

MARKET VIEW

TOLEDO
OFFICE

RK

ENDYEAR 2022

HOT TOPICS

Market has taken a negative turn

The Central Business District takes a big hit

Leasing Transactions of the “Musical Chairs” Variety

Landlords Face Difficult Environment

OVERVIEW

In our mid-year 2022 Toledo, Ohio office space market report, we here at the Reichle Klein Group reported that the market performed better than expected in the first half of 2022. We also telegraphed that, because of events in motion at the time that weren't yet showing up the numbers, we anticipated tougher conditions were likely in the coming twelve to twenty-four months. Our end-year 2022 survey found those concerns to be valid as the numbers have begun to turn negative. Yet more negative results seem certain in 2023.

The overall market incurred 193,355 square feet in negative net absorption and the vacancy rate jumped to 18% at yearend 2022, from 16.6% at mid-year 2022 and is up from 17.5% at yearend 2021. The largest increase in vacancies occurred in the

QUICK STATS

Arrows indicate change from midyear 2022 (left) to endyear 2022 (right)

18.0%
vacancy

▼ ▼
Mid '22 End '22

\$18.22
avg. lease rate

▼ ▼
Mid '22 End '22

-172,198
net absorption

▼ ▼
Mid '22 End '22

0 SF
new construction

▼ ▼
Mid '22 End '22

ENDYEAR 2022

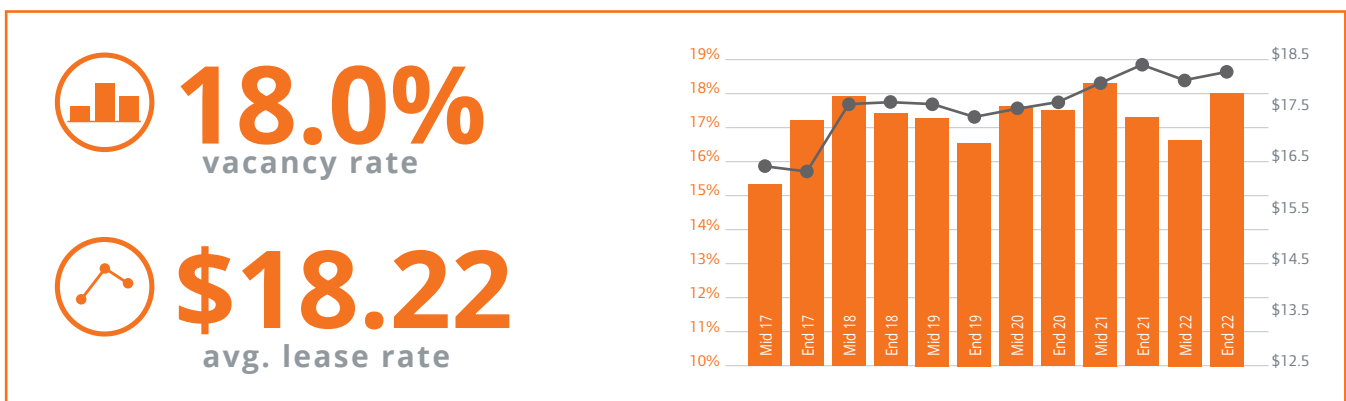
Central Business District in the Class A segment, rising from 21% at mid-year to 27.9 % at yearend 2022. This is the result of an additional 179,536 square feet of space becoming vacant in the second half. A large portion of this newly vacant space is due to Fifth Third Bank drastically reducing the size of their regional headquarters in One Seagate. In total, 725,262 square feet of Class A space stood vacant in the CBD at year end 2022. By comparison, in the similarly sized Class A segment of the South/Southwest submarket there was a total of 365,096 square feet vacant (16.1%) at year end.

Lease transactions were closing throughout the second half of 2022, primarily in the suburban submarkets. However, most of the transactions were of the musical chairs variety entailing users moving from building to building within the market seeking to improve or right size their spaces. The negative net absorption numbers make clear that tenants shrinking space far outweighed those taking more space. Our ongoing work on behalf of tenants that we represent and the buildings for which we act as leasing agents leads us to believe that these trends will continue into 2023.

While the average asking rate for the overall market increased in the second half of 2022, concessions to tenants in the form of free or reduced rental rates feature prominently in transactions that close. High construction costs for tenant improvements are an impediment to both landlords and tenants and present a challenge to both sides in structuring deals that make sense financially. Between slow to falling demand, rent pressures, high TI costs, increasing operating costs, and fierce competition with one another for tenants, Landlords face a very difficult environment.

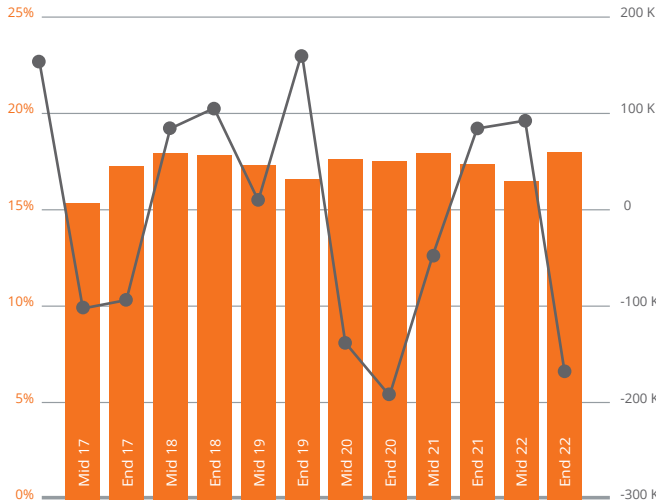
In our Toledo office market reports throughout 2021 and the first half of 2022 we have commented about the high level of smaller office building sales to, primarily, user buyers. The pace of these sales tailed off in the second half of 2022, though it did not stop completely. Demand to purchase such buildings has slowed, but the number of available buildings for sale has fallen dramatically as well.

VACANCY RATE vs. LEASE RATE



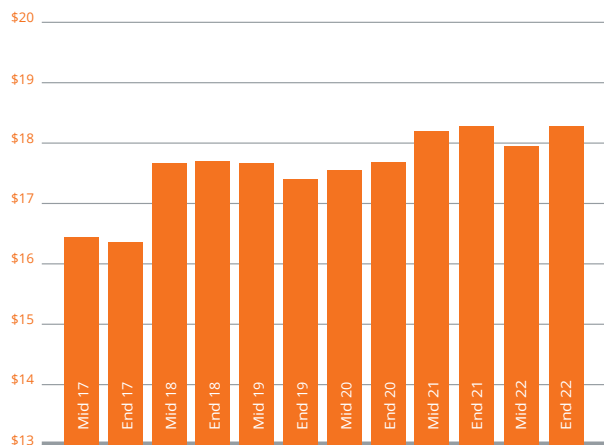
MARKET STATISTICS

	Submarket	Rentable Area	Vacancy Rate (%)	Net Absorption (SF)	Under Construction (SF)	Average Asking Lease Rate (SF/YR)
CBD	Class A	2,604,107	27.9%	-179,536	0	\$ 20.79
	B	1,465,475	24.6%	4,811	0	\$ 17.61
	C	1,156,595	14.6%	6,702	0	\$ 14.54
	Total	5,226,177	24.0%	-168,023	0	\$19.06
North/East	Class A	28,638	7.9%	0	0	\$ 15.00
	B	10,528	0.0%	0	0	-
	C	52,846	20.4%	-1,200	0	\$ 11.29
	Flex	48,000	0.0%	0	0	-
Total	140,012	9.3%	-1,200	0	\$11.93	
Perrysburg Northwood	Class A	383,746	11.2%	-4,429	0	\$ 24.21
	B	334,243	6.3%	-2,684	0	\$ 17.61
	C	41,080	24.1%	-9,100	0	\$ 15.73
	Flex	57,419	5.2%	0	0	\$ 14.95
Total	816,488	9.4%	-16,213	0	\$20.95	
South/Southwest	Class A	2,266,173	16.1%	-23,369	0	\$ 19.04
	B	821,921	12.4%	5,322	0	\$ 17.43
	C	626,436	21.4%	150	0	\$ 11.31
	Flex	767,214	11.7%	2,670	0	\$ 14.83
Total	4,481,744	15.4%	-15,227	0	\$17.33	
West Toledo	Class A	1,023,364	11.2%	22,559	0	\$ 20.06
	B	940,538	18.9%	-2,710	0	\$ 14.05
	C	402,032	5.8%	6,439	0	\$ 16.07
	Flex	37,396	0.0%	2,177	0	-
Total	2,403,330	13.1%	28,465	0	\$15.94	
Market Total	13,067,751	18.0%	-172,198	0	\$18.22	



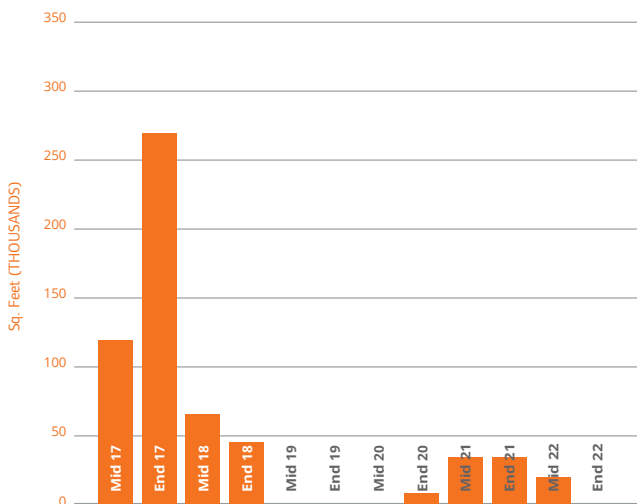
Vacancy/Net Absorption

Vacancies increased throughout the Toledo market in the last six months of 2022 with the greatest jumps occurring in the Central Business District and Perrysburg/Northwood submarkets. The West Toledo/Sylvania submarket alone recorded a decline in vacancies. Overall, the market suffered 193,355 square feet of negative net absorption in the second half - 168,023 square feet of that in the CBD.



Average Asking Rental Rate

The average asking rental rate for the overall market rose to \$18.22 at year end 2022, up \$.20 since mid-year. At the submarket and segment level, modest increases occurred throughout the market. A notable exception is the Class A segment in the Central Business District where the average asking rate fell \$.71 per square foot over the second half of the year to stand at \$20.79 per square foot on a full-service basis.



New Construction

There are no office buildings under construction in the market as of the end of 2022. This is actually a positive thing in a market that is currently over supplied.



TOP TRANSACTIONS

1. 1901 Indian Wood Circle				
<table border="0"> <tr> <td>SIZE</td> <td>BUYER/TENANT</td> </tr> <tr> <td>60,162 SF</td> <td>Ground Penetrating Radar</td> </tr> </table>	SIZE	BUYER/TENANT	60,162 SF	Ground Penetrating Radar
SIZE	BUYER/TENANT			
60,162 SF	Ground Penetrating Radar			
2. 1695 Indian Wood Circle				
<table border="0"> <tr> <td>SIZE</td> <td>BUYER/TENANT</td> </tr> <tr> <td>26,586 SF</td> <td>Hondros</td> </tr> </table>	SIZE	BUYER/TENANT	26,586 SF	Hondros
SIZE	BUYER/TENANT			
26,586 SF	Hondros			
3. 571 Longbow				
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4. One Seagate				
<table border="0"> <tr> <td>SIZE</td> <td>BUYER/TENANT</td> </tr> <tr> <td>11,721 SF</td> <td>Civil & Environmental Engineers</td> </tr> </table>	SIZE	BUYER/TENANT	11,721 SF	Civil & Environmental Engineers
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11,721 SF	Civil & Environmental Engineers			

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.

OUR PURPOSE

To make real estate work for our clients and customers

OUR VALUES

**Trust.
Service with a Warrior Spirit.
All in.**



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