closer to 11 percent and the average asking rent will rise at a pace that exceeds the previous 10-year average annual growth rate.

Strong deal flow for Class B assets south of downtown. Mid-tier properties have been a prime target for investors throughout previous years; however, the asset category has taken an exceptional leap in deal volume within the past year, transacting 20 percent more frequently. The increase in sales has been focused southwest of the central business district toward Middleburg Heights, Parma, and Garfield Heights. Class B inventory is being sold in the \$3 million to \$10 million price tranche here for cap rates in the mid-8 percent area, slightly above the market's average return. Medical office sales also make up a decent sum of Class B trades, selling for more than \$50 per square foot below the national average. First-year returns for these deals are in the mid-8 to 10 percent range. As gains reach above Cleveland's average sales price, many transactions are being completed by out-of-state investors seeking inventory at a lower price than in their home markets.

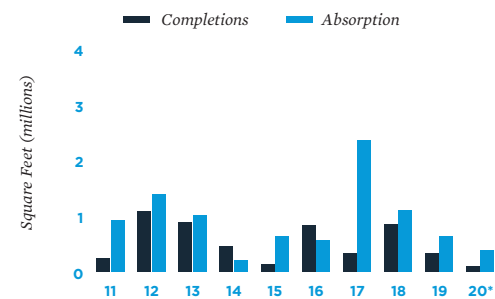
2020 Market Forecast

- Employment**
up 0.6%  Hiring slows to 6,500 positions, down from 13,200 jobs added to the metro in 2019. Over half of job gains are office-using roles.
- Construction**
100,000 sq. ft.  Delivery volume will contract to less than 50 percent of the total space finalized in 2019.
- Vacancy**
down 30 bps  Demand outpaces deliveries, contracting vacancy to 11.2 percent by the end of 2020. Last year, office vacancy tightened 30 basis points.
- Rent**
up 1.8%  Following a slight decrease in 2019, the average asking rent will rise to \$18.31 per square foot this year.
- Investment**  Investors remain interested in mid-tier assets near the city core where first-year returns are above the metro average in the low-8 percent area. Medical office buildings near major healthcare employers attract multiple bids.

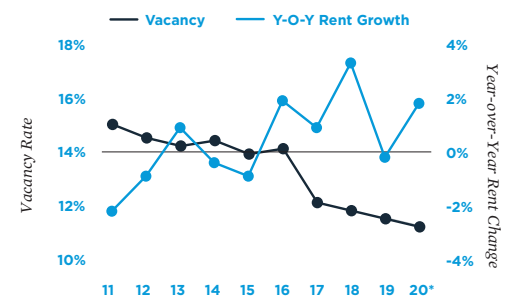
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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 guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.