

Office Market Trends Cleveland

Grubb & Ellis Research
Fourth Quarter 2008



Farewell to National City Bank

Executive Summary

The Northeast Ohio office market maintained overall positive growth in 2008, despite the economic meltdown that roared in during the latter half of the year. The Central Business District (CBD) carried the weight in 2008, as new occupancy and expansion commitments were fulfilled. Despite positive net absorption this quarter, the overall vacancy increased 20 basis points due to the addition of several new speculative office projects.

This CBD momentum was overshadowed in October, however, when National City Corp. (NCC), a Fortune 500 bank headquartered in Cleveland, announced that it had been acquired by Pittsburgh-based PNC Financial Services Group, Inc. NCC occupies nearly 1.5 million square feet of office space in the region, of which 500,000 square feet is located in the bank-owned National City Center, a 770,000-square-foot, Class A tower in the CBD. Although fully occupied, PNC will begin phasing out duplicate operations at the former NCC headquarters over the next 12 to 24 months. The impact of the PNC acquisition is anticipated to be less dramatic for the remaining one million square feet of mostly NCC-owned, suburban facilities, since many of those services do not overlap with PNC's existing operations.

Cleveland Office Market Trends

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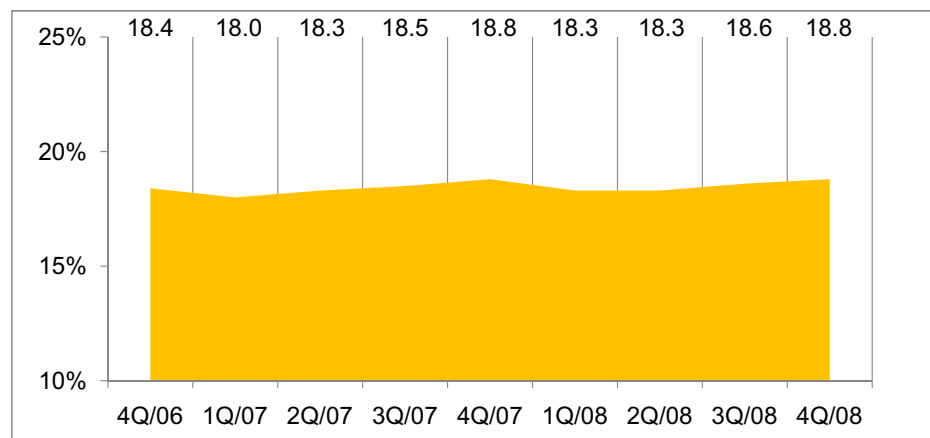
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Office Vacancy Rate*

* All Classes of Space

Office Market Snapshot Cleveland Fourth Quarter 2008

| By Submarket (All Classes) | Total (1) | Vacant (2) | Vacant % | Net Absorption | | Under Const. (3) | Asking Rent (4) | |
|-------------------------------|-------------------|------------------|--------------|----------------|-----------------|------------------|-----------------|----------------|
| | SF | SF | | Current Qtr | Year To Date | SF | Class A | Class B |
| CBD | 21,128,361 | 4,192,815 | 19.8% | (7,511) | 232,862 | - | \$23.54 | \$17.98 |
| CBD Total | 21,128,361 | 4,192,815 | 19.8% | (7,511) | 232,862 | - | \$23.54 | \$17.98 |
| East | 7,572,469 | 1,133,787 | 15.0% | 42,142 | (15,617) | 100,000 | \$23.44 | \$18.64 |
| South | 4,786,974 | 896,556 | 18.7% | 30,786 | 82,022 | - | \$22.58 | \$18.00 |
| Southwest | 1,409,555 | 216,473 | 15.4% | (48,000) | (53,957) | - | \$18.13 | \$15.27 |
| West | 3,349,905 | 759,277 | 22.7% | 10,474 | (50,220) | - | \$19.63 | \$15.29 |
| Suburban Total | 17,118,903 | 3,006,093 | 17.6% | 35,402 | (37,772) | 100,000 | \$22.00 | \$17.56 |
| Totals | 38,247,264 | 7,198,908 | 18.8% | 27,891 | 195,090 | 100,000 | \$22.81 | \$17.82 |

| By Class (All Submarkets) | | | | | | Under Const. | Available for Sublease | |
|------------------------------|-------------------|------------------|--------------|---------------|----------------|----------------|------------------------|----------------|
| | Total | Vacant | Vacant % | Current Qtr | Year To Date | | CBD | Suburban |
| Class A | 14,696,894 | 1,988,143 | 13.5% | (32,078) | (14,704) | 100,000 | 70,490 | 234,125 |
| Class B | 16,462,765 | 3,459,521 | 21.0% | 110,498 | 338,534 | - | 296,117 | 102,810 |
| Class C | 7,087,605 | 1,751,244 | 24.7% | (50,529) | (128,740) | - | 1,700 | 44,009 |
| Totals | 38,247,264 | 7,198,908 | 18.8% | 27,891 | 195,090 | 100,000 | 368,307 | 380,944 |

(1) Inventory includes multi-tenant and single-tenant buildings with at least 20,000 sq.ft.

(2) Vacant space includes both vacant direct and vacant sublease space.

(3) Space under construction includes speculative and build-to-suit for lease projects

(4) Asking rates are per square foot per year, full service. Rates for each building are weighted by the size of the building.

Sources: Crain's Cleveland Business, The Cleveland Plain Dealer, Real Capital Analytics

Huntington National Bank, one of the last remaining, large CBD tenants looking for space, has settled on a new home half a mile away from their existing location. Huntington announced it will relocate from the historic E 9th & Euclid Avenue building – named for the bank – to 200 Public Square. The building will be branded with Huntington's logo and they will take residence in 100,000 square feet of the trophy tower by 2011.

Commencement of the long awaited Ernst & Young Tower, which would have been the first new CBD building since 1991, has been delayed indefinitely. Previously secured anchors for the new Ernst & Young Tower, including Ernst & Young and Tucker, Ellis & West LLP, are now facing the prospect of remaining at their current location for the short term or resuming their search for a new home. Scott Wolstein, the developer of the Flats East Bank project, of which Ernst & Young Tower was the first phase, announced that the entire project has been put on hold due to an inability to secure financing.

New construction is doubtful in the near term in Northeast Ohio and developers will remain cautious, waiting for stabilization; a rule wisely followed in recent years, after lessons learned from overbuilding in the 1990s. The uncertainty in the economy should encourage property owners to renegotiate extensions of leases, as tenants delay new occupancy initiatives and prepare for a recession. As a result, expect an increase in rent abatements in 2009 by property owners as they compete for office users.

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