

CLEVELAND 1Q18 INDUSTRIAL MARKET

VACANCY LOW; RENTS UP; DEMAND OUTPACES SUPPLY

The Greater Cleveland industrial market gave back 96,545 square feet in the first quarter of 2018, the market's fourth consecutive quarter of negative absorption after 18 consecutive quarters in the positive. The first-quarter vacancy rate was not affected, however, as it remained at a historic low 5.8%. Despite the recent negative absorption, the industrial market remained vibrant. In fact, there was far more demand than space available: In the last two years alone, the vacancy rate has declined 110 basis points from 6.9% in the first quarter of 2016. This decrease came despite nearly 1.3 million square feet of new product delivering since 2016, 135,000 square feet of which came online this past quarter. Coupled with nearly 2.0 million square feet of construction that is underway, this further confirmed the demand for quality industrial space in Greater Cleveland.

As vacancy held steady, the average rental rate increased in first-quarter 2018 to \$4.34/SF, up from \$4.31/SF in the previous quarter. Since first-quarter 2016, the average rental rate has increased \$0.28/SF. During this time period, the average rental rate has slowly risen to north of \$4.00/SF, largely because of new and prospective product, which is pushing rents higher, and the growth of e-commerce, which is clearly changing the market. Land and construction prices have both gone up, and companies continue to seek out properties with 32-foot to 37-foot clear ceiling heights. There are many older buildings that have not been slated for repurposing because legacy manufacturers are using them and are comfortable with the features they offer. These buildings, which have significant power capabilities, cranes and heavy pits, are also in great demand.

Investment and Action Highest in the Suburban Submarkets

The Southeast submarket saw more action out of Twinsburg's CornerStone Business Park, including the announcement of an additional 300,000-square-foot speculative warehouse on the property and Curbell Plastics occupying 34,311 square feet in an already constructed spec building. Additional developments in this submarket included Trelleborg's announcement that it will consolidate 165 jobs at a planned 156,250-square-foot manufacturing hub in Aurora, which is expected to deliver by fourth-quarter 2018. It was also announced that Bulk Holdings, a liquid fuel storage company, purchased the 174,224-square-foot manufacturing facility located at 1199 South Chillicothe Road, also in Aurora. The property transferred for \$4.4 million, or \$25/SF.

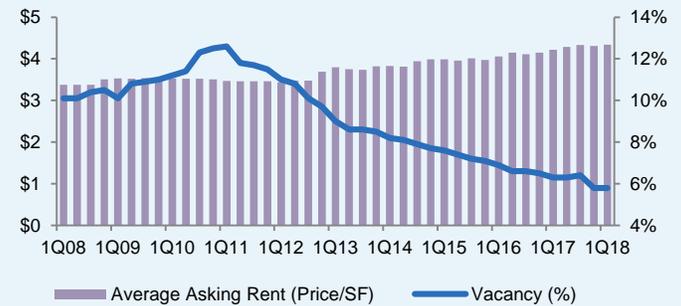
Vacancy in the Southeast dropped by 40 basis points from fourth-quarter 2017 to 4.5%. This came as 947,188 square feet of new product was under construction in this submarket. The Southeast's average asking rental rate was the area's second highest at \$5.22/SF, up \$0.07/SF from the previous quarter.

Current Conditions

- Vacancy steady at historic low 5.8%
- Overall average asking rental rate up to \$4.34/SF
- Market gave back a small amount of space
- Weston's ABB facility in Northeast submarket delivered approximately 135,000 square feet of new product
- New construction continued throughout the region

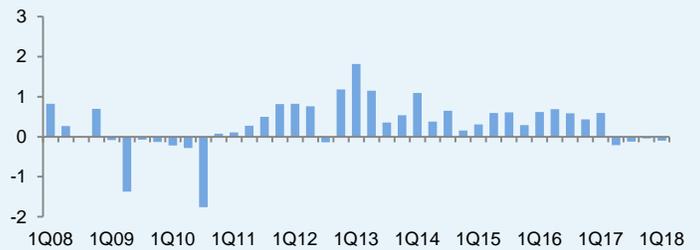
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Millions



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	284MSF	284MSF	291MSF	↑
Vacancy Rate	5.8%	5.8%	6.3%	↓
Quarterly Net Absorption	-96,545	-42,412	589,336	↑
Average Asking Rent	\$4.34	\$4.31	\$4.22	↑
Under Construction	1,999,628	1,082,188	538,188	↑
Deliveries	135,000	133,409	72,858	↑

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The Northeast had the most absorption of any submarket with 46,792 square feet in positive absorption in the first quarter, which contributed to vacancy decreasing by 10 basis points from the prior quarter to 5.1%. The submarket's rental rate decreased by \$0.12/SF to \$4.77/SF, which placed it in the middle of the pack among all the submarkets yet also above the entire market average.

Several new projects were announced in the Northeast industrial micro-market of Mentor, where De Nora Tech and Heiland Electronics are already constructing brand-new facilities that are expected to deliver later in the year and total nearly a combined 300,000 square feet on Tin Man Road. In March alone, the Mentor Planning Commission approved a 35,000-square-foot preliminary site plan that will house South Shore Controls on Pinecone Drive, and the Mentor City Council approved two incentive grants that will allow ORBIS Corporation to consolidate and expand all of its current Mentor operations into 240,000 square feet at 7800 Tyler Boulevard and Quadrel Labeling Systems Quadrel Labeling Systems to expand its 27,000-square-foot facility at 7670 Jenther Drive by an additional 7,600 square feet.

Moving to the Northwest, this submarket had the second-lowest average asking rental rate of all submarkets at \$4.60/SF, although this still represented a \$0.02/SF increase from fourth-quarter 2017. Vacancy remained flat at 2.2%, an industry low, while 7,384 square feet was positively absorbed. One of the quarter's most expensive sales in terms of price-per-square-foot took place here, as the 39,900-square-foot Westlake flex facility located at 31011 Viking Parkway sold to Technology Recovery Group, Ltd. for \$2.8 million, or \$69/SF.

The Downtown submarket continued to have the area's lowest asking rental rate, which stood at \$3.07/SF, up \$0.04/SF from the prior quarter. The submarket's vacancy also remained the highest in the market,

increasing by 10 basis points over the quarter to 7.8%. Nonetheless, a strategic sale took place here, as the long-vacant 200,000-square-foot Ferry Cap & Screw complex at 2151 Scranton Road traded to WXZ Development, Inc. for \$900,000, or \$5/SF, in what appears to be a potential residential redevelopment play on the Scranton Peninsula in the Flats District. The former Produce Packaging building at 7501 Carnegie Avenue also traded in the first quarter at an undisclosed price and will open in the second quarter as a new concept called the Cleveland Food Hub.

The South Central submarket was also in the middle of the pack with an average rental rate of \$4.82/SF, up by \$0.07/SF. Despite an increase in the rental rate, South Central had the highest vacancy of all the submarkets at 9.4%, up 60 basis points from the previous quarter.

The Southwest submarket remained very tight despite netting 74,015 square feet of negative absorption. It still had the second-lowest vacancy of all the submarkets at 3.6%, up 30 basis points from fourth-quarter 2017. Demand, along with this area's perpetual lack of available industrial space, spurred the commencement of a second speculative warehouse, located at 14720 Foltz Industrial Parkway in Strongsville. This facility is expected to deliver in fourth-quarter 2018 and will measure approximately 179,296 square feet. This second Scannell Properties-developed building will complement the neighboring 185,840-square-foot building that delivered in late 2016 and is 88.0% leased. Also in the Southwest, the 60,335-square-foot truck terminal located at 8860 Wooster Pike Road in Seville transferred to Jarrett Logistics Systems, Inc. for \$1.6 million, or \$27/SF. The company intends to occupy the facility with the exception of approximately six acres of land on the property that Jarrett leased back to seller Schneider Resources. The submarket's average asking rental rate was \$5.54/SF, up by \$0.12/SF.

Select Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Omicron Supplies, LLC	30305 Solon Road	Southeast	Sublease	35,000
Curbell Plastics	2 Corporate Parkway	Southeast	New	34,311
ABC Supply Company, Inc.	1035 Industrial Parkway	Southwest	New	25,212
Mytee Products	1331-1373 South Chillicothe Road	Southeast	Renewal	24,000
Sibley Holdings	23632 Mercantile Road	Northeast	Sublease	12,630

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
3011 Viking Parkway	Northwest	\$2,750,000	\$69	39,900
717 Seville Road	Southwest	\$10,116,243	\$62	163,919
1780 Enterprise Parkway	Southeast	\$992,000	\$52	18,960
8860 Wooster Pike Road	Southwest	\$1,600,000	\$27	60,335
1199 South Chillicothe Road	Southeast	\$4,400,000	\$25	174,224

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Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown	74,433,525	0	7.8%	-76,728	-76,728	\$2.42	\$5.09	\$3.07
Northeast	54,806,776	855,000	5.1%	46,792	46,792	\$5.70	\$6.73	\$4.77
Northwest	23,067,602	0	2.2%	7,384	7,384	\$4.61	\$8.13	\$4.60
South Central	36,140,565	0	9.4%	23,242	23,242	\$4.20	\$7.01	\$4.82
Southeast	67,063,119	947,188	4.5%	-23,220	-23,220	\$4.84	\$6.64	\$5.22
Southwest	28,536,635	197,440	3.6%	-74,015	-74,015	\$4.36	\$8.25	\$5.54
Market	284,048,222	1,999,628	5.8%	-96,545	-96,545	\$3.86	\$6.92	\$4.34

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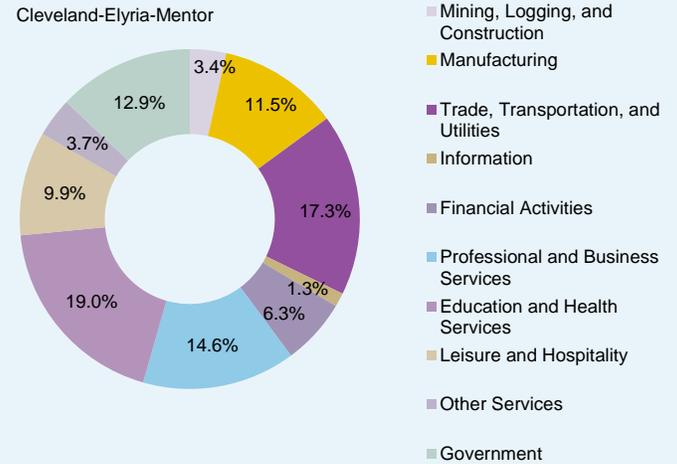
ECONOMIC CONDITIONS

The Greater Cleveland economy added a modest amount of jobs in the early part of first-quarter 2018, as total payroll employment grew in January by 0.1% year-over-year. Much of the gains are due to the uptick in hiring in the manufacturing and trade/transportation/utilities sectors. The manufacturing industry posted strong gains with 3.2% growth from 2017, followed by trade/transportation/utilities, which was up 1.0% year-over-year. The education and health services and government sectors were both up 0.1% from 2017.

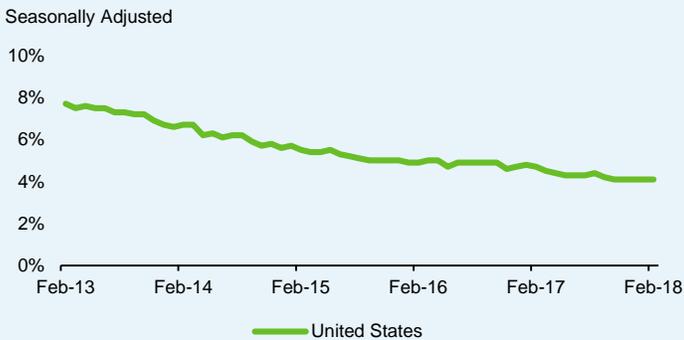
On the other hand, the leisure and hospitality and mining, logging and construction and sectors have contracted 2.7% and 2.5%, respectively, from 2017.

Turning to office-occupying sectors, financial activities posted 0.6% year-over-year growth. Conversely, the professional and business services sector and the information sector contracted 1.1% and 0.7% year-over-year, respectively.

Employment By Industry



Unemployment Rate



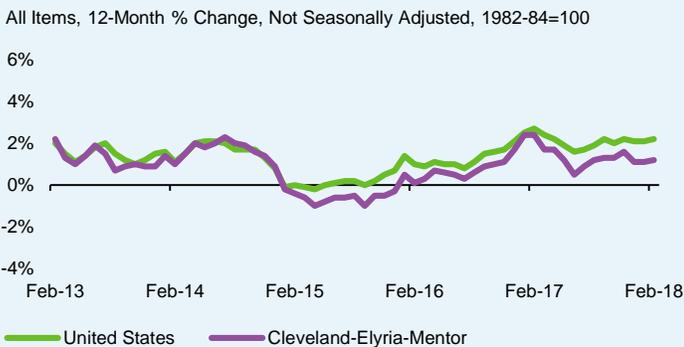
Source: U.S. Bureau of Labor Statistics

Payroll Employment



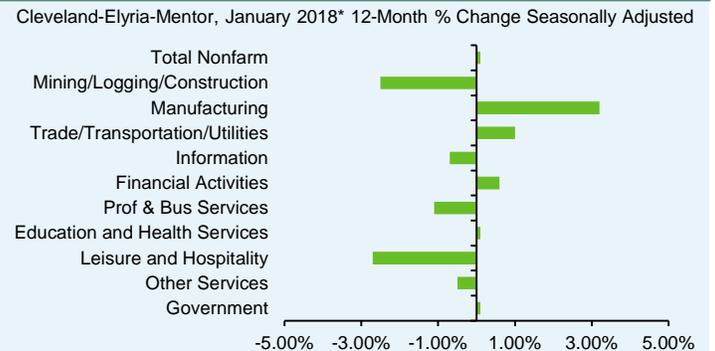
Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry



Source: U.S. Bureau of Labor Statistics

* Preliminary

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1350 Euclid Avenue
 Suite 300
 Cleveland, OH 44115
 216.453.3000
www.ngkf.com/cleveland

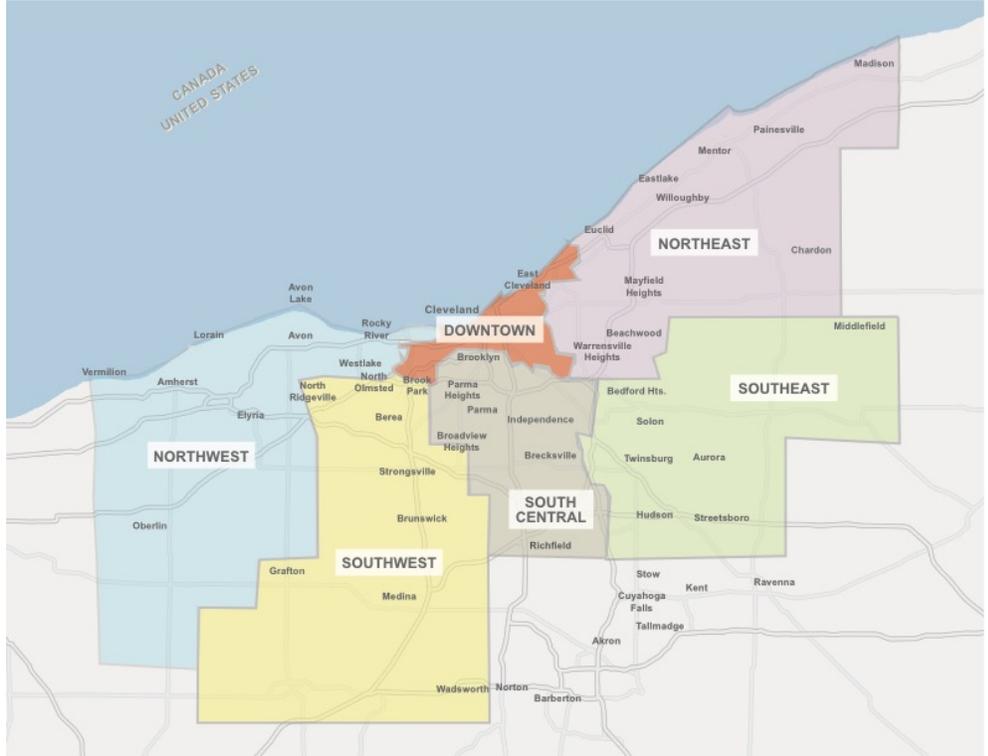
Matthew Orgovan

Research and Marketing Manager
 216.453.3027
morgovan@ngkf.com

Nathaniel Hoover

Research Coordinator
 216.453.3052
Nathaniel.Hoover@ngkf.com

Cleveland Industrial Submarkets



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