

# CLEVELAND INDUSTRIAL MARKET

## Market Reaches Vacancy and Asking Rental Rate Milestones

The Greater Cleveland industrial market achieved a historically low 5.2% vacancy rate in the first quarter of 2019, nearly half the market's 10.1% vacancy rate of 10 years ago. This marked a decrease of 40 basis points from the fourth quarter of 2018. Helping the market reach this milestone was 215,991 square feet of positive absorption in the first quarter, the fourth consecutive quarter of positive absorption after a rare four consecutive quarters in the negative, from second quarter 2017 to first quarter 2018. In fact, in the 37 quarters since the start of 2010, only seven quarters have accumulated negative absorption. Industrial assets have been very consistent.

As vacancy dipped to such a momentous level, the average asking rental rate was similarly affected. First-quarter 2019 saw the average rental rate increase by \$0.46/SF to \$4.74/SF, the highest-ever rate for the industrial market. Since first-quarter 2014, the average rental rate has increased by \$0.91/SF, while the vacancy rate has slowly and steadily dropped by 3.0%.

New and prospective products have continued to push rents higher, and the growth of e-commerce has clearly changed the market. For example, it was reported in February that Northeast Ohio could soon see another Amazon facility, this time a 695,383-square-foot distribution center on the site of the former Rolling Acres Mall in Akron. Amazon has already established operations in the Northeast submarket at an 855,000-square-foot fulfillment center in North Randall; a 248,000-square-foot distribution center in the Southeast submarket's CornerStone Business Park; an 84,609-square-foot facility in Euclid's Bluestone Business Center II complex in the Northeast submarket; and a 650,000-square-foot, three-level facility on the site of the former Euclid Square Mall in the Northeast submarket, to be fully-occupied later this year. If Amazon's Rolling Acres project comes to fruition, and once the Euclid facility is fully up and running, the company will occupy more than 2.5 million square feet of Northeast Ohio real estate.

The Southeast submarket saw more action out of Twinsburg's CornerStone Business Park, as Ares Capital Corporation purchased the Performance Food Group-occupied 135,000-square-foot warehouse located at 8745 Chamberlin Road for an allocation of \$12.6 million, or \$93/SF, as part of a multi-property portfolio acquisition at the close of 2018. The brand new 409,000-square-foot McMaster-Carr facility in Aurora, located at 1200 South Chillicothe Road, was also a part of this transaction, but details of the allocation were undisclosed. Another development in this submarket was a 96,000-square-foot lease by Treadmaxx Tire Distributors at CornerStone Business Park's second

## CURRENT CONDITIONS

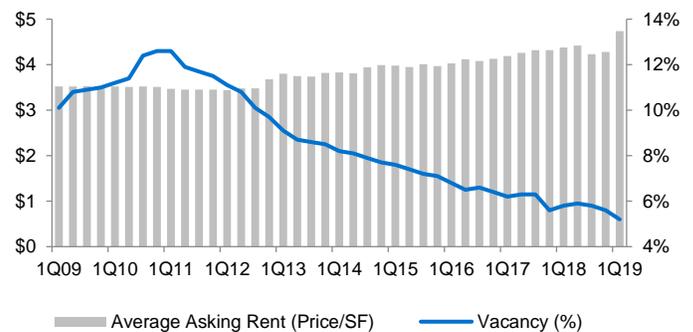
Vacancy and the overall asking rental rate were both at historic levels as the year began.

The industrial market was pretty quiet in terms of large transactions, but indications are that the market will continue to perform well this year.

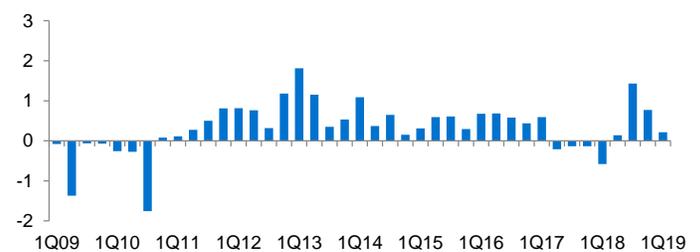
The Southwest was the tightest submarket in the area at a very low 2.8% vacancy rate, followed by the Southeast and Northeast.

## MARKET ANALYSIS

### Asking Rent and Vacancy



### Net Absorption (SF, Millions)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	285.7 MSF	287.7 MSF	285 MSF	↑
Vacancy Rate	5.2%	5.6%	5.8%	↓
Quarterly Net Absorption	215,991	772,217	1,432,620	→
Average Asking Rent	\$4.74	\$4.28	\$4.38	↑
Under Construction	2.96 M	2.96 M	1.99 M	↑
Deliveries	212,000	190,250	135,000	↑

speculative warehouse, which is currently under construction and located at the temporary address of 99 CornerStone Parkway.

Vacancy in the Southeast dropped by 20 basis points from fourth-quarter 2018 to 4.3%, aided by 18,671 square feet of positive absorption. This came as an industry-high 1,114,000 square feet of new product was under construction in this submarket, which also has the area's most inventory at more than 69.0 million square feet. The Southeast's average asking rental rate was the area's second highest at \$5.66/SF, up \$0.21/SF from the previous quarter. One unfortunate piece of news came out of this submarket in March: The Schwebel Baking Company announced that it will soon close its 138,464-square-foot facility on 6250 Camp Industrial Road in Solon. Approximately 200 jobs could be affected as the company consolidates.

The Southwest submarket was the tightest in the Cleveland area, with a vacancy rate of 2.8%. It posted 159,965 square feet of absorption in the first quarter. It has the second-lowest inventory of all of the submarkets, so the 542,000 square feet of construction that is underway in the submarket will help meet the demand of users looking for space there. The submarket's average asking rental rate was \$4.94/SF, down by \$0.42/SF from the previous quarter.

One notable transaction took place in the Southwest in the first quarter, as the 98,091-square-foot manufacturing facility located at 1000 West Bagley Road in Berea transferred to Voss Industries for an undisclosed price. Voss, which has been a stalwart in the Downtown submarket for more than 60 years in Cleveland's Ohio City neighborhood, will expand and relocate to this more modern facility. Vita-Mix Corporation also renewed its 175,000-square-foot lease at 23221 Morgan Court.

The Northeast had the most absorption of any submarket in the first quarter with 245,015 square feet in positive absorption. This contributed to vacancy decreasing by 30 basis points from the prior quarter to 4.5%. The submarket's rental rate increased by \$0.27/SF to

\$5.97/SF, which placed it at the top of the pack among all the submarkets and \$1.23/SF above the industry average.

The Northeast had the second-largest amount of construction activity in the first quarter, with 985,576 square feet of product being built. The majority of this is accounted for by the aforementioned Amazon project in Euclid, as well as the soon-to-be-completed 130,000-square-foot De Nora Tech facility at 6300 Tin Man Road in Mentor. Announced this past quarter was a fourth building for Bluestone Business Center in Euclid. Developer Ray Fogg Corporate Properties is citing current market demand and the neighboring forthcoming Amazon fulfillment center as its basis for this 78,000-square-foot speculative facility.

The Northwest had the second-lowest average asking rental rate of all submarkets at \$3.73/SF, representing a \$1.09/SF decrease from fourth-quarter 2018. Vacancy increased by 20 basis points to 3.5%, the second-lowest in the market, while 1,338 square feet was positively absorbed. New product totaling 103,527 square feet is under construction in the Northwest, in the form of Phase 1 of Cedar Tree Center I in Sheffield Village. Also worth noting in the Northwest is a potential community reinvestment agreement between the city of Avon Lake and PolyOne Corporation that could add up to 100,000 square feet to the company's campus at 33587 Walker Road.

The Downtown submarket continued to have the area's lowest asking rental rate, which stood at \$3.12/SF. The submarket's vacancy was the second-highest in the market, even after a decrease of 110 basis points over the quarter to 7.0%. This was precipitated by the area's largest loss in absorption for the quarter, as Downtown lost 148,504 square feet. Notable activity in this submarket included the announcement that ParkOhio Products Inc. will close its 144,301-square-foot facility at 7000 Denison Avenue in Cleveland by the end of the quarter. Nonetheless, a strategic sale took place here in late-2018, as affiliates of Tap Packaging Solutions and GBX Group sold a block of

## 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 Average Asking Rent (Price/SF)
Downtown	71,439,357	0	7.0%	(148,504)	(148,504)	\$2.49	\$5.26	\$3.12
Northeast	58,511,586	985,576	4.5%	245,015	245,015	\$7.68	\$8.30	\$5.97
Northwest	22,857,489	103,527	3.5%	1,338	1,338	\$3.87	\$7.93	\$3.73
South Central	33,964,767	211,672	7.5%	(60,494)	(60,494)	\$4.25	\$7.62	\$5.43
Southeast	69,065,098	1,114,000	4.3%	18,671	18,671	\$5.22	\$7.35	\$5.66
Southwest	29,920,857	542,000	2.8%	159,965	159,965	\$4.69	\$8.21	\$4.94
<b>Market Total</b>	<b>285,759,154</b>	<b>2,956,775</b>	<b>5.2%</b>	<b>215,991</b>	<b>215,991</b>	<b>\$4.51</b>	<b>\$7.61</b>	<b>\$4.74</b>

buildings and parking lots in the Superior Arts District, including Tap's property at 2130 Superior Avenue, to a Cleveland-area opportunity zone investment group. This transaction paved the way for Tap Packaging Solutions to sign the first quarter's largest lease—208,000 square feet at 4600 Tiedeman Road in the South Central submarket.

Tap's lease at 4600 Tiedeman will fill the majority of the vacancy left by the closing of garment maker Keystone Tailored Manufacturing's plant in March. This Brooklyn facility was once home to a Hugo Boss plant, which closed in 2015. The South Central submarket was in the middle of the pack with an average rental rate of \$5.43/SF, up by \$1.71/SF. Coinciding with the rental rate increase, the South Central vacancy rate fell to 7.5%, a decrease of 40 basis points from the previous quarter but still the highest vacancy in the market. Under construction activity in this submarket totaled 211,672 square feet.

General industrial assets make up the majority of the Cleveland area's industrial market, with 173.0 million square feet of inventory. The vacancy rate for this type of facility was 4.4% in the first quarter, while the average asking rental rate stood at \$4.22/SF, the lowest for all property types. Conversely, R&D/flex industrial facilities commanded the highest average asking rent at \$7.61/SF, although its vacancy rate was also the highest at 7.4%. Warehouse/distribution facilities comprise the second most inventory in the market at 89.2 million square feet. With more than 2.0 million square feet of this property type under construction, the demand for this type of asset is fairly strong, although its vacancy rate was above the 5.2% industry average at 6.1%. The average asking rental rate for warehouse/distribution was \$4.51/SF.

## SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Tap Packaging Solutions	4600 Tiedeman Rd.	South Central	New	208,000
Vita-Mix Manufacturing Corp.	23221 Morgan Ct.	Southwest	Renewal	175,500
Treadmaxx Tire Distributors	99 Cornerstone Pkwy.	Southeast	New	96,000
Picker	401 Stones Levee	Downtown	New	36,352
Zippy Shell	5250 Naiman Pkwy.	Southeast	Sublease	25,532

## SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
8745 Chamberlin Rd. (late 4Q18)	Southeast	\$12,615,385	\$93.45	135,000
1300 Danner Dr.	Southeast	\$5,000,000	\$44.38	112,670
261 Seville Rd.	Southwest	\$4,500,000	\$36.00	125,060
1793 Enterprise Pkwy.	Southeast	\$9,500,000	\$31.87	300,900
1000 W. Bagley Rd.	Southwest	Undisclosed	n/a	98,091

## ECONOMIC CONDITIONS

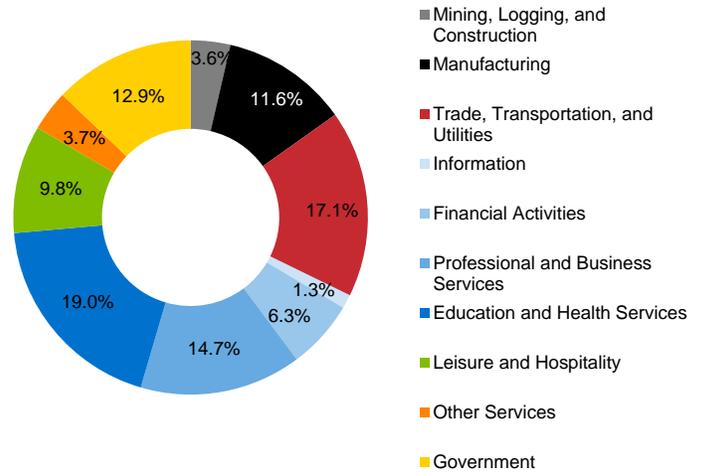
The Greater Cleveland economy added a fair amount of jobs in the early part of first-quarter 2019, as total payroll employment grew in January by 1.0% year-over-year. Most of the gains were due to the uptick in hiring in the mining, logging and construction and trade/transportation/utilities sectors. The mining, logging and construction industry posted strong gains with 17.7% growth from 2018, followed by trade/transportation/utilities, which was up 2.2% year-over-year. The education and health services and leisure and hospitality sectors were up 1.0% and 0.7%, respectively, from 2018.

On the other hand, the information, professional and business services and other services sectors contracted 2.9%, 1.0% and 0.5%, respectively, from 2018.

Turning to other sectors, manufacturing posted 0.5% year-over-year growth. Conversely, the financial activities sector and the government sector contracted 0.2% and 0.1% year-over-year, respectively.

## EMPLOYMENT BY INDUSTRY

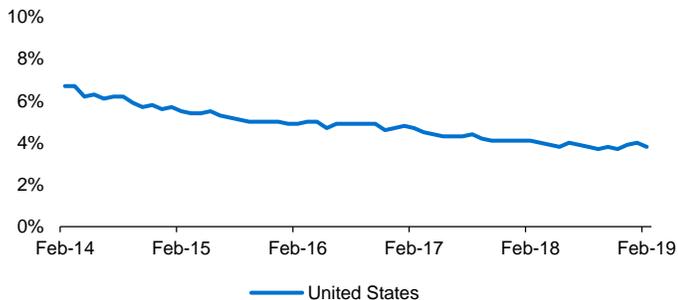
### Cleveland-Elyria-Mentor



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

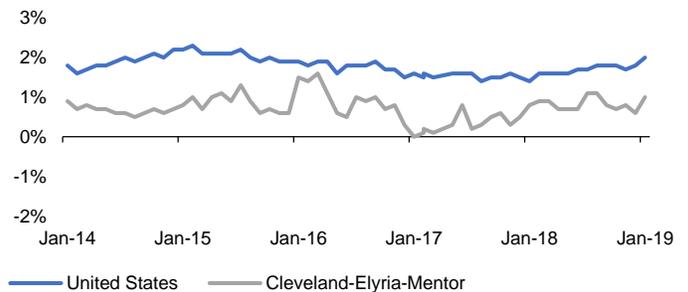
### Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

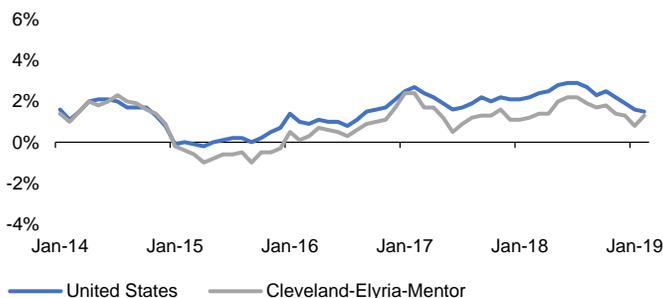
### Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

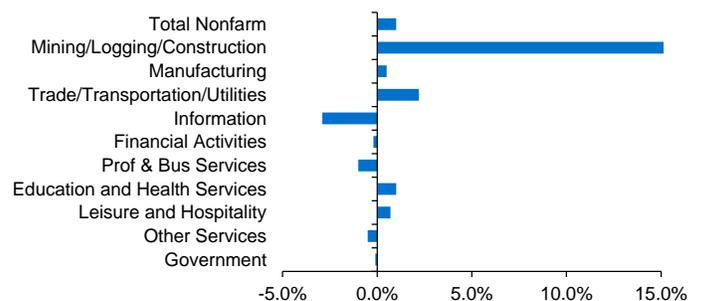
### All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

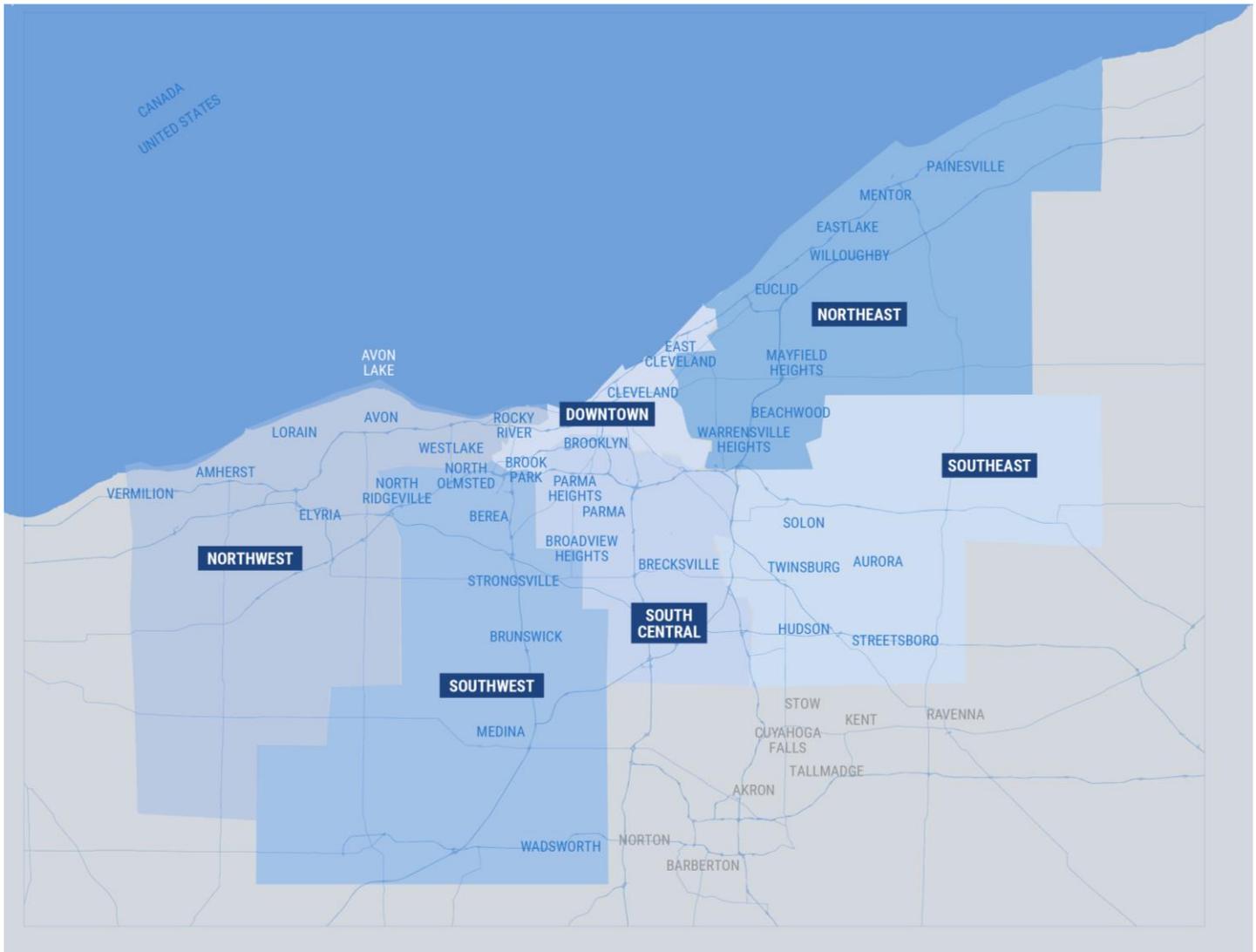
## EMPLOYMENT GROWTH BY INDUSTRY

### Cleveland-Elyria-Mentor, January 2019\*, 12-Month % Change, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics (\*preliminary)

## CLEVELAND INDUSTRIAL SUBMARKETS



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