

# MARKETBEAT

## CLEVELAND, OHIO OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q08

### ECONOMY

The merger between PNC and National City Bank, coupled with the loan losses of KeyBank and AmTrust, removes Cleveland from the nation's top 10 banking centers. The financial institutions continue to restrict their available credit and tighten their commercial lending practices or have terms too tough for most buyers to qualify. This is inspiring a resurgence of financial creativity in alternative financing methods such as seller financing. Unemployment has been on the rise throughout all of Northeast Ohio's metropolitan areas for this quarter as well as for every month of 2008 compared to the corresponding month of 2007. Companies like Forest City announced plans to cut workers with still unknown layoffs expected from National City Bank. Cleveland's healthcare sector is one of few still generating growths with organizations like EMH Regional Healthcare acquiring 24 acres in North Ridgeville for future development and two major Cleveland Clinic buildings under construction.

### OVERVIEW

In spite of all of the negativity, overall leasing activity increased slightly for both the CBD and Suburban markets when compared to the previous quarter. This is also true when compared to 2007 for both the quarter and the year. However, while overall absorption had increased from third quarter, it decreased comparatively from the 2007 comparisons. Compared to this time last year, overall leasing activity had increased by about 5% for the quarter and 33% for the year, however overall absorption had decreased by about 18% for both timeframes.

Forest City has announced a freeze on any proposed projects, while The Flats East Bank Development is also currently on hold. However, there is enough contingency time to keep the Flats East Bank commitments from Ernst & Young as well as Tucker Ellis & West, LLP in place should the market improve. One of the largest CBD deals during the fourth quarter was Huntington National Bank committing to the relocation of more than 96,000 square feet (sf) to 200 Public Square in 2011. Cuyahoga Community College leased 38,000 sf in the Terminal Tower as a consolidation of their finance, marketing and information technology units for a three year term. The 16 existing CBD class A buildings, comprising 9,732,326 square feet, are healthy at 13.3% vacancy and increased their weighted direct rental rates to \$19.32 per square foot (psf) and \$18.91 psf overall.

Vacancy rates for the quarter increased slightly throughout the eight-county area from last quarter. However, there were some declines in the Fairlawn/Montrose Submarket as well as in Geauga and Portage Counties. Leasing activity in the market nearly doubled from the previous quarter. Meanwhile rental rates remained nearly unchanged.

### FORECAST

While 2008 may have seemed bad, most people in the real estate industry caution that 2009 is going to be worse. It is anticipated that business and industries alike will be hit with more cost-cutting measures such as layoffs, salary freezes and benefits reductions. In light of that, we can expect to see a slowing in the absorption of space. It is expected that there will be a rise in vacancy rates and a decline in rental rates. Given the apparent shortage of credit leading to the rise of delinquent commercial loans, expect to see more activity in the commercial property workout business in the coming quarters.

### BEAT ON THE STREET

According to a study from Cleveland State University's Center for Economic Development, Metro Cleveland ranked 1<sup>st</sup> among 136 metropolitan areas in a quality of life measure thanks to friendly communities, rich culture and recreation as well as access to healthcare.

### ECONOMIC INDICATORS

National	2007	2008	2009F
GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%

Regional	2007	2008	2009F
Unemployment	5.8%	6.3%	7.0%
Employment Growth	-0.4%	-0.6%	-1.0%

Source: Moody's | Economy.com & BLS.gov

### MARKET FORECAST

**LEASING ACTIVITY:** Expected to decrease in the first quarter of 2009.



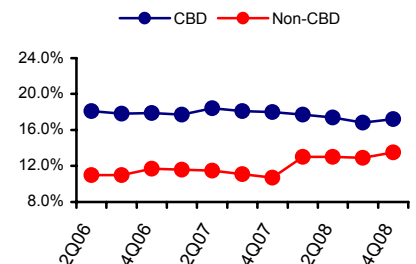
**DIRECT ABSORPTION:** Predicted to decline due to an increase in vacancy rates.



**CONSTRUCTION:** Financing has become a major hurdle causing a decline in new construction.



### OVERALL VACANCY RATES CBD VS. NON - CBD



### MARKET / SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Central Business District	33,444,336	197	17.2%	16.4%	1,729,706	1,637,518	\$18.91
Midtown	5,538,156	150	10.7%	10.7%	80,973	173,177	\$10.50
Urban Core	38,982,492	347	16.3%	15.6%	1,810,679	1,810,695	\$18.45
Northeast & Lake County	6,641,056	413	17.6%	17.2%	159,172	210,408	\$20.03
Geauga County	1,048,523	96	16.0%	16.0%	18,805	48,638	\$11.95
North & Far East	7,689,579	509	17.4%	17.1%	177,977	259,046	\$20.03
Chagrin, East & Lander	12,706,628	321	11.5%	10.9%	283,976	421,544	\$24.43
Southeast	2,822,087	144	14.7%	11.6%	158,340	279,454	\$19.50
Rockside & South	9,977,353	313	17.1%	15.0%	491,164	662,454	\$18.40
Southwest	8,398,178	439	12.4%	11.8%	313,319	583,981	\$20.25
West	8,808,528	395	14.2%	13.8%	178,558	357,914	\$21.73
Cuyahoga County Suburban	42,712,774	1,612	13.8%	12.7%	1,425,357	2,305,347	\$20.34
Akron	20,318,252	1,258	12.4%	11.0%	511,577	961,566	\$19.73
Fairlawn & Montrose	4,090,965	165	15.3%	13.7%	192,609	228,176	\$18.62
Greater Akron	24,409,217	1,423	12.9%	11.5%	704,186	1,189,742	\$19.52
Lorain County	4,157,137	326	17.9%	17.6%	168,371	183,964	\$17.74
Medina County	2,013,439	225	19.7%	19.2%	77,833	187,983	\$18.00
Portage County	1,485,979	162	10.7%	10.7%	20,212	78,689	\$16.50
Stark County	9,636,048	851	10.0%	9.6%	116,130	382,747	\$15.00
Outlying Counties	17,292,603	1,564	13.1%	12.7%	382,546	833,383	\$17.66
CBD	33,444,336	197	17.2%	16.4%	1,729,706	1,637,518	\$18.91
NON-CBD	97,642,329	5,258	13.6%	12.7%	2,771,039	4,760,695	\$19.64
CLEVELAND MARKET	131,086,665	5,455	14.5%	13.6%	4,500,745	6,398,213	\$19.30

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
200 Public Square	Central Business District	Huntington National Bank	96,721	A
Springside Place	Fairlawn / Montrose	Dominion East Ohio Gas	53,000	B
Halle Building	Central Business District	Faye Sharp, LLP (Sublease)	38,915	B

#### SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
18660 E Bagley Road (2 Bldgs)	Southwest	Crescendo Holdings, LLC	65,950	\$4,100,000
4400 Rockside Road	Rockside & South	Rockside Properties, LLC	11,000	\$1,100,000

#### SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Stautzenberger College	Rockside & South	Stautzenberger College	25,000	10/08
23600 Commerce Park	Chagrin, East & Lander		24,000	11/08

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1299 Industrial Parkway	Medina County	N/A	40,000	4/09
Two Park West	Akron Submarket	Strayer University	15,000	7/09
Developers Diversified	Chagrin, East & Lander	Developers Diversified	120,000	9/09



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\*Market terms & definitions based on BOMA and NAIOP standards.

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