



THE HEART OF CUYAHOGA COUNTY

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MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, February 3, 2023

Re: Finance Office and Related Topic Updates

Income Tax Receipts – February Advance

After posting a somewhat lackluster January, February's Income Tax Receipts appear that they will be much stronger.

Although the Regional Income Tax Agency (RITA) posts to Independence's account all month long, RITA direct deposits into the City's account only twice a month. The first deposit around the first of the month is called the "Advance," and the second, final deposit around the middle of the month is called the "Remainder."

The Finance Office is more concerned about multiple month and year trends than it is about any single month's Income Tax Receipts. A high or low Advance or Remainder certainly doesn't mean too much on their own, as a lot of short-term Income Tax Receipts are subject to the timing of payment by various individuals and businesses.

But the Finance Office would always prefer to see solid Advances and/or Remainders vs. weaker ones, and the February Advance of \$2.86 million easily surpasses the January, 2023 Total Month's Collection of \$2.6 million, and well surpasses the February, 2022 Advance of \$2.1 million.

Heads up, eyes forward, and the City will keep advancing to the future during both good times and bad when it comes to its primary, dominant revenue source – Income Tax Receipts.

Office Market Trends

Commercial real estate firm Colliers released its Fourth Quarter Cleveland Office Market Report this week.

Highlighting the headwinds that the office market is facing are the following quotes:

- ***“The fourth quarter saw negative absorption, an increase in vacancy and saw an uptick in more sublease space coming available to the market.”***
- ***“Outside economic factors also caused for a slower fourth quarter, which resulted in leasing activity declining year-over-year.”***
- ***“On top of employers adopting hybrid or fully remote policies, thus reducing their need for office space, some employers are making additional budget cuts and layoff decisions with fears of a recession coming in 2023.”***
- ***“Negative absorptions come at a time where the office market is not in trouble, but facing headwinds.”***
- ***“Sublease space also grew by almost 300,000 SF in the fourth quarter. Sublease space began to rise again in the market, signaling some office occupiers are looking to downsize their footprint.”***

Colliers indicates that the Rockside Corridor, which does include Seven Hills in it, finished 2022 with a 17.8% Availability Rate and a 15.6% Vacancy Rate for its almost 3.8 million square feet of office space.

Colliers estimates that only 11,000 net square feet of office space was absorbed in the Rockside Corridor in 2022. Class A office space in this Corridor had an Average Direct Asking Rate of \$20.09 per square foot at year-end 2022 and Class B office space had an Average Direct Asking Rate of \$17.85 per square foot, for an average Direct Asking Rate of \$18.93 per square foot.

The Finance Office believes that a few strategic sentences in the Outlook portion of Colliers’ 2022 report hold the keys to Independence successfully overcoming the economic, demographic and work-model office market headwinds:

- ***“Bringing buildings to a flight to quality could be a key trend we see throughout 2023 in order to stabilize office market activity.”***
- ***“Having more buildings be up to quality should lead to a better year of leasing activity throughout the market.”***

Those are the two “key” sentences with the solution – The more Independence can assist its Class B and Class C office building owners in upgrading and enhancing their buildings to Class A and B status, the more competitive they, and Independence, will be on a regional basis.