

# CLEVELAND INDUSTRIAL MARKET

## MARKET HEALTHY DESPITE STAYING FLAT IN 4Q

The fourth quarter of 2019 saw the Greater Cleveland industrial market take a small step back from the prior quarter's tenancy gain. Tenants gave back a modest 79,867 square feet in the fourth quarter, bringing the final 2019 absorption number to net positive 1,039,104 square feet. Overall vacancy stayed flat from the third quarter to this past quarter, hovering at 5.4%. This was the fourth quarter in a row where vacancy remained under 5.5% and the ninth quarter in a row where vacancy was below 6.0%. Industrial demand has shown a softening nationally, but after six previous quarters in the positive and despite some negative absorption this past quarter, the Cleveland market remained reasonably healthy overall and showed no meaningful signs of reversing course. In fact, year-over-year vacancy declined 20 basis points and was steady in 2019.

With the market remaining reasonably tight, the average asking rental rate increased slightly in fourth-quarter 2019 to \$4.79/SF, up \$0.08/SF from the third quarter and marking the industrial sector's highest rental rate since the first quarter of 2001's \$5.24/SF. Overall 1.78 million square feet was under construction in the market as the year ended.

Rental rates remained higher in the suburban submarkets, and the Northeast submarket remained the highest in the market. Its average asking rental rate rose by \$0.06/SF to \$6.26/SF, well above the market's average. Following the Northeast was the Southeast, with an average rental rate of \$5.64/SF, down \$0.06/SF from last quarter.

The Southwest submarket was the tightest in the Cleveland area, with a vacancy rate of 2.4%, unchanged from the third quarter. The Southwest posted 701 square feet of absorption in the fourth quarter, which led to a year-end total of 312,517 square feet of absorption. 506,000 square feet of construction is underway there, the second most in the market. The average asking rental rate in the Southwest submarket was higher than the overall industry average, coming in at \$4.93/SF, having increased by \$0.01/SF from third-quarter 2019.

The Southeast posted 171,404 square feet of negative absorption for the quarter. This brought its annual absorption to negative 55,366 square feet, the market's second most space given back for the year. As a result, vacancy in the Southeast increased 30 basis points from third-quarter 2019 to 5.4%, which equaled the overall market's average vacancy. The quarter's largest sale took place here, with the purchase of the 303,888-square-foot home of the Twinsburg FedEx distribution center at 2050 East Aurora Road. According to the Summit County Auditor, the property in Cornerstone Business Park transferred to St. Louis-based ElmTree Funds in early December for \$47.7 million, or \$157/SF. On a price-per-square-foot basis, this was by far the largest industrial sale of 2019.

## CURRENT CONDITIONS

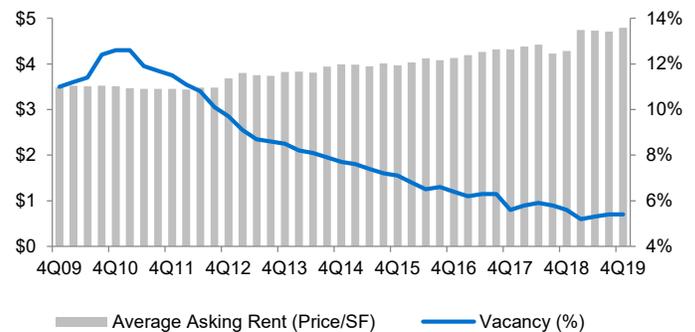
The overall vacancy rate remained unchanged, keeping the market stable for the quarter. Rental rates increased slightly.

After posting positive absorption for six consecutive quarters, the industrial market gave back a small amount of space in 4Q19.

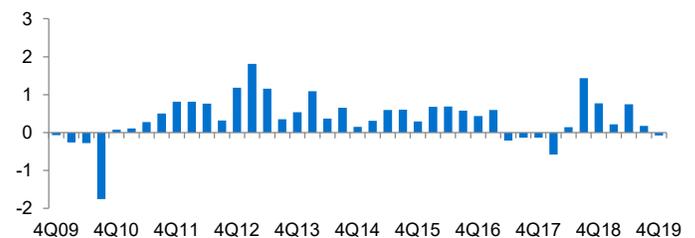
The South Central posted the most absorption, while the Southeast gave back the most space of any submarket in the fourth quarter. However, the Southeast had the largest industrial sale of the year.

## MARKET ANALYSIS

### Asking Rent and Vacancy



### Net Absorption (SF, Millions)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	287 MSF	287 MSF	287 MSF	↑
Vacancy Rate	5.4%	5.4%	5.6%	↑
Quarterly Net Absorption	(79,867)	157,210	772,217	→
Average Asking Rent	\$4.79	\$4.71	\$4.28	↑
Under Construction	1.78 M	1.74 M	3.06 M	→
Deliveries	103,527	434,000	190,250	→

The Southeast submarket made some news on the expansion front, as Vistar's property at 8745 Chamberlin Road in Twinsburg, also at Cornerstone Business Park, began a 78,000-square-foot expansion to the company's 137,852-square foot facility. The property was one of the first pieces of Cornerstone, which was once home to a mammoth Chrysler Stamping Plant. The Southeast also had the most construction activity of all the submarkets at 554,000 square feet.

Northeast vacancy stayed flat from the fourth quarter at 4.4%, after giving back 5,543 square feet. The submarket gained more than 1.0 million square feet for the year, by far the most of any submarket. 385,976 square feet of product is under construction.

In the Northwest submarket, a lease for the full 103,527-square-foot speculative facility at 3620 Mallard Run in Sheffield Village's French Creek Business Park was executed. This Pactra Global Logistics lease was the largest of the fourth quarter and represented the fulfillment of Phase 1 of Cedar Tree Center. Commencement of Phase 2 is still unknown, but it should be similar in square footage to Phase 1.

The average asking rental rate in the Northwest submarket came in at \$3.94/SF, having increased the most of any submarket, by \$0.29/SF from third-quarter 2019. Although the Northwest performed steadily in the fourth quarter, vacancy increased in the area's second tightest submarket by 20 basis points, to 3.7%. The Northwest notched 48,857 square feet in positive absorption for the year.

The South Central submarket's vacancy rate decreased by 40 basis points from the third quarter to 7.2%, after recording 133,299 square feet in positive absorption, the largest of any submarket in the fourth quarter. This brought the submarket's total absorption for the year into the positive at 60,825 square feet. The average asking rental rate in the South Central increased by \$0.19/SF to \$5.58/SF, the second largest increase this past quarter. A notable sale took place here in the fourth quarter, albeit a confidential one. Edgewater Financial, LLC, doing business as Independence TIC Acquisition Company 2018 LLC, purchased the 625,000-square-foot Kichler Lighting facility at 7711 East Pleasant Valley Road in Independence for an undisclosed price.

Staying in the South Central, Nexen Tire Corp. moved into its new 35,540-square-foot technical center on 4014 Wheatley Road in Richfield. As of the end of the year, 167,000 square feet was under construction in this submarket.

The Downtown submarket again had the lowest asking rental rate at \$3.14/SF, up \$0.05/SF from the previous quarter. Vacancy rose by 10 basis points to 7.3%, as the submarket posted 85,667 square feet of negative absorption in the fourth quarter. This brought the year-end absorption for the Downtown submarket to negative 368,138 square feet. 168,750 square feet of product is under construction.

A significant undisclosed sale took place in this submarket, as Worthington Industries acquired the 278,000-square-foot 4600 Heidtman Parkway. According to an October news release from Worthington Industries, the operation allows the company to further expand its value-added steel processing capacity. The facility, constructed in 2004, includes the ability for the pickling and slitting of hot rolled carbon flat rolled steel for the automotive, heavy truck, agriculture and heavy equipment markets. It employs approximately 100 people.

Also in the Downtown submarket, Cleveland City Council approved tax incentives to convert 2937 West 25th Street into a community services hub. The former Astrup Awning Company industrial building is adjacent to the neighborhood where infamous criminal Ariel Castro once held three women captive. This redevelopment is designed to symbolize a revival in the neighborhood, and expected tenants include the Cleveland Rape Crisis Center and the Boys & Girls Clubs of Cleveland.

General industrial assets make up the majority of the Cleveland area's industrial market, with 173.5 million square feet of inventory. The vacancy rate for this type of facility was 4.5% in the fourth quarter, while the average asking rental rate stood at \$4.33/SF. Conversely, R&D/flex industrial facilities commanded the highest average asking rent at \$7.57/SF, although its vacancy rate was also the highest at 7.6%.

Warehouse/distribution facilities comprise the second-most inventory in the market at 90.5 million square feet. With more than 1.0 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 6.8%. The average asking rental rate for warehouse/distribution was \$4.57/SF. The submarket with the most warehouse/distribution inventory is the Southeast, with over 33 million square feet, 36.5% of the entire market.

## 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	71,471,986	168,750	7.3%	(85,667)	(368,138)	\$2.39	\$5.82	\$3.14
Northeast	59,309,786	385,976	4.4%	(5,543)	1,040,409	\$8.24	\$8.71	\$6.26
Northwest	22,961,016	0	3.7%	48,817	48,857	\$4.15	\$6.90	\$3.94
South Central	33,962,899	167,000	7.2%	133,229	60,825	\$4.44	\$7.48	\$5.58
Southeast	69,747,123	554,000	5.4%	(171,404)	(55,366)	\$5.16	\$7.14	\$5.64
Southwest	29,979,213	506,000	2.4%	701	312,517	\$4.92	\$7.88	\$4.93
<b>Market Total</b>	<b>287,432,023</b>	<b>1,781,726</b>	<b>5.4%</b>	<b>(79,867)</b>	<b>1,039,104</b>	<b>\$4.57</b>	<b>\$7.57</b>	<b>\$4.79</b>

## SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Pactra Global Logistics	3620 Mallard Run	Northwest	New	103,527
ASW	26150 Richmond Rd.	Southeast	New	34,080
Premier Office Technologies	33220-33250 Lakeland Blvd.	Northeast	Renewal	22,000
SofaKraze Inc.	26820 Fargo Ave.	Southeast	New	18,000
Brilar	5300 Smith Rd.	Southwest	New	15,000

## SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
2050 E. Aurora Rd.	Southeast	\$47,703,771	\$156.98	303,888
2824 Center Rd.	Southwest	\$1,700,000	\$106.25	16,000
34700 Lakeland Blvd.	Northeast	\$2,839,900	\$72.41	39,220
4600 Heidtman Pkwy.	Downtown	Undisclosed	Undisclosed	278,000
7711 E. Pleasant Valley Rd.	South Central	Undisclosed	Undisclosed	625,000

## ECONOMIC CONDITIONS

Greater Cleveland payroll employment had a positive return through October 2019. This year's October employment numbers were higher than those reported for these months over the last several years. October payroll growth saw a 0.9% increase. In fact, payroll employment growth in 2019 has been more than 0.9% every month from January to October.

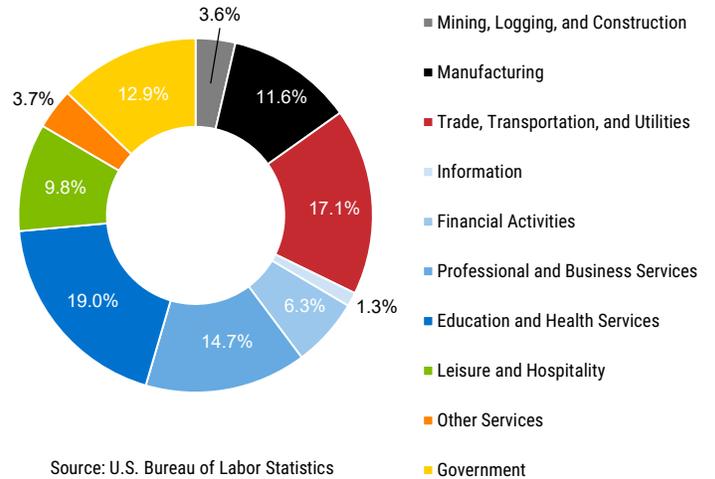
Industry sectors that saw growth from October 2018 to October 2019, in order from most to least growth, were: professional and business services (5.6% growth); education and health services (2.6% growth); government (0.4% growth); and leisure and hospitality (0.3% growth). Total nonfarm employment also saw an overall increase year-over-year by 0.9%.

The mining, logging and construction and the financial activities sectors stayed flat year-over-year.

Conversely, industries that contracted were: other services (-3.0%); trade, transportation and utilities (-2.1%); information (-1.5%); and manufacturing (-0.1%).

## EMPLOYMENT BY INDUSTRY

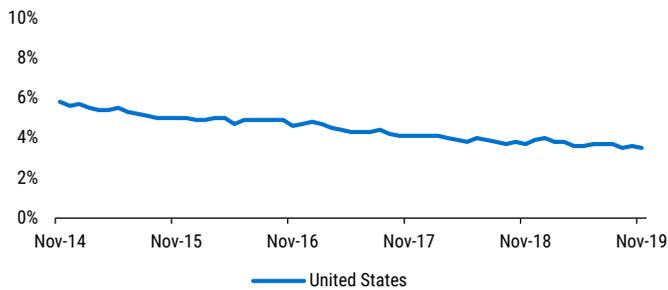
### Cleveland-Elyria-Mentor



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

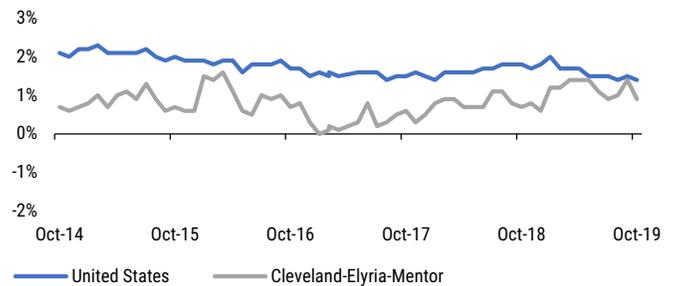
### Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

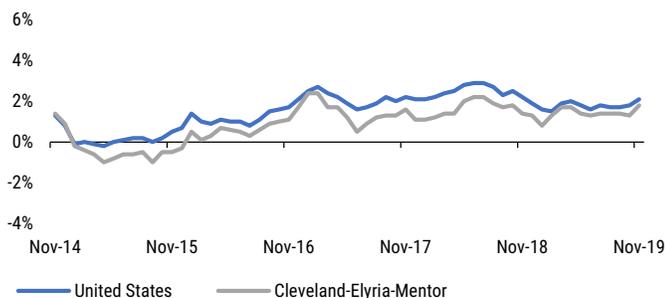
### Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

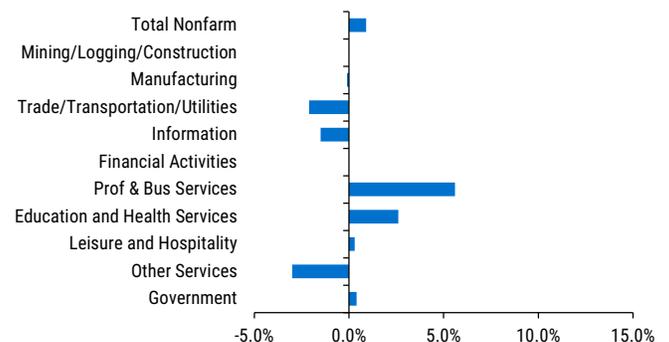
### All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

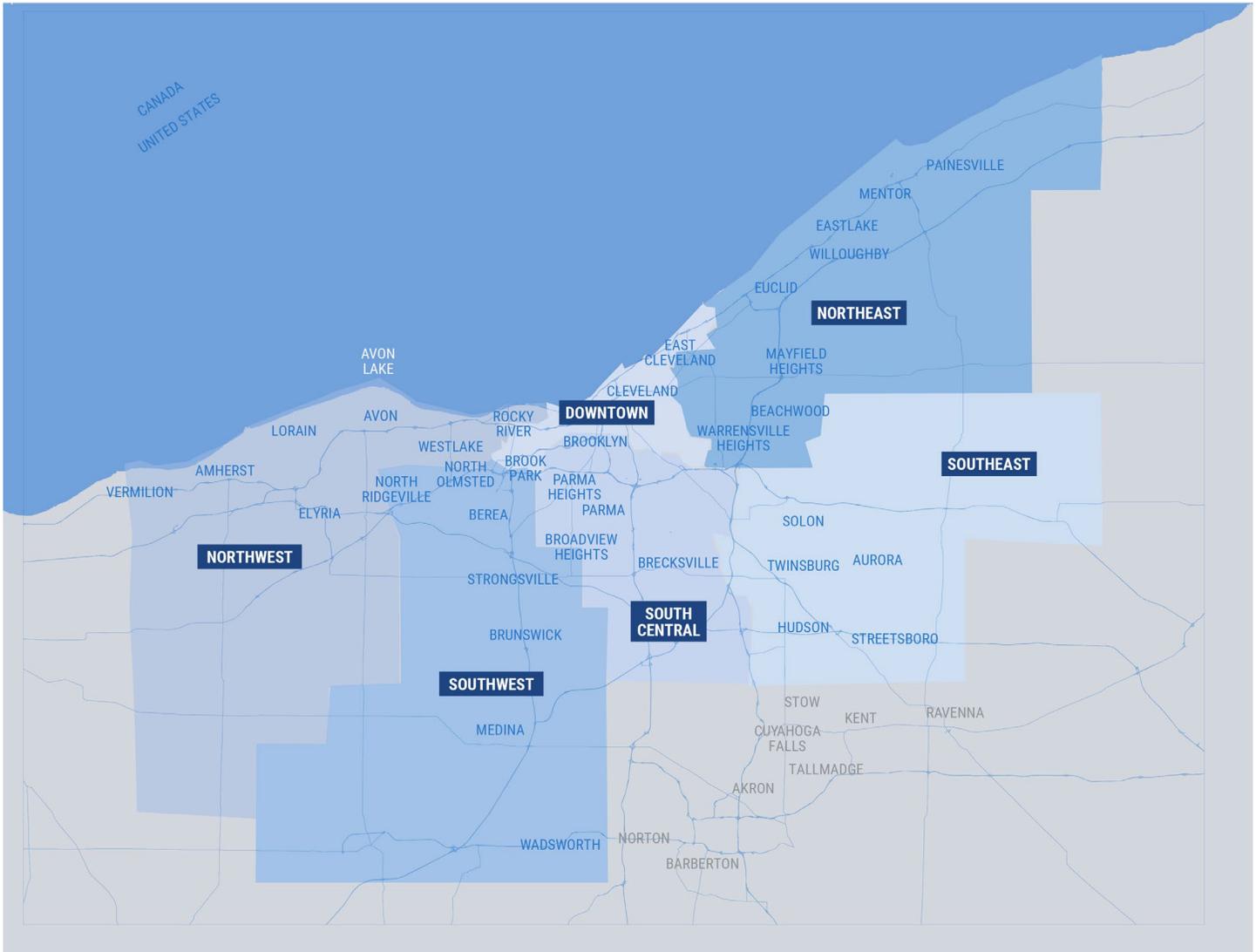
## EMPLOYMENT GROWTH BY INDUSTRY

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



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

## CLEVELAND INDUSTRIAL SUBMARKETS



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