KNOWLEDGE REPORT

Office Research & Forecast Report Q4 2019
Colliers International | Cleveland

Cleveland Office Market Records Strong Finish to 2019

After posting a small loss during the first half of 2019, the Cleveland office market witnessed accelerated activity through the second half resulting in positive net absorption of 436,703 square feet for the year. Class A properties accounted for 65% of this total. The overall market vacancy rate decreased by 70 basis points (bps) from the end of 2018 to its current level of 12.6%.

The year's activity did include some large transactions that were either a pure gain in occupancy or the space vacated by one tenant was quickly backfilled by other occupiers. Job growth in the office-using sectors has recently been a positive story for the Cleveland office market.

Submarkets leading the way for Class A activity included the Southwest submarket posting 173,069 square feet of positive net absorption where Medical Mutual occupied 125,000 square feet on Royalton Rd. The Central Business District continues to attract relocations from the suburbs and some new-to-market companies. Net absorption downtown during 2019 totaled nearly 90,000 square feet.

In the Chagrin Corridor submarket, the Offices at Pinecrest and The Van Aken District welcomed a number of new tenants resulting in positive net absorption of 71,538 square feet in the Class A sector, although Class B assets recorded a loss for the year. A new facility for Progressive Insurance contributed to 88,933 square feet of Class A absorption in the Northeast submarket, while the West submarket posted 77,508 square feet of overall positive net absorption.

The overall market average weighted asking rental rate of $18.01 per square foot (full service/gross) is an increase of 1.6%, year-over-year. Class A asking rents average $22.68 per square foot, up 2.8%, downtown, but lost ground in the suburbs and now average $21.26 per square foot, a year-over-year decline of 3.5%.

Of course, Class A rents vary widely between submarkets ranging from $17.71 per square foot in the West submarket to $25.30 per square foot in the Chagrin Corridor. The decrease

Market Indicators

Relative to prior period	Q4 2019	Q1 2020*
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↓	↔
RENTAL RATE**	↑	↔

* Projected, relative to prior period
** Class A rents

MARKET STATS AT A GLANCE

12.6%
VACANCY RATE

$18.01
MARKET ASKING RENT
(Psf/Yr, FSG)

436,703
YTD ABSORPTION (SF)

66,209
UNDER CONSTRUCTION (SF)

in suburban Class A rents can be attributed more to the lease up of "trophy" properties in prime locations and the subsequent removal of that high-end direct available space from the market than an emerging trend. •

Job Growth in the Office Using Sectors Spikes

Cleveland's job growth had lagged behind the national average during much of the current expansion, but hiring in the office-using sectors accelerated over the past three years, during which time, the local economy added nearly 16,000 jobs. Growth during these three years represents nearly half of the total office jobs created since the market bottomed in February of 2010, according to data from the Bureau of Labor Statistics.

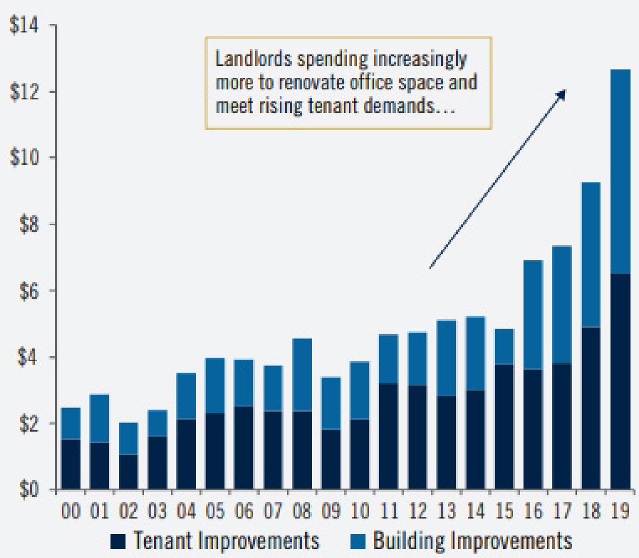
This increase in the labor force does account for some of the 1.1 million square feet of net absorption recorded over the same timeframe, but not all. The growing trends of increased densification and alternative workplace arrangements are impacting office occupancy and we believe these developments will continue and intensify in the future. •

Higher Occupier Expectations Drive Increased Capex Spending

The changing nature of work and the workplace is not only affecting office density and demand levels, but the battle for talent has placed office design, amenities and experience at the top of many occupiers' list of priorities. Already the most capital-intensive asset class, these new demands are forcing owners to increase spending on building upgrades, amenities and technology. According to the NCREIF Property Index, spending on both tenant and building improvements in office properties has risen sharply in recent years. Read more about this and other trends in PGIM Real Estate's "Trends for 2020 Report".

Exhibit AM2: Analysis of Capex and Investment in Buildings

Annual NCREIF Office Tenant and Building Improvements ($ per sq ft)



Sources: NCREIF, Deloitte, PGIM Real Estate. As of December 2019.

Summary Statistics

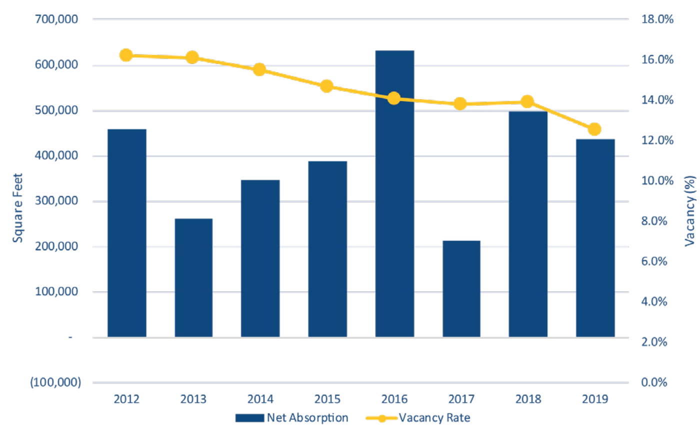
Q4 2019 Cleveland Office Market	Market	CBD	Suburban
Vacancy Rate	12.6%	16.3%	10.4%
Change From Q3 2019 (basis points)	-50	-30	-60
Net Absorption (Thousand Square Feet)	266.3	65.3	201.0
New Supply (Thousand Square Feet)	0	0	0
Under Construction (Thousand Square Feet)	66.2	0	66.2

Asking Rents

Per Square Foot Per Year FSG

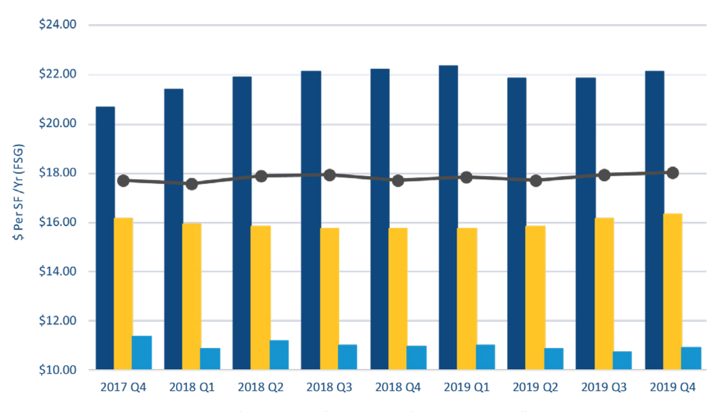
Market	$18.01
Market Class A	$22.12
Downtown Class A	$22.68
Suburban Class A	$21.26

Office Vacancy/Absorption



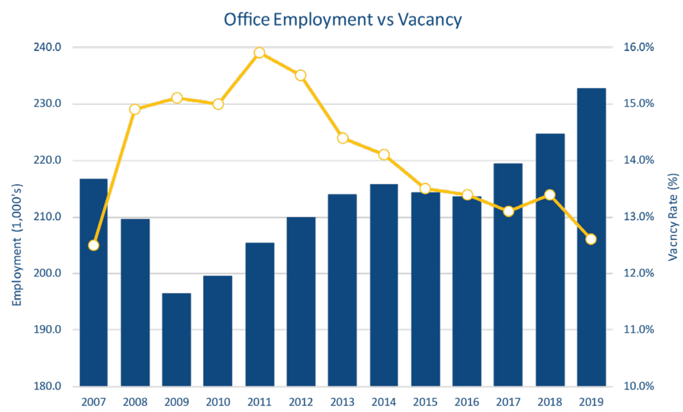
After a slow start to the year, activity during the second half of 2019 accelerated and the year finished with a gain equal to the market's five-year trailing average.

Office Average Asking Rates (FSG)



In general, rental rates remain stable with some submarket-specific volatility due to availability of high-end space.

Office Employment



Employment growth in the office-using sectors has accelerated over the past three years, translating into steady decreases in overall market vacancy.

Sources: Colliers Research, CoStar, Bureau of Labor Statistics

Summary & Outlook

While economic forecasts through the summer and into the early fall began to shift to a more negative outlook, the blowout November jobs report and subsequent gains in the job market, along with strong wage growth and continued positive consumer sentiment prompted many economists to revise their projections for 2020. Many economists and financial institutions who, at the time, predicted a heightened risk of recession in late 2020, have revised their forecasts, once again kicking the can down the road. Other factors include the passage of the USMCA trade agreement with Mexico and Canada and a partial trade agreement with China. There remains weakness in the manufacturing sector, but the ISM Non-Manufacturing index, which had fallen to a four-year low of 52.5 has recently recovered indicating that the much larger services sector of the U.S. economy has room for additional growth.

These factors are all positive indicators for the office market, although the changing nature of work and workplace trends will continue to present challenges for landlords. For the Cleveland office market, recent economic news indicates potential for continued growth. With some of the uncertainty hanging over the economy resolved, the remaining wildcard is the 2020 presidential election, which may temper business decision making somewhat.

Notable Office Sales | 2019

PROPERTY NAME/ADDRESS	SALE DATE	SALE PRICE	BLDG SF	BUYER	SELLER	CLASS	SUBMARKET
1 Allen Bradley Dr	Nov-19	$61,129,154	460,000	ElmTree Funds	Mohr Capital	B	East
4100 W 150th St (2 properties)	Feb-19	$54,217,197	296,825	Oaktree Capital Management	PNC Bank	B	Southwest
6900 Pearl Rd	Apr-19	$9,485,000	30,000	Montecito Medical Real Estate	Pearl Professional Building, LLC	Medical	Southwest
23000 Millcreek Blvd	Feb-19	$7,550,000	163,018	Time Equities, Inc	PNC Bank	A	Chagrin Corridor
6500 Rockside Rd	Oct-19	$5,470,000	55,799	Yaron Kandelker	Fred Rzepka	B	Rockside Corridor
303 Chestnut Commons Dr-Cleveland Clinic	May-19	$5,391,955	40,000	Welltower Inc.	CNL Healthcare Properties, Inc.	Medical	Lorain County
3800 Park East Dr	Jan-19	$4,871,659	140,015	3800 Park East My Place LLC	Welltower, Inc.	B	Chagrin Corridor
7517 Lorain Ave - SSA	May-19	$3,510,977	10,893	Gardner Tanenbaum Holdings	West Second Associates	B	West
16000 Pearl Rd	Mar-19	$3,176,471	21,100	JP Morgan Chase Bank NA	Watterson Investment Group	Medical	Southwest
6688 Ridge Rd	Nov-19	$3,042,386	50,000	Allied Development	PREP Peco Real Estate Partners	B	Southwest

Notable Office Leases | 2019

PROPERTY NAME/ADDRESS	LEASE DATE	LEASE SF	TENANT NAME	BUILDING CLASS	SUBMARKET
23000 Millcreek Blvd	Apr-19	50,814	Paychex	B	Chagrin Corridor
1215 Superior Ave	Oct-19	45,449	Gallagher Sharp	A	CBD
23000 Millcreek Blvd	Aug-19	44,000	AML RightSource LLC	B	Chagrin Corridor
24701 Euclid Ave	Jul-19	40,988	Pension Benefit	A	Northeast
5875 Landerbrook Dr	Nov-19	40,935	Hyster-Yale Materials Handling, Inc.	A	East
Bainbridge Park	May-19	31,200	Sagequest	B	Southeast
3333 Richmond Rd	Mar-19	26,000	Insight2 Profit	A	Chagrin Corridor
Park Center Plaza II	Aug-19	22,649	KeyFactor	A	Rockside Corridor
Skylight Office Tower	Jul-19	16,500	Federal Public Defender *	A	CBD
Key Tower	May-19	16,385	Trico **	A	CBD

* Renewal ** Sublease

Cleveland | Q4 2019 Office Submarket Data

MARKET	# OF BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	SUBLEASE AVAILABLE (SF)	QTRLY NET ABSORPTION (SF)	YTD TOTAL NET ABSORPTION	AVG WTD ASKING RATE (FSG)
CLEVELAND - CBD	**97**	**19,223,783**	**3,568,866**	**3,124,924**	**16.3%**	**157,197**	**65,265**	**89,776**	**$19.43**
A	16	9,498,365	1,570,747	1,365,280	14.4%	114,435	-40,641	35,468	$22.68
B	64	9,052,240	1,864,254	1,631,133	18.0%	38,019	92,831	57,302	$17.35
C	17	673,178	133,865	128,511	19.1%	4,743	13,075	-2,994	$10.33
CLEVELAND - CHAGRIN CORRIDOR	**90**	**4,641,742**	**742,401**	**547,020**	**11.8%**	**105,155**	**16,957**	**2,040**	**$20.74**
A	18	1,788,447	280,160	213,605	11.9%	83,794	41,437	71,538	$25.30
B	69	2,782,592	454,241	329,415	11.8%	21,361	-24,480	-65,498	$18.70
C	3	70,703	8,000	4,000	5.7%	0	0	-4,000	$12.00
CLEVELAND - EAST	**65**	**2,625,702**	**207,153**	**175,814**	**6.7%**	**14,132**	**2,178**	**-2,595**	**$21.05**
A	14	1,102,328	118,826	93,692	8.5%	14,132	-2,722	-6,857	$22.16
B	42	1,257,143	72,126	65,921	5.2%	0	4,900	8,453	$19.95
C	9	266,231	16,201	16,201	6.1%	0	0	-4,191	$16.00
CLEVELAND - NORTHEAST	**140**	**4,994,955**	**552,767**	**473,557**	**9.5%**	**7,322**	**6,951**	**81,579**	**$14.89**
A	7	866,304	61,400	61,400	7.1%	0	-3,200	88,933	$24.86
B	111	3,345,204	436,027	370,312	11.1%	7,322	11,170	-20,741	$13.94
C	22	783,447	55,340	41,845	5.3%	0	-1,019	13,387	$11.70
CLEVELAND - ROCKSIDE CORRIDOR	**45**	**3,779,887**	**454,309**	**410,657**	**10.9%**	**0**	**29,450**	**7,844**	**$19.53**
A	17	2,074,415	285,301	263,400	12.7%	0	16,431	-21,330	$20.59
B	28	1,705,472	169,008	147,257	8.6%	0	13,019	29,174	$17.76
CLEVELAND - SOUTH	**95**	**2,816,442**	**497,279**	**461,749**	**16.4%**	**10,924**	**8,698**	**-86,502**	**$16.22**
A	9	657,119	226,049	220,585	33.6%	10,924	1,599	-68,623	$18.82
B	76	1,830,672	187,065	170,566	9.3%	0	8,750	6,289	$15.62
C	10	328,651	84,165	70,598	21.5%	0	-1,651	-24,168	$9.97
CLEVELAND - SOUTHEAST	**107**	**2,798,667**	**317,089**	**180,199**	**6.4%**	**5,677**	**-21,777**	**51,406**	**$14.00**
A	1	78,000	0	0	0.0%	0	0	0	- -
B	95	2,456,601	311,103	175,306	7.1%	4,584	-21,777	42,024	$14.00
C	11	264,066	5,986	4,893	1.9%	1,093	0	9,382	- -
CLEVELAND - SOUTHWEST	**119**	**4,119,023**	**364,859**	**344,165**	**8.4%**	**250**	**127,492**	**173,069**	**$13.73**
A	5	735,912	10,028	7,328	1.0%	0	125,000	121,310	$18.74
B	96	2,766,250	329,575	311,581	11.3%	250	6,269	53,103	$13.91
C	18	616,861	25,256	25,256	4.1%	0	-3,777	-1,344	$9.58
CLEVELAND - WEST	**128**	**5,128,809**	**525,111**	**480,907**	**9.4%**	**10,343**	**13,714**	**77,508**	**$14.84**
A	12	1,482,652	90,855	73,560	5.0%	0	9,844	64,830	$17.71
B	97	3,071,241	355,210	331,177	10.8%	10,343	3,925	8,990	$14.49
C	19	574,916	79,046	76,170	13.2%	0	-55	3,688	$12.53
EAST LAKE & GEAUGA COUNTY	**42**	**1,003,327**	**188,737**	**174,763**	**17.4%**	**0**	**14,321**	**44,789**	**$13.16**
B	33	757,572	137,416	124,692	16.5%	0	14,321	39,854	$14.37
C	9	245,755	51,321	50,071	20.4%	0	0	4,935	$10.22
LORAIN COUNTY	**76**	**1,579,770**	**244,697**	**241,997**	**15.3%**	**1,100**	**3,035**	**-2,211**	**$16.27**
B	67	1,293,175	120,312	119,212	9.2%	1,100	3,035	-2,211	$16.86
C	9	286,595	124,385	122,785	42.8%	0	0	0	$12.50
Grand Total	**1,004**	**52,712,107**	**7,663,268**	**6,615,752**	**12.6%**	**312,100**	**266,284**	**436,703**	**$18.01**

438 offices in **68** countries on **6** continents

United States: **155**
Canada: **48**
Latin America: **20**
Asia Pacific: **94**
EMEA: **119**

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