

CLEVELAND INDUSTRIAL MARKET

INDUSTRIAL MARKET PERFORMED WELL IN 4Q, HAS SOLID YEAR

The fourth quarter of 2018 saw the Greater Cleveland industrial market post positive absorption for the third quarter in a row, with a tally of 728,647 square feet in the affirmative. As a result, overall vacancy decreased slightly by 10 basis points from the third quarter to 5.8%, which brought the market right back to where it started in the first quarter. In fact, tenants taking substantive amounts of space this year brought the final 2018 absorption number to net positive 1,956,226 square feet, a healthy rebound from 2017's less-than-robust 234,374 square feet. The market remained healthy all year long and showed no meaningful signs of reversing course, despite the vacancy trend line flattening out over recent quarters as opposed to a steady decline from 2011 to 2016.

The market remains tight, and the average asking rental rate increased slightly in fourth-quarter 2018 to \$4.24/SF, up \$0.04/SF from the third quarter but down \$0.08/SF from a year ago. Rental rates remained higher in the suburban submarkets, and the Northeast submarket jumped to the highest position in the market by notching the largest increase from the previous quarter, rising \$0.17/SF to \$5.48/SF. Following the Northeast were the Southeast and Southwest submarkets, with average rental rates of \$5.37/SF and \$5.36/SF, respectively. The Southeast rental rate increased by \$0.03/SF from last quarter and jumped the Southwest for second place after the Southwest's rental rate decreased by \$0.06/SF.

Seven-Building Portfolio Sells to Local-International Joint Venture

The industrial market's most newsworthy event of the quarter came in November with the local-meets-international joint venture purchase of a seven-building, 655,049-square-foot portfolio that spans three cities and two submarkets. Warrensville Heights-based Weston teamed up with Bahraini investment firm Arcapita to acquire the Great Lakes Industrial portfolio for \$44.5 million, or roughly \$68/SF at a 7.30% cap rate. The assets were approximately 97% leased at the time of the sale. Weston was the minority partner in the deal and will handle the leasing and management of the high-quality industrial properties that were developed by Streetsboro-based Geis Companies. The properties are located at: 26400 Broadway, Oakwood Village (Southeast); 2 Thermo Fisher Way, Oakwood Village (Southeast); 2477 Edison Boulevard, Twinsburg (Southeast); 2479 Edison Boulevard, Twinsburg (Southeast); 12875 Corporate Drive, Parma (Southwest); 5565 Venture Drive, Parma (Southwest); and 5575 Venture Drive, Parma (Southwest).

CURRENT CONDITIONS

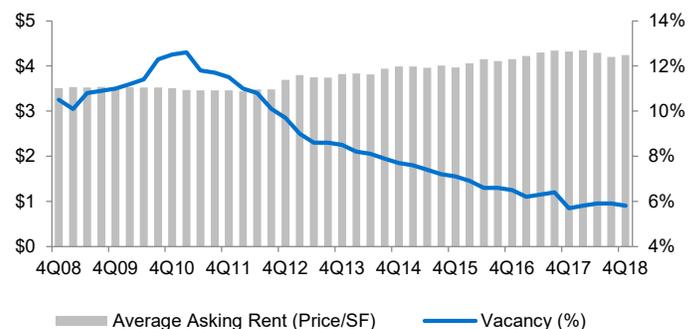
Vacancy stayed below 6.0% for the fifth consecutive quarter, ends year how it started; overall asking rental rate increased slightly

Bahraini firm in joint venture with Northeast Ohio's Weston purchased large, seven-building, 655,000-square-foot industrial portfolio

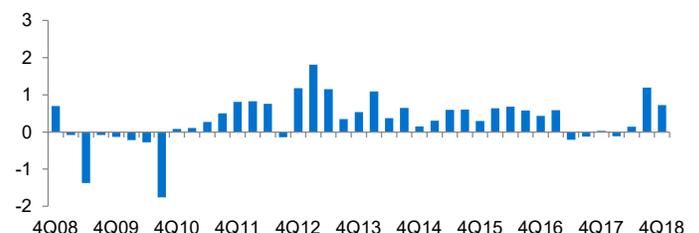
The Northeast submarket dominates the year with absorption and average asking rental rate, while Southeast submarket continued to make news

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 MSF	285 MSF	284 MSF	↑
Vacancy Rate	5.8%	5.9%	5.7%	→
Quarterly Net Absorption	728,647	1,197,172	34,916	→
Average Asking Rent	\$4.24	\$4.20	\$4.32	↑
Under Construction	2.96 M	2.30 M	1.08 M	↑
Deliveries	293,777	1.39 M	133,409	↑

The Southwest submarket was amongst the tightest in the Cleveland area, with a vacancy rate of 3.1%, down 50 basis points from the third quarter. This was the largest contraction of any submarket this quarter. The Southwest posted 127,788 square feet of absorption in the fourth quarter, which led to a year-end total of 171,397 square feet of absorption. 933,296 square feet of construction are underway there.

Staying in the Southwest, one notable sale took place in the fourth quarter, as the 41,184-square-foot flex/R&D asset located at 17295 Foltz Industrial Parkway transferred to FourPenn Foltz LLC for \$2.6 million, or \$63/SF. Also of note in the Southwest was the October announcement that the former Ford engine plant and complex located at 18300 Snow Road hit the market. The 1.7-million-square-foot plant, which closed in 2012, resides on 195 acres.

Northeast and Southeast Submarkets Paced the Market in 2018

In the city of Euclid, located in the Northeast submarket, a 1.6 percent, seven-year job creation tax credit was granted to aid a proposed expansion project to the BWX Technologies facility on 24703 Euclid Avenue. Should the plan come to fruition, the nuclear products and services giant will maintain operations for 10 years at the 267,000-square-foot building as part of an arrangement that will see an addition of 30 full-time jobs and \$2.1 million in new annual payroll. Approximately one mile to the northeast, at Bluestone Business Park, Lincoln Electric signed a 75,480-square-foot lease, which further enlarges the company's overall footprint in the city of Euclid, where its world headquarters are located.

Also in the Northeast, Rimeco Products received a job-creation tax credit to expand its 45,000-square-foot facility at 2002 Joseph Lloyd Parkway to accommodate new business. This seven-year, 1.214% tax credit is expected to create 38 full-time jobs and double the company's payroll. Highland Heights optical components manufacturer Cotsworks LLC announced a \$4.1 million investment in a new research-and-development facility at its existing operation at 729 Miner Road in Highland Heights. Nearby in Mayfield, 75,000-square-foot flex facility 700 Beta Drive transferred to FourPenn Beta LLC for \$2.3 million, or \$30.66/SF.

Northeast vacancy dropped 20 basis points from the previous quarter to 4.6%, after accruing 241,240 square feet in positive absorption in the fourth quarter, the most by any submarket. The Northeast gained more than 1.5 million square feet for the year, by far the most of any submarket. 910,000 square feet of product are under construction.

The Southeast posted 119,213 square feet of positive absorption for the quarter. This brought its annual absorption to positive 544,162 square feet, the market's second most for the year. Vacancy in the Southeast stayed flat from third-quarter 2018 at 4.5%. The quarter's largest and second-largest leases took place here, with the renewal of 98,857 square feet by Custom Pultrusions at Aurora's 1331-1373 South Chillicothe Road and the signing of a 93,000-square-foot lease by Spectrum Diversified Design at 9300 Dutton Drive in Twinsburg.

The Southeast submarket made some news on the conversion front, as the 30,220-square-foot property at 9009 Freeway Drive in Macedonia transferred to Nemet Development LLC for \$1.2 million, or \$41/SF. The property was quickly transformed into Northeast Factory Direct's third Cleveland-area retail furniture warehouse.

Also in the Southeast, a 156,250-square-foot build-to-suit facility at 285 Lena Drive in Aurora delivered. This became the new sealing profiles operation for Trelleborg Industrial Solutions in consolidating the operations of this line of business from its Bristol, Indiana site. Conversely, reLink Medical announced plans to relocate its headquarters from Aurora to the 68,054-square-foot facility at 1755 Enterprise Parkway in Twinsburg. The company will add 30 new jobs, doubling its workforce. In another announcement, Channel Products will move its headquarters from the Northeast submarket to 33,706 square feet at 30700 Solon Industrial Parkway. The move to Solon by the ignition components manufacturer was billed as a cultural shift.

In the Northwest submarket, Amware Distribution Warehouses completed the construction of its new 103,527-square-foot facility at 3620 Mallard Run in Sheffield Village's French Creek Business Park. This building delivering helped contribute to more than 2.1 million square feet of new industrial product that came online in 2018. In an owner-user purchase, Conveyor & Caster acquired the former JTEKT/Koyo Corporation's 74,800-square-foot 29570 Clemens Road facility for \$2.9 million, or \$38.77/SF.

The average asking rental rate in the Northwest submarket was slightly higher than the overall industry average, coming in at \$4.42/SF, having shrunk by \$0.13/SF from third-quarter 2018. Although the Northwest performed steadily in the fourth quarter, vacancy increased in the area's tightest submarket by 10 basis points, to 2.3%. The Northwest was the only submarket to lose space for the year after notching 7,622 square feet in negative absorption.

The South Central submarket's vacancy rate decreased by 30 basis points from the third quarter to 8.5%, after recording 108,729 square feet in positive absorption. The average asking rental rate increased by \$0.11/SF to \$3.72/SF. A notable owner-user sale took place here in the fourth quarter, with Tiger Auto Parts purchasing the former 71,576-square-foot Mantua Manufacturing facility in Walton Hills for \$2.8 million, or \$39.12/SF. Staying in the South Central, Nexen Tire Corp.'s new 34,000-square-foot technical center on 4014 Wheatley delivered. Also of note in this submarket was the announcement of TRG Multimedia planning to move into 75,000 square feet at the former American Greetings site in Brooklyn located at 1 American Road/10601 Memphis Avenue in the first quarter of 2019.

The Downtown submarket again had the lowest asking rental rate at \$3.14/SF, down \$0.02/SF from the previous quarter. Vacancy dipped 10 basis points to 8.5%, as the submarket posted 55,546 square feet of positive absorption in the fourth quarter.

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Custom Pultrusions	1331-1373 S. Chillicothe Road	Southeast	Renewal	98,857
Spectrum Diversified Design	9300 Dutton Drive	Southeast	New	93,000
Lincoln Electric	26250 Bluestone Boulevard	Northeast	New	75,480
TRG Multimedia	10601 Memphis Avenue	South Central	New	75,000
Greenes Fencing	24455 Aurora Road	Southeast	New	73,026

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Great Lakes Industrial Portfolio (seven buildings)	Multiple	\$44,550,000	\$68.01	655,049
17295 Foltz Industrial Parkway	Southwest	\$2,600,000	\$63.13	41,184
7900 Northfield Road	South Central	\$2,800,000	\$39.12	71,576
29570 Clemens Road	Northwest	\$2,900,000	\$38.77	74,800
700 Beta Drive	Northeast	\$2,300,000	\$30.66	75,000

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	74,402,029	0	8.5%	55,546	(592,250)	\$2.37	\$5.26	\$3.14
Northeast	56,088,781	910,000	4.6%	241,240	1,555,080	\$5.96	\$8.29	\$5.48
Northwest	23,171,129	0	2.3%	76,131	(7,622)	\$6.59	\$8.17	\$4.42
South Central	36,167,308	0	8.5%	108,729	285,459	\$4.20	\$7.37	\$3.72
Southeast	67,623,779	1,114,000	4.5%	119,213	544,162	\$4.85	\$7.11	\$5.37
Southwest	28,620,215	933,296	3.1%	127,788	171,397	\$4.71	\$7.87	\$5.36
Market Total	286,073,241	2,957,296	5.8%	728,647	1,956,226	\$3.95	\$7.44	\$4.24

ECONOMIC CONDITIONS

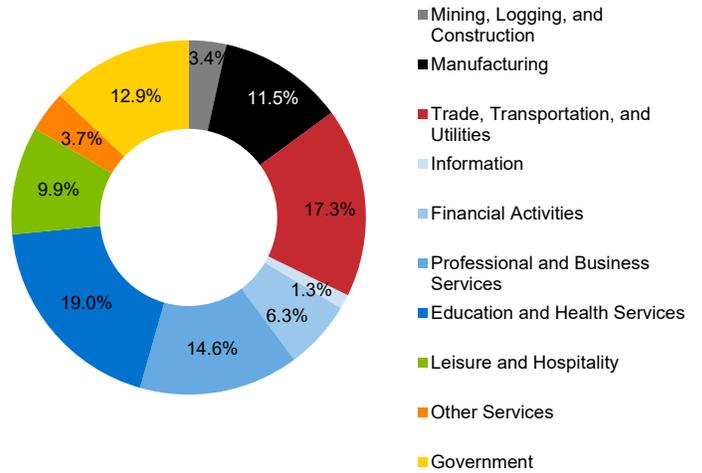
Greater Cleveland payroll employment had a positive return through October 2018. This year's October employment numbers were much higher than those reported for the same period over the last several years. In fact, dating back to 2013, October payroll never grew by more than 1% until this year, which saw a hefty 2.5% increase. Employment growth in 2018 has been greater than 2% since July.

Industry sectors that saw growth from October 2017 to October 2018 (in order of most to least growth) were: manufacturing (4.0%); leisure and hospitality (3.4%); professional and business services (3.3%); trade, transportation and utilities (3.2%); education and health services (2.4%); government (1.4%); mining, logging and construction (1.0%); other services (0.5%); and financial activities (0.3%). Total nonfarm employment also saw an overall increase year-over-year by 2.5%.

Conversely, the information industry was the only one that contracted, by negative 1.4%.

EMPLOYMENT BY INDUSTRY

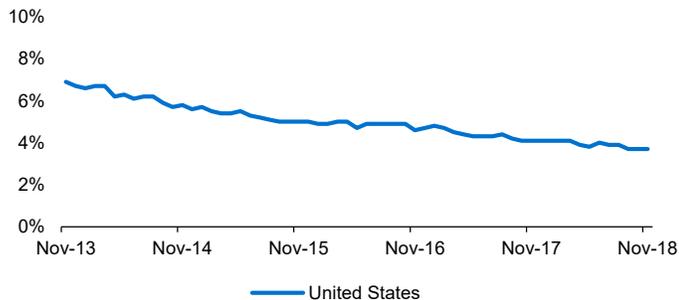
Cleveland-Elyria-Mentor



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

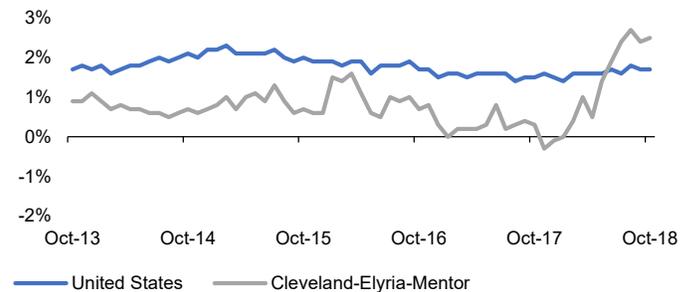
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

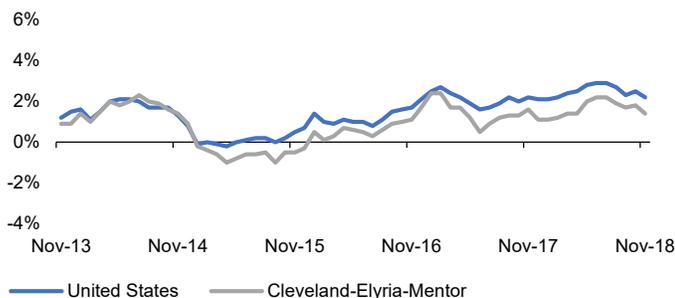
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

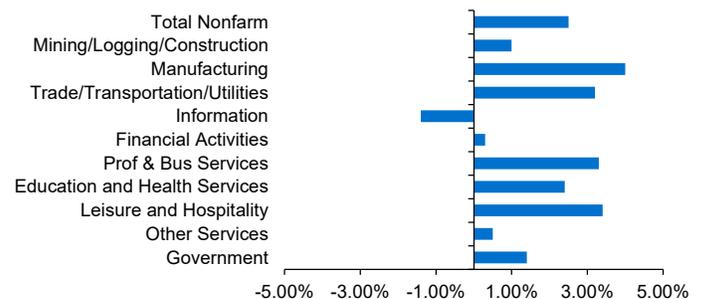
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Cleveland-Elyria-Mentor, October 2018*, 12-Month % Change, Seasonally Adjusted



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

