

MARKET VIEW

TOLEDO
OFFICE

RK

ENDYEAR 2021

OVERVIEW

Statistically solid performance in the second half of 2021

Looming significant new vacancy arriving in 2022 suggests future struggles for the market

Operating cost increases driving up occupancy costs

The for-sale market was very active throughout 2021

The endyear Reichle Klein Group survey of the Toledo, Ohio office space market found that, statistically, the market improved a bit from mid-year 2021 and from the end of 2020. The overall market vacancy rate declined from 18.3% to 17.24% over the last six months of 2021 as 84,504 square feet of space was absorbed. Meanwhile, the overall market average asking rental rate held at \$18.14.

Aiding the solid performance was leasing activity which picked up in the third and fourth quarters of the year, prior to the surge in COVID cases due to evolving strains of the virus that emerged late in the year. As this report is being written, it is uncertain as to whether this most recent surge will serve to slow activity again.

QUICK STATS

Arrows indicate change from midyear 2021 (left) to endyear 2021 (right)

17.2%
vacancy



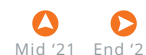
\$18.14
avg. lease rate



84,504
net absorption



33,800 SF
new construction



ENDYEAR 2021

However, there is this general sense of waiting for the other shoe to drop among our office specialists. This is based on our knowledge of several consequential moves and restructurings by occupiers of space that are in motion but not yet captured in the statistics. Several of these moves are non-COVID related but there are many vacancies that we know are coming that are directly related to COVID. There is also the sense that there are more that we don't know of yet. A quick tally of those situations that are known to us amounts to over 300,000 square feet of additional vacancy that will officially hit the market in the coming year. Given the dynamics of the office-using segment of the Toledo economy and the post-COVID environment, it's hard to see where the demand needed to backfill that vacancy is going to come from.

Both landlords and tenants are struggling with costs. In the face of the over supply of space, any landlord that might be inclined to offer lower rent to attract tenants is constrained by rapidly rising operating expenses, particularly utilities and janitorial expenses. Additionally, the cost of making tenant improvements is up drastically and continuing to rise so deals are difficult to pencil out without increasing occupancy cost simply to cover the cost of tenant improvements. Many tenants, on the other hand, are seeing increases in their occupancy costs in the form of operating expense passthroughs. If a tenant goes to the

market expecting to find alternatives and uses their leverage in a soft market to get a better deal, they are generally disappointed.

The real bright spot, and certainly the most surprising phenomenon of the pandemic era to date, has been the hot market for office buildings for sale. It seems counterintuitive and is not something that we foresaw nor can fully explain. But the pace of sales of smaller single-user and multi-user buildings purchased by buyers intending to occupy all or a part of the building continued at a torrid rate through the end of 2021. Most all these sales are occurring in suburban submarkets, though one high profile transaction of this nature did occur in the Central Business District - the sale of the former United Way building to Lucas Metropolitan Housing. With the inventory of these buildings on the market shrinking significantly due to the activity of the last twelve to eighteen months, the pace of these transactions is likely to slow in the coming year.

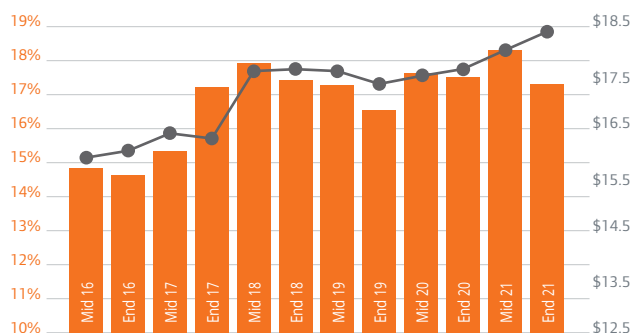
VACANCY RATE vs. LEASE RATE



17.2%
vacancy rate

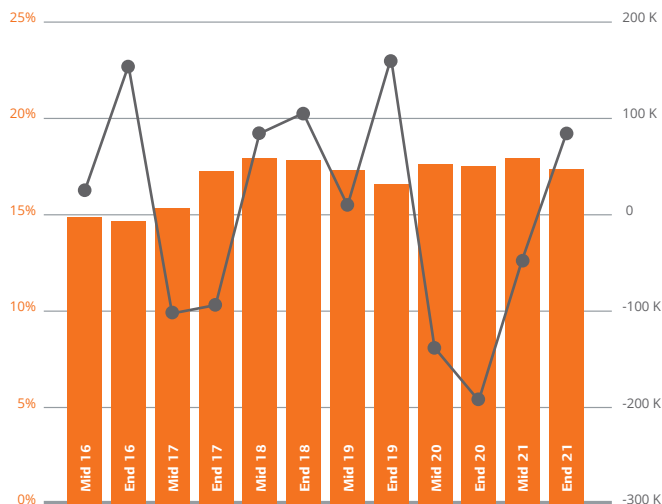


\$18.14
avg. lease rate



MARKET STATISTICS

	Submarket	Rentable Area	Vacancy Rate (%)	Net Absorption (SF)	Under Construction (SF)	Average Asking Lease Rate (SF/YR)
CBD	Class A	2,624,139	23.1%	11,324	0	\$21.70
	B	1,392,101	25.4%	0	0	\$17.38
	C	1,187,130	14.8%	14,154	0	\$14.17
	Total	5,203,370	21.8%	22,564	0	\$19.01
North/East	Class A	25,182	4.5%	0	0	\$15.00
	B	10,528	0.0%	730	0	-
	C	62,986	20.8%	2,700	0	\$13.03
	Flex	48,000	0.0%	0	0	-
	Total	146,696	9.7%	3,430	0	\$13.18
Perrysburg Northwood	Class A	396,846	10.1%	15,066	33,800	\$22.61
	B	334,243	8.8%	2,192	0	\$17.68
	C	49,340	5.3%	0	0	\$13.81
	Flex	36,381	8.7%	0	0	-
	Total	816,810	9.2%	17,258	33,800	\$19.92
South/Southwest	Class A	2,448,208	13.8%	21,346	0	\$18.47
	B	760,402	12.4%	-5,861	0	\$16.65
	C	632,592	21.9%	5,371	0	\$11.96
	Flex	640,029	8.2%	4,929	0	\$12.43
	Total	4,481,231	13.9%	25,785	0	\$16.80
West Toledo	Class A	1,023,434	14.0%	10,651	0	\$20.09
	B	1,007,292	21.8%	1,672	0	\$16.08
	C	392,092	12.4%	230	0	\$14.01
	Flex	37,396	0.0%	0	0	-
	Total	2,460,214	16.7%	12,553	0	\$17.01
Market Total		13,108,321	17.2%	84,504	33,800	\$18.14

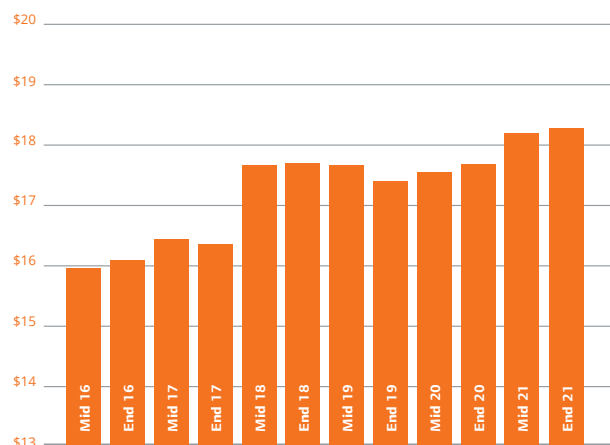


Vacancy/Net Absorption

All submarkets recorded declines in vacancy in the second half of 2021 with Perrysburg/Northwood being the top performer. Likewise, the total positive net absorption that occurred over the last six months of the year was sprinkled throughout the market, though the South/Southwest and the Central Business District captured the largest chunks of it. Unfortunately, the South/Southwest submarket seems poised to lose a lot of ground in the coming year based on several large vacancies coming in the pipeline.

Vacancy
17.2%

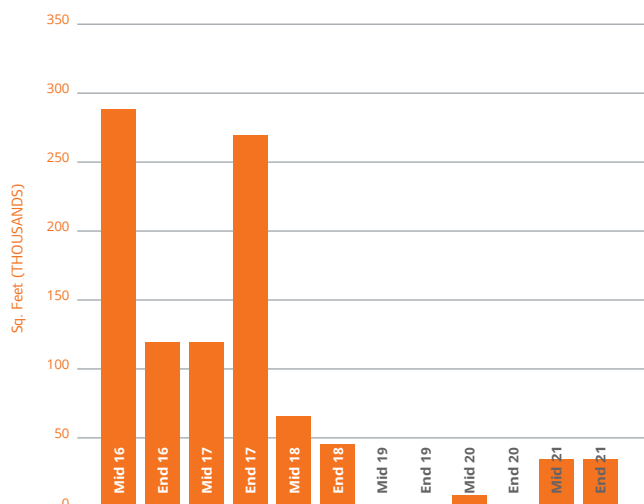
Net Absorption
84,504



Average Asking Rental Rate

The overall market average asking rental rate eked out a small \$.03 per square foot increase in second half of 2021. Most landlords are holding the line on their asking rates. Total occupancy costs are increasing however, dramatically in some cases, as big increases in janitorial costs and utilities are passed through to tenants where leases allow it.

Average Rental Rate
\$18.14



New Construction

Very little space is under construction. The total square footage of 33,800 square feet is comprised of two buildings, both in Perrysburg. One building is being built-to-suit. The other is a speculative project in Levis Commons, which will be delivered into very challenging market conditions in 2022.

New Construction
33,800 SF

TOP TRANSACTIONS

- 424 Jackson St. (SALE)**
SIZE
XX,XXX SF **BUYER/TENANT**
Lucas Metro. Housing
- 326 N. Erie St. (SALE)**
SIZE
12,700 SF **BUYER/TENANT**
Fair Housing Center
- One Sunforest Court (SALE)**
SIZE
11,805 SF **BUYER/TENANT**
Regis
- 3600 Briarfield Blvd. (SALE)**
SIZE
8,000 SF **BUYER/TENANT**
Epilepsy Center
- 1911 Indian Wood Circle (LEASE)**
SIZE
X,XXX SF **BUYER/TENANT**
???

OUR PURPOSE

**To make real estate work for
our clients and customers**

OUR VALUES

Trust.
Service with a Warrior Spirit.
All in.

RK

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SUBMARKET MAP



GLOSSARY OF TERMS

Average Asking Lease Rate: Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with full-service gross leases for all buildings in the summary.

Net Leases: Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

Market Coverage: Includes all competitive office buildings 5,000 square feet and greater in size.

Net Absorption: The change in occupied square feet from one period to the next.

Net Rentable Area: The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas.

Occupied Area (Square Feet): Building area not considered vacant.

Under Construction: Buildings which have begun construction as evidenced by site excavation or foundation work.

Available Area (Square Feet): Available Building Area which is either physically vacant or occupied.

Availability Rate: Available Square Feet divided by the Net Rentable

Vacant Area (Square Feet): Existing Building Area which is physically vacant or immediately available.

Vacancy Rate: Vacant Building Feet divided by the Net Rentable Area.

Normalization: Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.