

Industrial Market Trends Cleveland

Grubb & Ellis Research
First Quarter 2009



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Cleveland Industrial Market Trends

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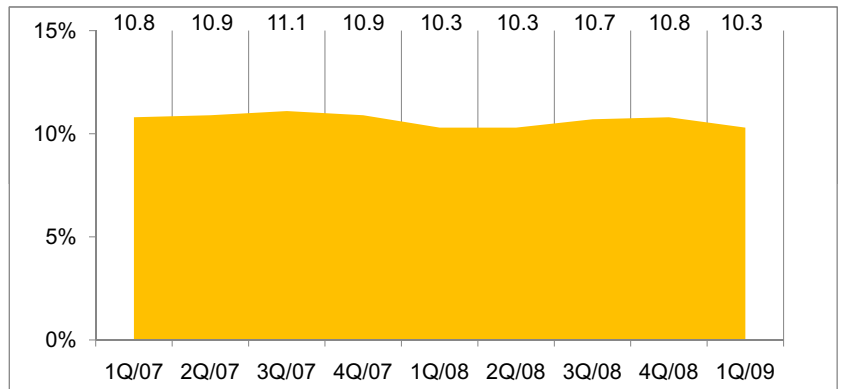
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Market hanging on despite economy...

Executive Summary

During first quarter of 2009 overall vacancy declined modestly, mostly due to year-end data clean-up of the statistical base. Quarterly absorption remained relatively flat, as some smaller plant closures negated marginal gains in occupancy.

Despite the bombardment of economic woes, the unemployment rate in Northeast Ohio remained one of the lowest in the state, standing at 8.7 percent in March 2009, which was 10 basis points lower than Ohio's overall average, and just 20 basis points higher than the national average. Although there have been layoffs and temporary plant closings, vacant inventory has not swelled, since many companies have implemented cost cutting measures such as eliminating shifts, shortening hours worked or laying off small portions of their work force. Some companies have even shut down temporarily, leaving skeleton crews, with the intention of putting full operational capacities on hold until consumer demand returns. All of these factors contributed to the flatness of vacancy rates. However, if manufacturers continue to struggle with sales and all other cost-cutting measures are exhausted, there may be a larger influx of available properties, or companies wishing to sublease a portion of their space, by 2009's end.



Industrial Vacancy Rate*
* All Product Type

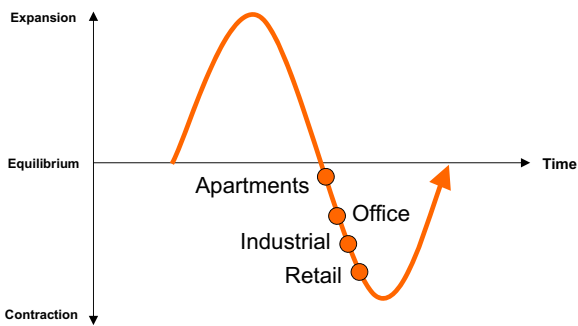
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Overview

The one bright spot was the lack of over-building seen in other markets across the country, so vacancy in modern facilities remains relatively stable in the region. Leasing continues to be the desired choice for users, due to the reluctance by banks to issue commercial loans. Traditional drivers in this market such as automotive and construction are faring the worst, while industries such as aerospace and those with defense contracts continue to function at greater capacity. The area's historical dependence on the automotive sector has been diversified after lessons learned in the 1990s; some suppliers, however, may not survive the sustained downturn that has plagued Detroit auto makers. Manufacturers are less pessimistic than they were in the last three months of 2008, but there is still much uneasiness with the lack of global demand for products from formerly voracious buyers such as China.

New credit terms make it difficult to attain financing for new construction, investment and user sales. Loan-to-value requirements have been lowered significantly and over 30 percent equity is now required. In addition, stricter lending criteria has been delayed and – in some cases – have eliminated the short-term possibility of relocation or newly announced build-to-suits. While some planned build-to-suit and speculative developments have been put on hold, Ray Fogg Building Methods Inc. is moving ahead with plans to convert the former PMX Industries site on East 260th into an 80-acre industrial park. The firm is proceeding with the site's remediation due to the risk of losing state and local grants for the project that were awarded several years ago. Upon completion, the project will contain over one million square feet of office and industrial space and will be called Fogg Euclid Industrial Park.

REAL ESTATE CYCLE



Construction Watch

First Quarter 2009									
New Speculative Development				New Build-to-Suit Development			New Owner Occupied Development		
Under Construction	Preleased %	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr.	Completed YTD
-	0%	-	-	-	-	-	460,000	-	-

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Major Transactions

Grubb & Ellis is pleased to announce that it represented the following companies in industrial transactions during the first quarter 2009.

<p>Albrecht, Inc. Lease 153,700 Square Feet Akron, Ohio Lessor Agent: Rich Bishop</p>	<p>Sottile Properties LLC User Sale 100,680 Square Feet Cleveland, Ohio Buyer Agent: Terry Coyne</p>	<p>Arden Stewart User Sale 43,500 Square Feet North Ridgeville, Ohio Seller Agent: Mike Petrigan</p>
<p>First Industrial Realty Trust Lease 83,836 Square Feet Solon, Ohio Lessor Agents: Terry Coyne, Jeff Kennedy</p>	<p>Albrecht, Inc. Lease 96,500 Square Feet Akron, Ohio Lessor Agent: Rich Bishop</p>	<p>First Industrial Realty Trust Lease 32,183 Square Feet Solon, Ohio Lessor Agents: Terry Coyne</p>

Opportunities and Forecast

New construction remained limited to non-existent this quarter. However, with the decline in construction starts and lower commodity prices for building materials, new construction may be considered again in the latter half of 2009, assuming the financing market cooperates. With the worldwide decline affecting steel and petroleum-based construction material demand, bidding is expected to be significantly below estimates seen in the prior 24 months. Depending on how comfortable a builder is with lowering their profit-margins, while maintaining financial footing to complete new projects, a sizable reduction over 2007-2008 pricing is anticipated for new projects, assuming the credit markets do not remain frozen.

Free rent and other concessions are being offered, and will likely become more generous in the next twelve months if a turnaround isn't realized. With the limited pool of state-of-the-art product, owners of newly completed buildings may be unable to hold out for higher rents, necessitating a shift in focus more on concessions if they are unable to sustain projected occupancy levels.

Sales will continue to be a challenge, however, buyers with available cash for down payment continue to surface. The lower loan-to-value ratio will make some companies take a wait-and-see stance, but other creative financing options such as seller-financing is expected to become more widespread. Also, prospective sellers, may need to lower their expectations of value in order to find willing buyers.

Tenants will require flexibility and short-term lease renewals are anticipated. Owners wishing to sustain healthy occupancy levels will be making accommodations to sustain the viability of their assets. At the present, older, less functional properties continue to garner attention from users looking for affordable alternatives.

Industrial Market Snapshot Cleveland 1st Quarter 2009

By Submarket (All Property Types)	Total (1)	Vacant (2)	Vacant %	Net Absorption		Under Const. (3) SF	Asking Rent (4)	
	SF	SF		Current Qtr	Year To Date		WH/Dist	R&D/Flex
Downtown	78,348,704	7,043,202	9.0%	38,857	38,857	-	\$2.20	\$2.19
Northeast	48,533,441	4,518,781	9.3%	(42,955)	(42,955)	-	\$3.00	\$3.68
Northwest	24,137,340	4,277,489	17.7%	154,382	154,382	-	\$2.58	\$5.38
Southcentral	34,111,062	3,026,936	8.9%	6,927	6,927	-	\$3.87	\$5.82
Southeast	79,103,838	8,217,768	10.4%	(211,203)	(211,203)	460,000	\$3.78	\$5.84
Southwest	34,060,222	3,684,621	10.8%	(12,406)	(12,406)	-	\$4.40	\$6.36
Suburban Total	298,294,607	30,768,797	10.3%	(66,398)	(66,398)	460,000	\$3.32	\$4.68
Totals	298,294,607	30,768,797	10.3%	(66,398)	(66,398)	460,000	\$3.32	\$4.68

By Property Type (All Submarkets)								Asking Rent
General Industrial	184,762,921	16,420,412	8.9%	302,573	302,573	460,000	\$3.34	
Incubator	1,639,584	7,625	0.5%	22,613	22,613	-	-	
R&D/Flex	22,574,369	3,758,989	16.7%	(150,298)	(150,298)	-	\$4.68	
Warehouse/Distribution	89,317,733	10,581,771	11.8%	(241,286)	(241,286)	-	\$3.32	
Totals	298,294,607	30,768,797	10.3%	(66,398)	(66,398)	460,000	\$3.49	

- (1) Inventory includes multi-tenant, single-tenant and owner-occupied buildings with at least 10,000 square feet
- (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, triple net. Rates for each building are weighted by the amount of available space within the building.

* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.
Sources: Real Capital Analytics, Crain's Cleveland Business, The Cleveland Plain Dealer, U.S. Department of Labor

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INDUSTRIAL SUBMARKETS

