



Cleveland Office Outlook

Q4 2021

Negative absorption nears record level in 2021, tenants hold negotiating leverage heading in 2022

Top trends

- Negative absorption in 2021 totaled 735,681 s.f., the second worst reading in the last 20 years. 96.8% of the negative absorption was in Class B space.
- Negotiating leverage has shifted in favor of tenants due to escalating vacancy and the long-term uncertainty around office demand.
- Vacancy will increase modestly over the next couple years as companies reevaluate their real estate footprints amid changing work patterns.

Office absorption in Cleveland turned slightly positive in Q4 after five consecutive quarters of negative absorption dating back to the start of COVID-19. Despite the occupancy gains in Q4, absorption for the year came in at -735,681 s.f., which is the second worst figure in the last 20 years, superseded only by the 776,412 s.f. of negative absorption recorded in 2009 following the global financial crisis. Office vacancy in Cleveland now stands at 21.8%, which is an increase of 1.7% since the onset of the pandemic. As a result, negotiating leverage has shifted in favor of tenants, in part because of escalating vacancy, but also due to the long-term uncertainty around office demand brought on by shifting work patterns, mainly work from home and hybrid work policies.

Flight to quality is a trend that has been much discussed over the last decade. However, the statistics have never been as striking as they were in 2021. Of the 735,681 s.f. of negative absorption recorded in 2021, 96.8% of the occupancy losses were recorded in Class B assets. Class A vacancy stands at a modest 15.3% while Class B vacancy has increased to 26%. Furthermore, Class B vacancy would currently be closer to 30% if it weren't for the recent conversion of more than 800,000 s.f. of underperforming office space to apartments. A similar trend is playing out with asking rents. Class A asking rents have held steady through the pandemic while several Class B landlords have recently reduced rents by \$1.00 per s.f. or more in an effort to become more competitive.

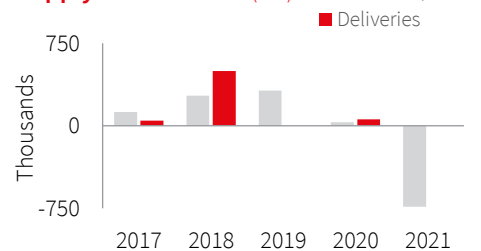
Outlook

Vacancy will continue to increase at a modest pace over the next couple years as companies reevaluate their real estate footprints amid changing work patterns. Tenants will continue to hold negotiating leverage into 2023, particularly in the Class B segment. New leases represented a greater share of leasing activity in the second half of 2021 compared to 2020 as companies with a clear vision for the future took advantage of market conditions, signing long-term leases with generous concession packages. This trend will likely accelerate in the year ahead with the majority of deal activity taking place in Class A assets.

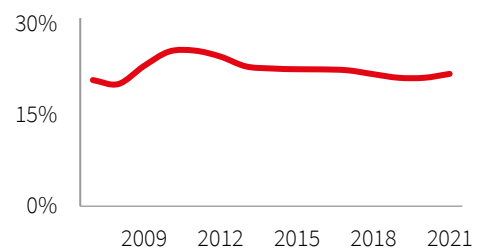
Fundamentals

	Forecast
YTD net absorption	-735,681 s.f. ▲
Under construction	125,000 s.f. ►
Total vacancy	21.8% ▲
Sublease vacancy	634,434 s.f. ►
Direct asking rent	\$20.19 p.s.f. ►
Sublease asking rent	\$16.18 p.s.f. ►
Concessions	Rising ▲

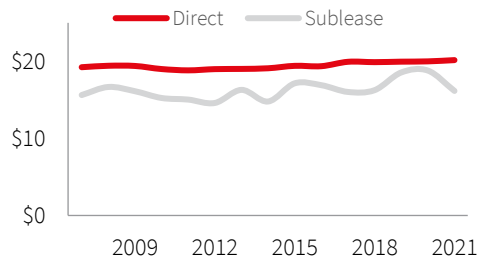
Supply and demand (s.f.)



Total vacancy (%)



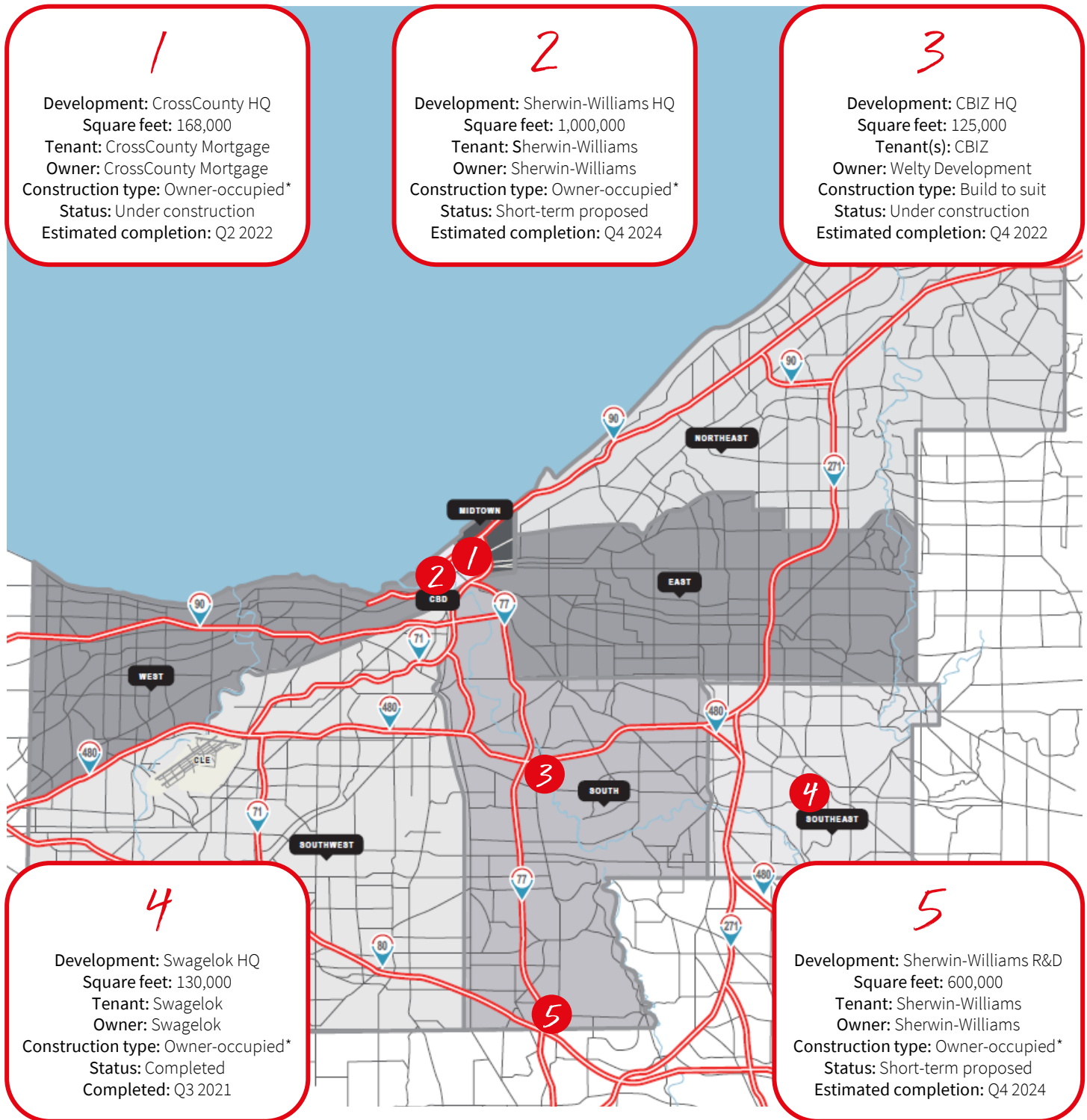
Average asking rent (\$ p.s.f.)



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Downtown	Totals	12,280,590	3,294	-222,769	-1.8%	22.0%	23.4%	\$20.77	0	0
Midtown	Totals	909,909	2,413	26,804	2.9%	10.5%	11.2%	\$19.37	0	0
Urban	Totals	13,190,499	5,707	-195,965	-1.5%	21.2%	22.6%	\$20.72	0	0
East	Totals	4,773,467	44,030	-27,822	-0.6%	15.8%	17.5%	\$21.23	0	0
Northeast	Totals	451,316	1,304	-11,075	-2.5%	14.1%	14.1%	\$16.07	0	0
South	Totals	5,092,892	67,860	-322,253	-6.3%	18.0%	24.9%	\$19.50	0	125,000
Southeast	Totals	653,559	-1,362	-74,650	-11.4%	19.4%	20.7%	\$19.20	0	0
Southwest	Totals	1,263,133	-13,375	-65,792	-5.2%	20.4%	20.4%	\$17.43	0	0
West	Totals	1,601,233	-8,963	-38,124	-2.4%	21.5%	22.2%	\$19.05	0	0
Suburbs	Totals	13,835,600	89,494	-539,716	-3.9%	17.8%	21.1%	\$19.63	0	125,000
Cleveland	Totals	27,026,099	95,201	-735,681	-2.7%	19.4%	21.8%	\$20.19	0	125,000
Downtown	A	5,723,488	-43,736	-57,254	-1.0%	14.5%	15.3%	\$25.49	0	0
Midtown	A	270,284	0	0	0.0%	8.6%	8.6%	\$23.00	0	0
Urban	A	5,993,772	-43,736	-57,254	-1.0%	14.3%	15.0%	\$25.42	0	0
East	A	2,377,289	46,433	24,221	1.0%	11.9%	14.8%	\$23.95	0	0
Northeast	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
South	A	1,715,643	10,451	36,541	2.1%	12.3%	12.4%	\$24.60	0	125,000
Southeast	A	78,000	0	-5,594	-7.2%	15.5%	15.5%	\$20.00	0	0
Southwest	A	88,000	-22,939	-22,939	-26.1%	35.8%	35.8%	\$21.50	0	0
West	A	361,875	0	1,167	0.3%	31.4%	31.4%	\$25.67	0	0
Suburbs	A	4,620,807	33,945	33,396	0.7%	14.1%	15.6%	\$24.29	0	125,000
Cleveland	A	10,614,579	-9,791	-23,858	-0.2%	14.2%	15.3%	\$24.91	0	125,000
Downtown	B	6,557,102	47,030	-165,515	-2.5%	28.4%	30.4%	\$18.66	0	0
Midtown	B	639,625	2,413	26,804	4.2%	11.2%	12.4%	\$18.20	0	0
Urban	B	7,196,727	49,443	-138,711	-1.9%	26.9%	28.8%	\$18.65	0	0
East	B	2,396,178	-2,403	-52,043	-2.2%	19.6%	20.2%	\$19.64	0	0
Northeast	B	451,316	1,304	-11,075	-2.5%	14.1%	14.1%	\$16.07	0	0
South	B	3,377,249	57,409	-358,794	-10.6%	21.0%	31.2%	\$17.68	0	0
Southeast	B	575,559	-1,362	-69,056	-12.0%	19.9%	21.4%	\$19.13	0	0
Southwest	B	1,175,133	9,564	-42,853	-3.6%	19.2%	19.2%	\$16.86	0	0
West	B	1,239,358	-8,963	-39,291	-3.2%	18.7%	19.6%	\$16.56	0	0
Suburbs	B	9,214,793	55,549	-573,112	-6.2%	19.7%	23.8%	\$17.96	0	0
Cleveland	B	16,411,520	104,992	-711,823	-4.3%	22.8%	26.0%	\$18.30	0	0

Note: Updates to the property set were made based on market dynamics. Historical data points included in this report reflect the updated property set.

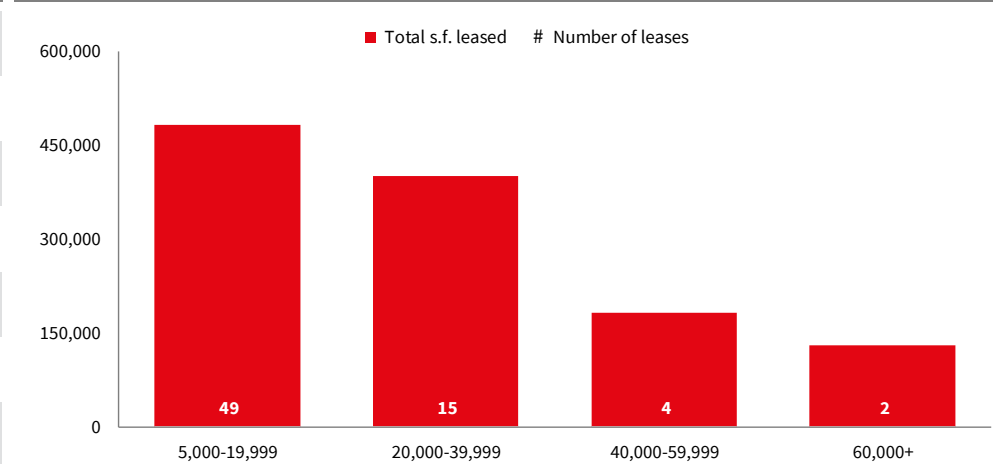
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This map highlights a partial list of office construction projects. *Owner-occupied properties are not included in the for-lease office statistics report.

12 months at a glance Leasing activity by size

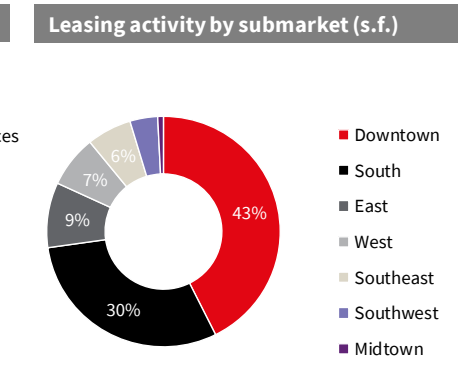
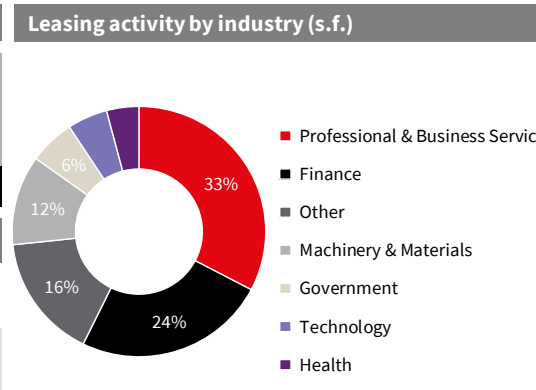
Leasing activity (s.f.)	1,198,481
Number of transactions	70
Class A leasing (s.f.)	605,285
Class B leasing (s.f.)	572,697
Class C leasing (s.f.)	20,499
Urban leasing (s.f.)	511,291
Suburban leasing (s.f.)	687,190



Tenant footprint Leasing activity by industry (s.f.) Leasing activity by submarket (s.f.)

16	11	43
Growing	Shrinking	Stable

New lease	694,038
Renewal	504,443



Notable leasing transactions

Tenant	Address	Submarket	Size	Type	Footprint
Penske	3000 Auburn Dr	East	70,595	Renewal	Stable
MAI Wealth Advisors	6050 Oak Tree Blvd	South	60,000	New Lease	Stable
AML Rightsource	1300 E 9th St	Downtown	50,371	New Lease	Growing
CBIZ	6200 Rockside Woods Blvd	South	50,000	New Lease	Stable
Kichler Lighting	30455 Solon Rd	Southeast	41,564	New Lease	Shrinking
United States GSA	1660 W 2nd St	Downtown	34,104	Renewal	Stable
Cohen	1350 Euclid Ave	Downtown	32,794	Renewal	Shrinking
Zin Technologies	6745 Engle Rd	Southwest	32,619	Renewal	Shrinking
Reliability First	3 Summit Park Dr	South	31,982	Renewal	Stable
United Church of Christ	1300 E 9th St	Downtown	27,806	New Lease	Growing

This dashboard analyzes leasing activity ≥ 5,000 square feet over a 12-month period, ending December 31, 2021.

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12 months at a glance

Total volume (\$) \$100,412,132

Total volume (s.f.) 1,077,343

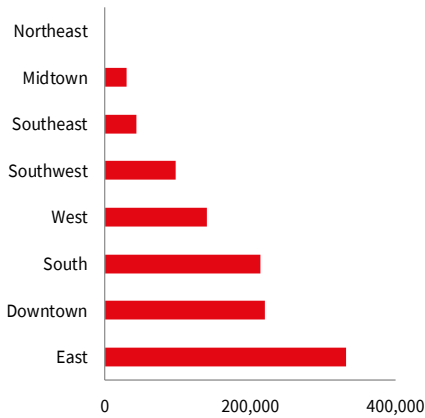
Number of transactions 15

Number of investment sales 11

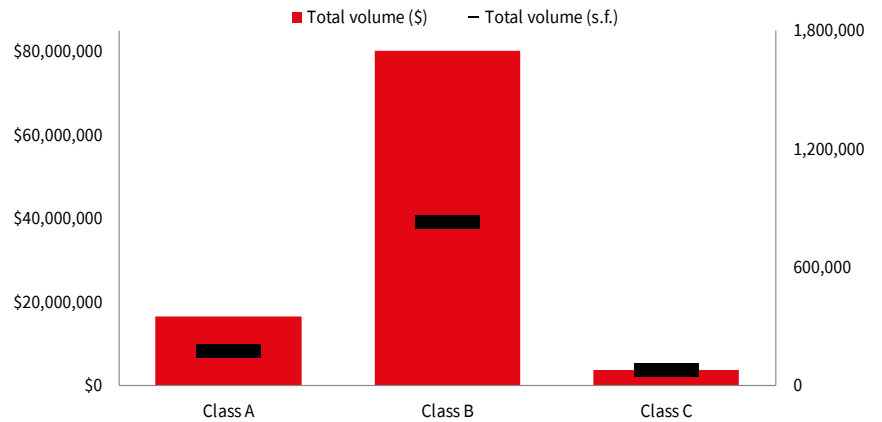
Number of owner-user sales 4

Number of sale-leasebacks 0

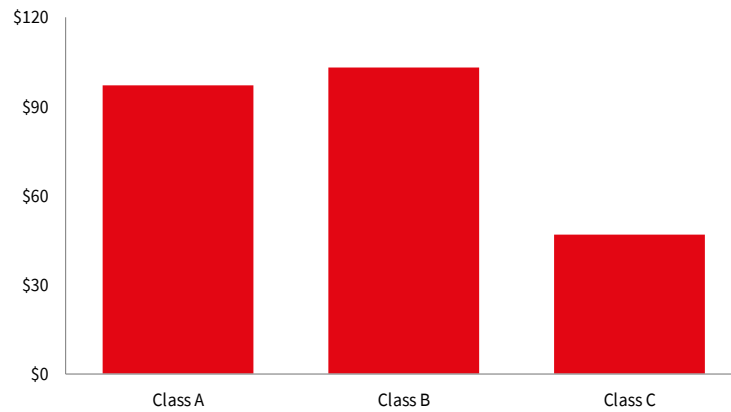
Sales volume by submarket (s.f.)



Sales volume by building type



Average price per square foot



Noteable sales transactions

Building address	Buyer	Seller	Size (s.f.)	Sales price	\$ p.s.f.	Sale date
925 Keynote Cir	Easterly Government Properties	Omni LLC	60,000	\$22,450,000	\$374	Jul-21
5885 Landerbrook Dr	Realife Real Estate	Properties Management Company	88,000	\$7,250,000	\$132	Sep-21
6400 Rockside Rd	Union Savings Bank	Olio Development Group	33,840	\$3,990,000	\$118	Sep-21
25200 Chagrin Blvd	Cleveland Primecare	Coven Goldman Associates	30,000	\$3,400,000	\$113	Aug-21
6060 Rockside Woods Blvd	NAI Pleasant Valley	The Dalad Group	120,000	\$13,000,000	\$108	Nov-21
6085 Parkland Blvd	Realife Real Estate	Founders Properties	85,379	\$8,252,734	\$97	May-21
6095 Parkland Blvd	Realife Real Estate	Founders Properties	85,326	\$8,247,611	\$97	May-21
25111 Country Club Blvd	Wen Wei	Amicus Holdings	70,200	\$5,527,500	\$79	Jan-21
25209 Country Club Blvd	Wen Wei	Amicus Holdings	70,200	\$5,527,500	\$79	Jan-21
55 Public Sq	K&D Group	Optima International	35,000	\$1,680,000	\$48	Feb-21

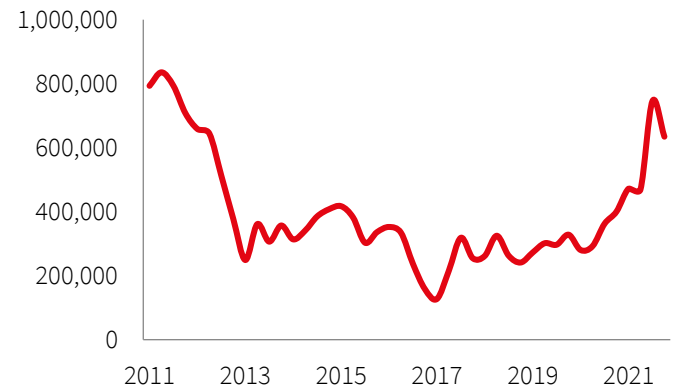
This dashboard analyzes sales activity $\geq 30,000$ square feet and $\geq \$1.0M$ over a 12-month period, ending December 31, 2021. Medical office transactions were excluded.

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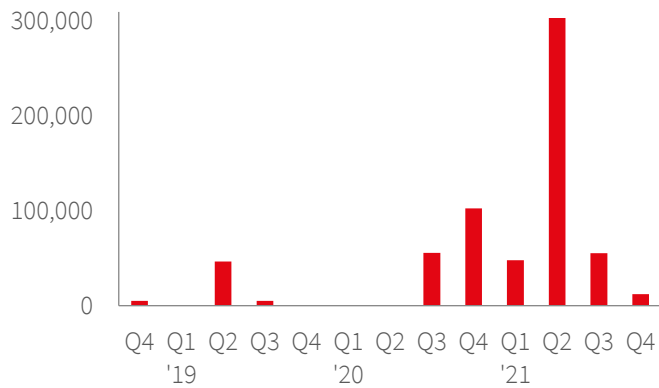
Fundamentals

Current sublease availabilities	27
Available sublease space	634,434 s.f.
Average sublease asking rent	\$16.18
Sublease rent discount vs direct	19.9%
Average sublease size	23,498 s.f.
Average remaining lease term	47 months

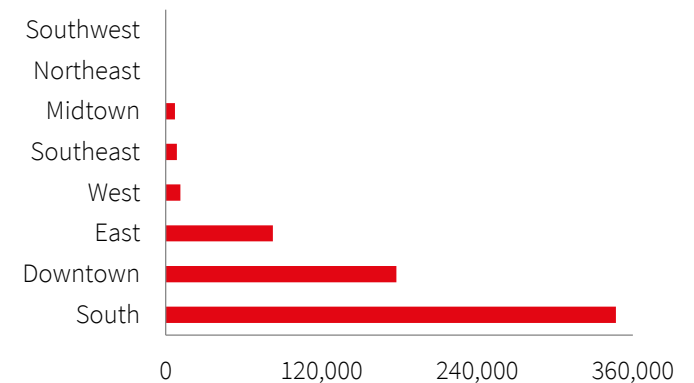
Historical sublease vacancy (s.f.)



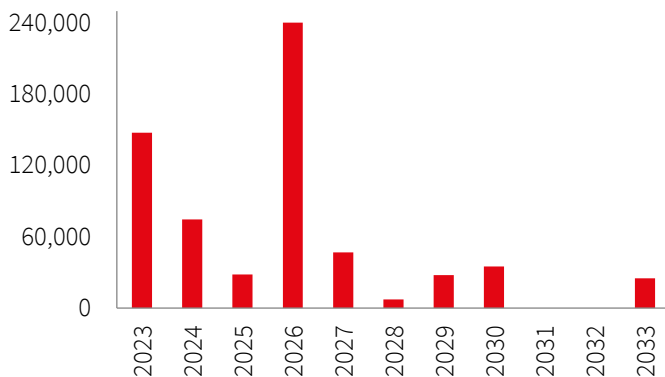
Sublease space added by quarter (s.f.)



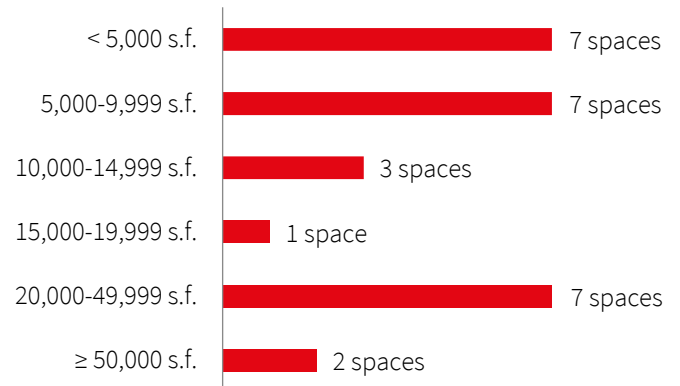
Available sublease space by submarket (s.f.)



Sublease availability by lease expiration (s.f.)



Sublease availability by size (# of availabilities)

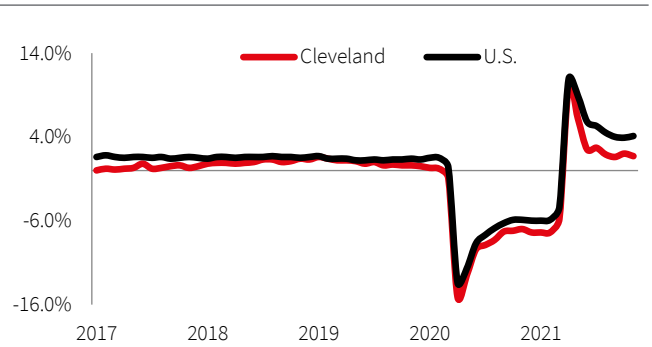


This analysis includes available sublease space with at least one year of term remaining. Coworking space was excluded.

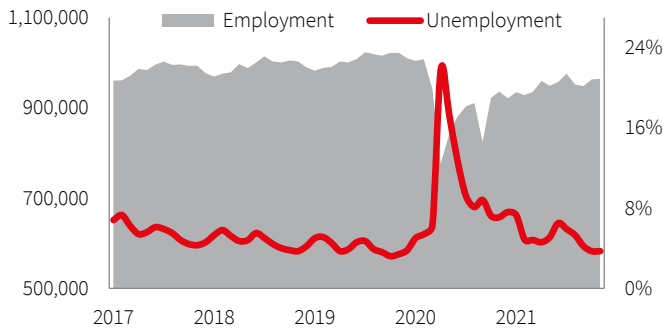
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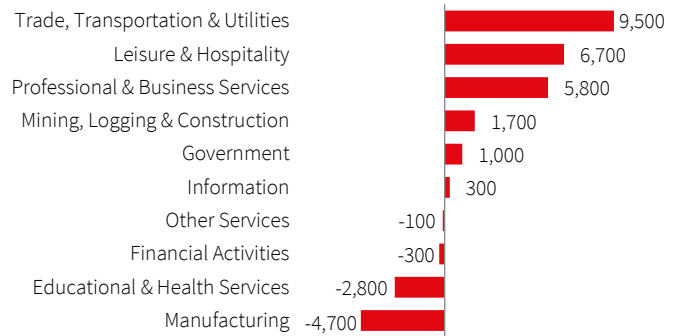
Job growth*



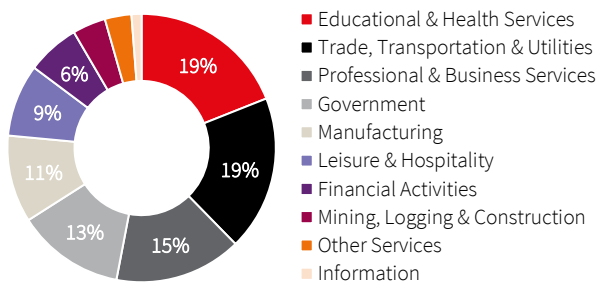
Historical employment



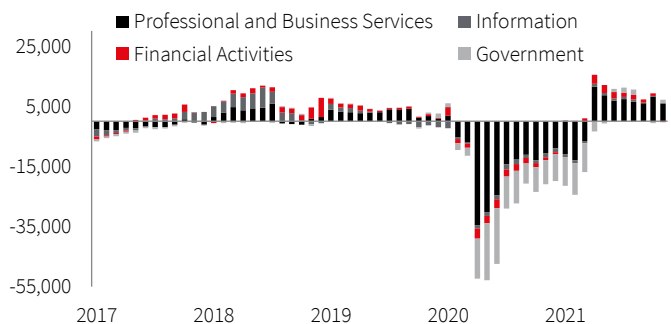
Job growth by sector*



Employment by industry



Office employment*



*Represents 12-month change in employment. All charts represent the latest economic data available from the Bureau of Labor Statistics as of December 31, 2021.



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