

CLEVELAND INDUSTRIAL MARKET

Industrial Market Healthy, Stable

The Greater Cleveland industrial market continued to show signs of health and stability in the second quarter of 2019. The market tallied 745,770 square feet of positive net absorption, yet the overall vacancy rate rose slightly by 10 basis points to 5.3%. This was the industrial market's fifth consecutive quarter with positive absorption, and the market remained under 6.0% for the seventh consecutive quarter. Half of the six industrial submarkets posted vacancy gains and negative absorption, while the other half posted big positive absorption numbers that helped to offset the negative. However, the market's vacancy increase, despite posting positive absorption, was due to 1,092,000 square feet in new product delivering that had a slightly higher vacancy than the overall market. These new product deliveries indicate a healthy market, even though the properties were not fully leased upon completion.

Two buildings accounted for most of the newly constructed space delivered. In the Northeast, Amazon further expanded its presence in Northeast Ohio with the completion of a three-level, 650,000-square-foot facility constructed on the site of the long-vacant Euclid Square Mall. In the Southeast submarket, Cornerstone Business Park in Twinsburg delivered a 276,000-square-foot speculative building, the second of its kind at this multi-tenant industrial park. Tenants had pre-leased 96,000 square feet in the building, located in a park that features sorting, warehouse and distribution centers for Amazon, FedEx, O'Reilly Auto Parts, Bridgestone, Curbell Plastics, Dunkin' Donuts and others. The spec building features a 32-foot clear ceiling height, 70 docks, ESFR sprinklers, high power, T-5 lighting, a truck court and more than 200 car parking spaces.

As vacancy increased ever so slightly, the overall market's average asking rental rate decreased in second-quarter 2019 to \$4.73/SF, down just \$0.01/SF from the previous quarter. The overall rental rate has kept above \$4.00/SF for 14 consecutive quarters.

The suburban submarkets continued to command higher rental rates than the Downtown submarket, which stood at \$3.06/SF, down \$0.06/SF from the first quarter of 2019. The Northeast submarket had the highest average asking rental rate of the suburban submarkets, rising \$0.03/SF from last quarter to \$6.00/SF. The Southeast had the second-highest rental rate at \$5.62/SF, down \$0.04/SF from the first quarter. The South Central submarket followed the Southeast with an average rental rate of \$5.39/SF, which was also down \$0.04/SF but still ahead of the Southwest submarket, which had the largest increase of all submarkets at \$5.16/SF, up \$0.22/SF. The Northwest submarket's rental rate remained flat from last quarter at \$3.73/SF and was again the lowest of the suburban submarkets.

CURRENT CONDITIONS

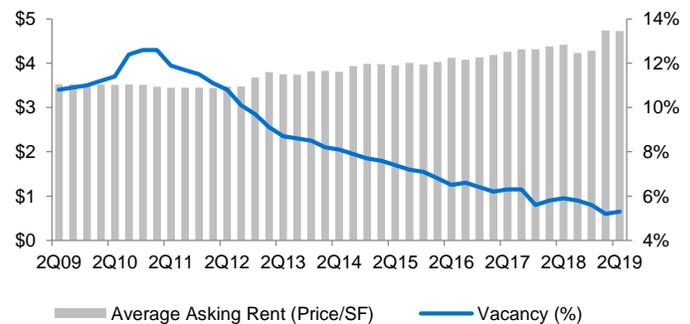
Vacancy rate and the overall asking rental rate dipped very slightly, keeping the market stable and flat for the quarter.

The industrial market posted positive absorption for the fifth consecutive quarter.

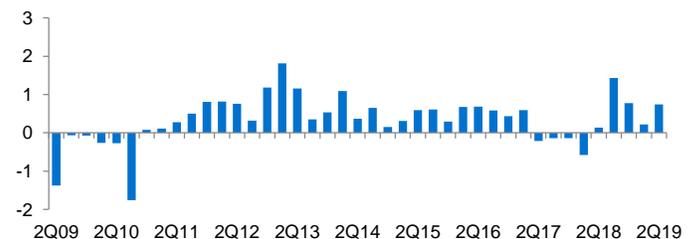
The Southwest was once again the tightest submarket in the area at a very low 2.5% vacancy rate, followed by the Northwest and Northeast.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	286.8 MSF	285.7 MSF	285.5 MSF	↑
Vacancy Rate	5.3%	5.2%	5.9%	↓
Quarterly Net Absorption	745,770	215,991	139,285	→
Average Asking Rent	\$4.73	\$4.74	\$4.42	↑
Under Construction	2.03 M	2.96 M	3.55 M	↑
Deliveries	1.09 M	212,000	327,600	↑

The Southwest once again posted the lowest vacancy of any submarket at 2.5%, which was a decrease of 30 basis points from last quarter. This was a result of 143,408 square feet of positive absorption. This submarket was home to the second-lowest amount of inventory in the market as well as the second-largest amount of space under construction at 506,000 square feet. Its aforementioned rental rate increase, the second quarter's largest, put the submarket in the middle of the pack.

One interesting piece of news emerged in this submarket in the second quarter: CCL Label Inc. arranged a deal to purchase 23 acres of municipally owned land from the city of Strongsville that is adjacent to its current facility at 17700 Foltz Industrial Parkway. The land enables the company, which currently operates in a 115,879-square-foot facility, to expand by adding another 100,000-square-foot facility and creating as many as 150 new jobs.

The Northeast submarket's vacancy rate remained flat at 4.5% after posting 729,979 square feet of positive absorption, which was the most of all of the submarkets. In fact, the Northeast accumulated 974,994 square feet of positive absorption in the first two quarters of 2019. The submarket also generated a number of buzzworthy developments.

In Bedford Heights, Scannell Properties of Indianapolis purchased a key 22-acre industrial parcel at 24800 Miles Road, a site that once was home to Mr. Coffee's headquarters. Construction on a modern distribution warehouse facility begins in July. Plans include two build-to-spec 156,000-square-foot buildings aimed at spurring job creation at this well-located site. The project is slated to complete in spring 2020.

Also of note in the Northeast was Produce Packaging's purchase of the vacant 155,000-square-foot Sam's Club at 27953 Chardon Road in Willoughby Hills. The company, one of the area's largest fresh produce packers for retail businesses and restaurants, intends to bring

approximately 300 jobs to the facility in an expansion move from 7501 Carnegie Avenue in the MidTown neighborhood just outside of Downtown Cleveland. Produce Packaging will renovate the building and should occupy it by early next year.

Another newsworthy development in the Northeast was the announcement of a speculative industrial park on an 87-acre site in Mentor's industrial sector adjacent to Pine Industrial Park and Heisley Road Commerce Park. The land is the largest undeveloped industrial-zoned site in Mentor and provides a commercial opportunity in a highly desirable development area just off of Heisley Road near Mercantile Drive and Hamilton Road. The developers are marketing the ready-to-build parcel, which is flanked on either side by a railroad, as having amazing potential for national, regional or local manufacturers or distributors that are in the market for new construction between 100,000 and 800,000 square feet.

The Southeast submarket made news on several fronts, starting with two of the quarter's highest sale transactions. The 54,954-square-foot property at 6575 Davis Industrial Parkway in Solon was sold to local company Chase Properties for \$2.58 million, or \$47/SF. The other significant transaction in the Southeast was Cleveland-based Premier Development Partners' acquisition of the former Demag Crane building located at 29201 Aurora Road for \$4.65 million, or \$31/SF.

In addition, Schwebel's Baking Company closed its 180,000-square-foot facility at 6250 Camp Industrial Road in Solon, and Trelleborg vacated its 57,700-square-foot facility at 1780 Miller Parkway in Streetsboro. The former Trelleborg facility also sold to Agratronix Properties Co., LLC for \$1.7 million, or \$29/SF. These developments contributed to the Southeast giving back a total of 3,848 square feet in negative absorption. As a result of this and new product coming online that was not fully leased upon delivery, the vacancy rate in the Southeast increased by 40 basis points to 4.7%.

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	71,471,922	168,750	7.2%	(108,5102)	(269,066)	\$2.34	\$5.40	\$3.06
Northeast	58,291,586	205,576	4.5%	729,979	974,994	\$7.80	\$8.54	\$6.00
Northwest	22,857,489	103,527	3.5%	1,140	2,478	\$3.89	\$6.74	\$3.73
South Central	33,964,767	211,672	7.6%	(16,807)	(77,301)	\$4.35	\$7.37	\$5.39
Southeast	69,339,498	838,000	4.7%	(-3,848)	14,823	\$5.19	\$7.30	\$5.62
Southwest	29,956,857	506,000	2.5%	143,408	303,373	\$4.92	\$8.02	\$5.16
Market Total	286,882,119	2,033,525	5.3%	745,770	961,761	\$4.53	\$7.48	\$4.73

The South Central submarket's vacancy rate increased by 10 basis points from the first quarter to 7.6%, after recording a modest 16,807 square feet in negative absorption in the second quarter. The South Central submarket's vacancy rate was the highest in the Cleveland market. Despite the overall negative tally, there was a significant chunk of positive absorption at the former American Greetings campus at 10601 Memphis Avenue/1 American Road in Brooklyn, as TRG Multimedia occupied 75,000 square feet.

The largest property sale (price per square foot) took place here in the second quarter, with the 230,000-square-foot FedEx Ground facility located at 3201 Columbia Road in Richfield selling to Investcorp International for a little over \$27.0 million, or \$117/SF. This sale was a part of an eight-property, 1.4 million-square-foot portfolio that is located across eight different markets.

Also in the South Central submarket, one of the quarter's most newsworthy transactions took place in Brooklyn Heights with the purchase of 9.3 acres of land at the corner of Granger and Tuxedo Road by Nidec Industrial Solutions, an industrial automation systems manufacturer. Nidec broke ground in June at this location, where it is constructing a 68,000-square-foot headquarters facility that will have I-480 visibility and bring approximately 130 jobs to Brooklyn Heights. The company plans to consolidate all of its Northeast Ohio operations from its three buildings in Valley View and Independence to this \$10.0 million facility, which is slated to be completed by 2021. One or more of the buildings in Valley View and Independence, which are all located in the South Central submarket, could be sold in the near future.

The Downtown submarket gave back 108,102 square feet in negative absorption, which precipitated a vacancy increase of 20 basis points to 7.2%. This was the most space given back by any submarket in the second quarter.

In this submarket, Weston's speculative industrial park at 10615 Madison Avenue, located at the intersection of Madison and Berea Road in Cleveland, broke ground. Situated on the 20-acre site of the former Cleveland operations of Midland Steel Products, the 168,750-square-foot project is slated to be a state-of-the-art modern distribution and manufacturing center. The development is due to be completed by the end of the year.

Staying in the Downtown submarket but heading east toward the MidTown District, it was announced that the former home of printing company Jakprints at 3005 Chester Avenue will be converted to a self-storage mini warehouse operation by owner Midwest Storage Development LLC. Midwest had purchased the 96,000-square-foot building in the first quarter of 2019, after Jakprints relocated to a former Walmart in the Northeast submarket.

The Northwest had the second lowest vacancy of any submarket at 3.5% and remained flat from last quarter. This submarket posted 1,140 square feet of positive absorption.

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Choice Cabinets	26401 Fargo Ave.	Southeast	New	83,380
Ohio Blow Pipe	323 Eddy Rd.	Downtown	New	37,209
Northern Frozen Foods Inc.	6575 Davis Industrial Pkwy.	Southeast	New	34,179
Mantaline Corporation Inc.	1842 Enterprise Pkwy.	Southeast	New	28,320
Renewal by Andersen	17450 Engle Lake Dr.	Southwest	New	25,000

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
3201 Columbia Rd.	South Central	\$27,016,000	\$117.46	230,000
6575 Davis Industrial Pkwy.	Southeast	\$2,575,000	\$46.86	54,954
8400 E. Pleasant Valley Rd.	South Central	\$1,385,250	\$33.99	40,756
29201 Aurora Rd.	Southeast	\$4,650,000	\$30.51	152,400
950 Lake Rd.	Southwest	\$2,350,000	\$25.15	93,436

ECONOMIC CONDITIONS

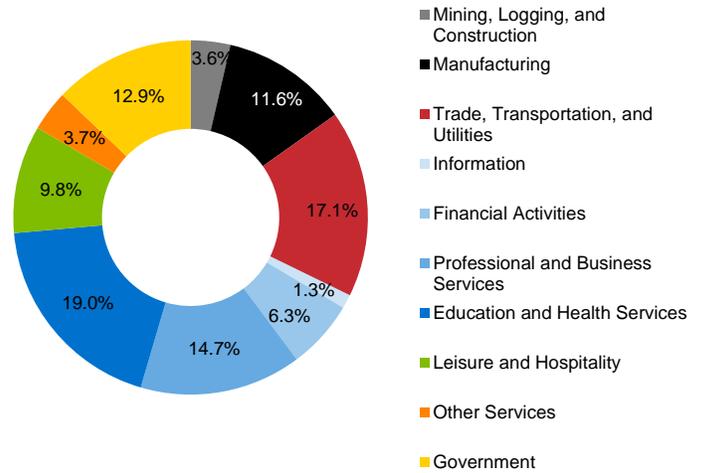
The Greater Cleveland economy continued to add more jobs throughout the first half of 2019, as total payroll employment grew in May by 1.3% year-over-year. Overall payroll employment for the United States also grew in May, by 1.5% year-over-year.

Most industry sectors saw growth from May 2018 to May 2019, including: mining, logging and construction (6.9%); professional and business services (2.6%); trade/transportation/utilities (1.9%); education and health services (1.9%); and manufacturing (0.3%). Total nonfarm employment also increased year over year, by 1.3%. The other services sector grew by 2.5%, while the financial activities sector remained flat.

Conversely, the information industry contracted the most, by negative 2.2%. The other two industries to report a negative change over the past year were the leisure and hospitality industry (negative 0.9%) and government (negative 0.2%).

EMPLOYMENT BY INDUSTRY

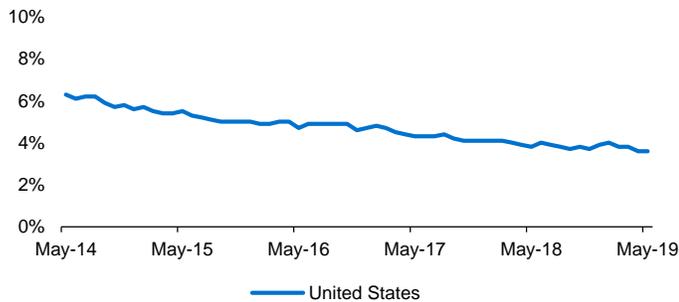
Cleveland-Elyria-Mentor



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

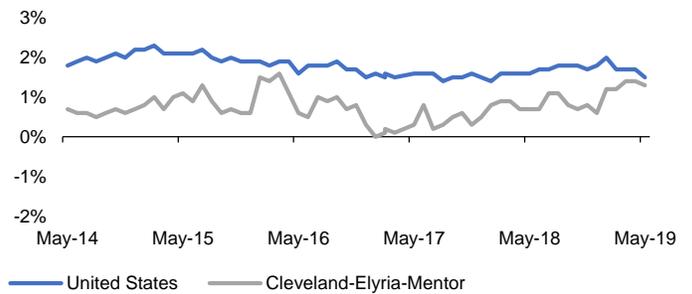
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

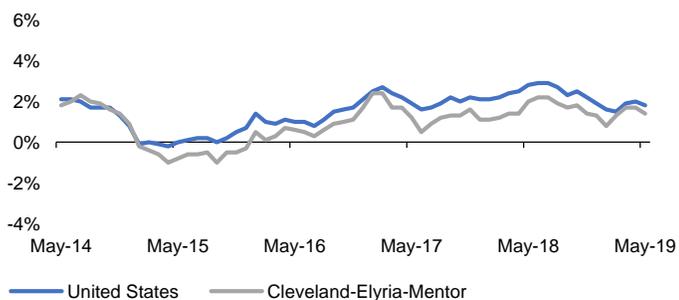
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

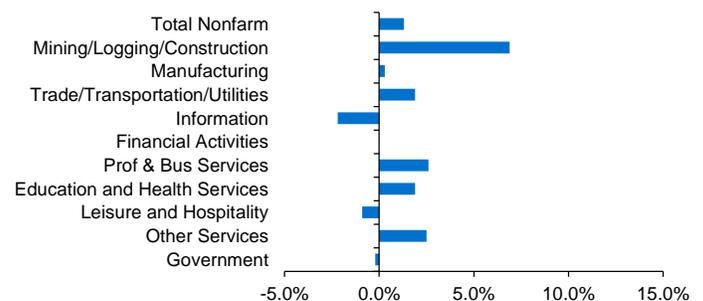
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Cleveland-Elyria-Mentor, May 2019*, 12-Month % Change, Seasonally Adjusted



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

