

# CLEVELAND INDUSTRIAL MARKET

## MARKET STEADY PRE-COVID-19; UNCERTAINTY AHEAD

The Greater Cleveland industrial market tallied a 5.5% vacancy rate in the first quarter of 2020, which was 10 basis points lower than the previous quarter. This number was very consistent going back to second-quarter 2019, and equal to three of the last four quarters. Helping the market stay steady was 75,076 square feet of positive absorption in the first quarter. Despite the market's stable performance in recent months and years, the advent of the COVID-19 pandemic presents uncertainty going forward. The need for added warehousing and distribution, as well as manufacturing space, for medical-related equipment and preventative products, such as hand sanitizer and personal protective equipment, could keep the market stable.

As vacancy held reasonably steady, the average asking rental rate dipped. First-quarter 2020 saw the average rental rate decrease by \$0.21/SF to \$4.54/SF, lower than the last four quarters, but higher than the 70 quarters preceding first-quarter 2019, going back to third-quarter 2001. Since first-quarter 2017, the average rental rate has averaged \$4.44/SF, while the vacancy rate has slowly and steadily dropped by 70 basis points.

New and prospective products have continued to keep the industrial market steady, and the growth of ecommerce continues to transform the landscape. Northeast Ohio could soon see another Amazon facility, this time a 168,750-square-foot warehouse in the first building constructed on the site of Weston's new 21.6-acre Madison Industrial Park, located at 10801 Madison Avenue in the Downtown submarket. It is conceivable that Amazon could then add to its footprint at Madison Industrial Park via another building or two.

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. The company is also looking at other potential sites in the Cleveland industrial market. Once the 695,383-square-foot distribution center on the site of the former Rolling Acres Mall in Akron is built and if the proposed Madison Avenue facility on the near west side of Downtown comes to fruition, Amazon will occupy nearly 3 million square feet of Northeast Ohio real estate.

## CURRENT CONDITIONS

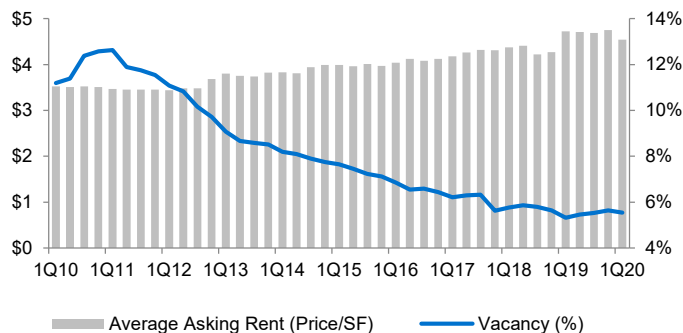
The overall vacancy rate decreased slightly, keeping the market stable for the quarter, pre COVID-19. Rental rates decreased.

After giving back a small amount of space in 4Q19, the industrial market started 2020 with a small amount of positive absorption.

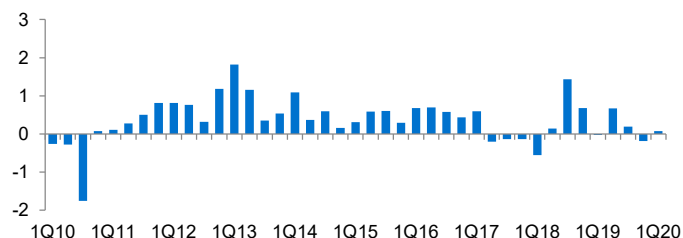
The South Central submarket posted the most absorption, while the Downtown submarket gave back the most space of any submarket in the first quarter.

## 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	286 MSF	285 MSF	↑
Vacancy Rate	5.5 %	5.6%	5.3%	↑
Quarterly Net Absorption	75,076	(189,502)	(29,905)	→
Average Asking Rent	\$4.54	\$4.75	\$4.72	↑
Under Construction	875,223	1,706,150	2,956,775	→
Deliveries	1,020,576	0	212,000	→

The Southeast submarket saw Oakleaf II Company LLC purchase the 49,857-square-foot warehouse located at 1900 Case Parkway for \$3.0 million, or \$60/SF. This was one of the more notable sales in the first quarter in terms of price per square foot.

Vacancy in the Southeast increased by 10 basis points from fourth-quarter 2019 to 5.5%, prompted by 126,477 square feet of negative absorption; 150,000 square feet of new product remained under construction in this submarket, which also has the area's most inventory at more than 69.3 million square feet. The Southeast's average asking rental rate was the area's second highest at \$5.38/SF, despite declining \$0.34/SF from the previous quarter. Another piece of news came out of this submarket in the first quarter: Penske Logistics renewed its 61,087-square-foot lease at 1361 Highland Road in Macedonia, though the renewal won't commence until the end of third-quarter 2021.

The Southwest submarket continued to be the tightest in the Cleveland area, with a vacancy rate of 2.7% that remained unchanged from the previous quarter, despite 10,447 square feet of negative absorption in the first quarter. It has the second-lowest inventory of all submarkets at 31.2 million square feet, but at the end of the first quarter had a market-leading 179,296 square feet of construction that was underway. The Southwest's average asking rental rate was \$4.98/SF, up by \$0.05/SF from the previous quarter. This was the only industrial submarket that had an increase in average asking rental rate.

In this submarket, Geis Companies announced the completion of the Voss Industries's 100,000-square-foot renovation at 1000 Bagley Road in Berea. Voss consolidated, renovated and relocated from its longtime facility in Ohio City to this property. The project consisted of approximately 30,000 square feet of office and 70,000 square feet of production space.

One notable transaction took place in the Southwest in the first quarter, as the 54,604-square-foot industrial flex facility located at 4350 Renaissance Parkway in Warrensville Heights transferred to Cailin Development for \$2.1 million, or \$39/SF. Also in the Southwest, Lexington Logistics/Need It Now signed a 50,833-square-foot lease at 3048 Nationwide Parkway in Brunswick.

The Northeast submarket also lost space in the first quarter with 9,806 square feet in negative absorption. This didn't prompt the submarket's vacancy to move from the prior quarter's 4.8%. The submarket's rental rate decreased by \$0.33/SF to \$5.80/SF, which, despite the drop, placed it at the top of the pack among all the submarkets and \$1.26/SF above the industry average. The Northeast had the largest amount of construction activity in the first quarter, with 275,400 square feet of product being built.

Announced this past quarter in the Northeast was the approval by the City of Mentor's Planning Commission to create five industrial lots at Mercantile and Hamilton drives for phase one of the 87-acre Mentor Innovation and Technology Park. The park can accommodate new construction from 136,500 square feet to 969,000 square feet.

The Northwest had the second-lowest average asking rental rate of all submarkets at \$3.75/SF, representing a \$0.19/SF decrease from fourth-quarter 2019. Vacancy decreased by 60 basis points to 3.2%, the second lowest in the market, while 142,897 square feet was positively absorbed, the second most for any submarket this past quarter. New product totaling 103,527 square feet is under construction in the Northwest, which has the least amount of inventory in the market at just under 22.8 million square feet. In the Northwest was the signing of one of the past quarter's biggest leases, as Dura-Line Corporation leased the entire 139,920-square-foot former Riddell single-tenant warehouse facility at 669 Sugar Lane in Elyria. This good news for Elyria was offset by news that Bendix Commercial Vehicle Systems announced a move to nearby Avon, which offered the company approximately \$25 million in tax incentives. Bendix is expected to construct a new \$55.0-million headquarters campus, consisting of a total of 199,000 square feet. Groundbreaking was originally expected to take place in the beginning of second-quarter 2020, with completion in fourth-quarter 2021.

The Downtown submarket, which has the most inventory of any submarket, with 71.9 million square feet, continued to have the area's lowest asking rental rate, which was \$2.96/SF, down \$0.05/SF from the previous quarter. The submarket's vacancy was the highest in the market, and it increased 20 basis points over the past quarter to 7.6%. This was precipitated by the area's largest loss in absorption for the quarter, as Downtown lost 206,884 square feet. A notable activity in this submarket was the commencement of historic renovation work to transform the 100,000-square-foot former Astrup Awning Plant, located at 2937 West 25th Street, to the Astrup Community Arts Center. Several tenants are lined up for the project, which is due for completion in the winter of 2021.

The South Central submarket was in the middle of the pack with an average rental rate of \$5.16/SF, down by \$0.34/SF. Despite the rental rate decrease, the South Central vacancy rate fell to 6.9%, a decrease of 80 basis points from the previous quarter but still the second-highest vacancy in the market. The South Central led the entire market this past quarter, with the most absorption at 285,793 square feet. Construction activity in this submarket totaled 167,000 square feet.

A notable transaction in the South Central was the purchase of 5520 Chevrolet Boulevard in Parma by Industrial Commercial Properties. The new owner intends to redevelop this 575,000-square-foot building on 33 acres, once home to a General Motors manufacturing plant, to manufacturing, distribution and office. The property transferred for \$9.7 million, or \$17/SF.

## 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	71,906,930	0	7.6 %	(206,884)	(206,884)	\$2.36	\$5.60	\$2.96
Northeast	57,417,626	275,400	4.8%	(9,806)	(9,806)	\$6.70	\$8.02	\$5.80
Northwest	22,769,255	103,527	3.2%	142,897	142,897	\$3.73	\$6.90	\$3.75
South Central	33,832,872	167,000	6.9%	285,793	285,793	\$4.44	\$6.53	\$5.16
Southeast	69,312,273	150,000	5.5%	(126,447)	(126,447)	\$4.92	\$6.95	\$5.38
Southwest	31,202,451	179,296	2.7%	(10,447)	(10,447)	\$4.87	\$6.70	\$4.98
<b>Market Total</b>	<b>286,441,407</b>	<b>875,223</b>	<b>5.5%</b>	<b>75,076</b>	<b>75,076</b>	<b>\$4.37</b>	<b>\$6.88</b>	<b>\$4.54</b>

## SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Dura-Line Corporation	669 Sugar Ln.	Northwest	New	139,920
Penske Logistics	1261 Highland	Southeast	Renewal	61,087
Lexington Logistics- Need It Now	3048 Nationwide	Southwest	New	50,833
Cleveland Range	760 Beta	Northeast	New	9,600
Crown Brands, LLC	4350 Renaissance Industrial Pkwy	Northeast	New	7,025

## SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
1900 Case Parkway	Southeast	\$3,000,000	\$60.17	49,857
8801 E. Pleasant Valley Rd.	South Central	\$1,200,000	\$48.13	24,932
4350 Renaissance Pkwy.	Southwest	\$2,106,000	\$38.57	54,604
1658 Highland Rd.	Southeast	\$3,500,000	\$35.42	98,803
5520 Chevrolet Blvd.	South Central	\$9,721,000	\$16.91	575,000

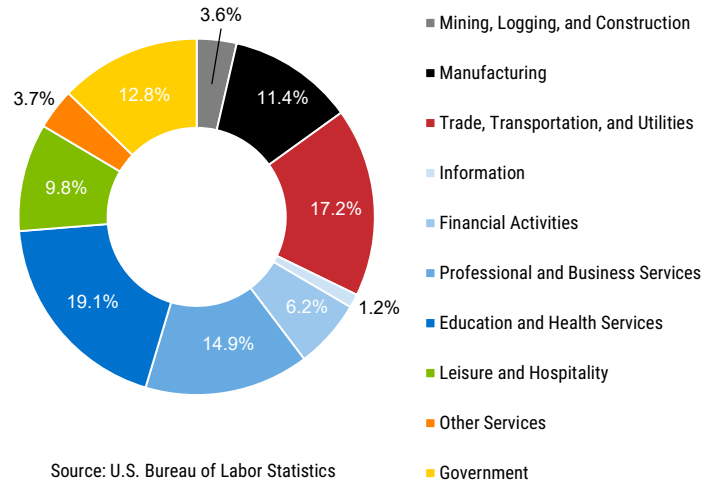
## ECONOMIC CONDITIONS

The Greater Cleveland economy added a small number of jobs early in first-quarter 2020, as total payroll employment grew in January by 0.2% year over year. This was significantly behind the national total payroll employment growth of 1.5% for January 2020.

Strong gains were posted by the mining, logging and construction sector, which grew 8.0% from 2019, followed by the other services sector, which grew 4.1%. The leisure and hospitality and trade, transportation and utilities sectors were up 4.0% and 1.1%, respectively, from 2019. By contrast, job growth contracted from 2019 in the information, professional and business services (negative 3.0%), manufacturing (negative 2.1%), financial activities (negative 1.9), government and education (0.9%) and health sectors (negative 0.2%).

## EMPLOYMENT BY INDUSTRY

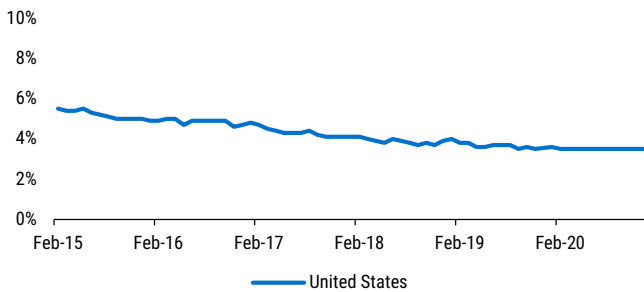
### Cleveland-Elyria-Mentor



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

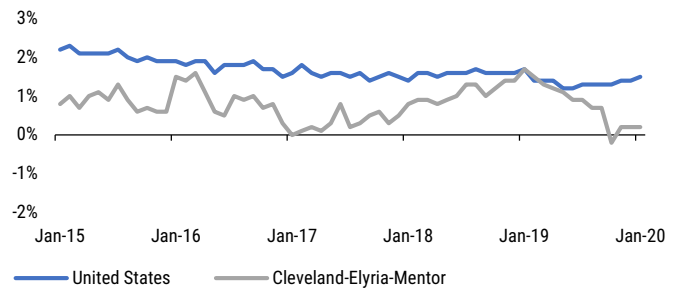
### Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

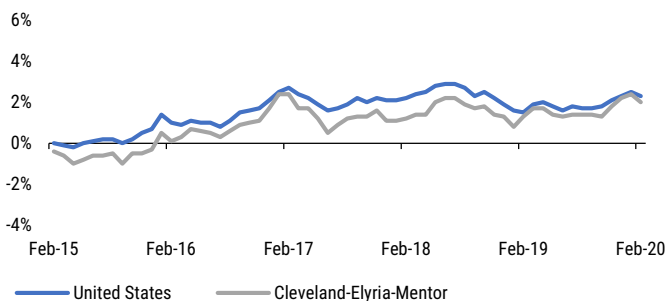
### Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

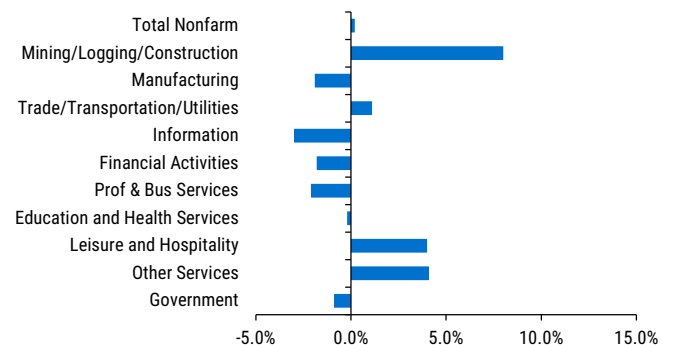
### All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

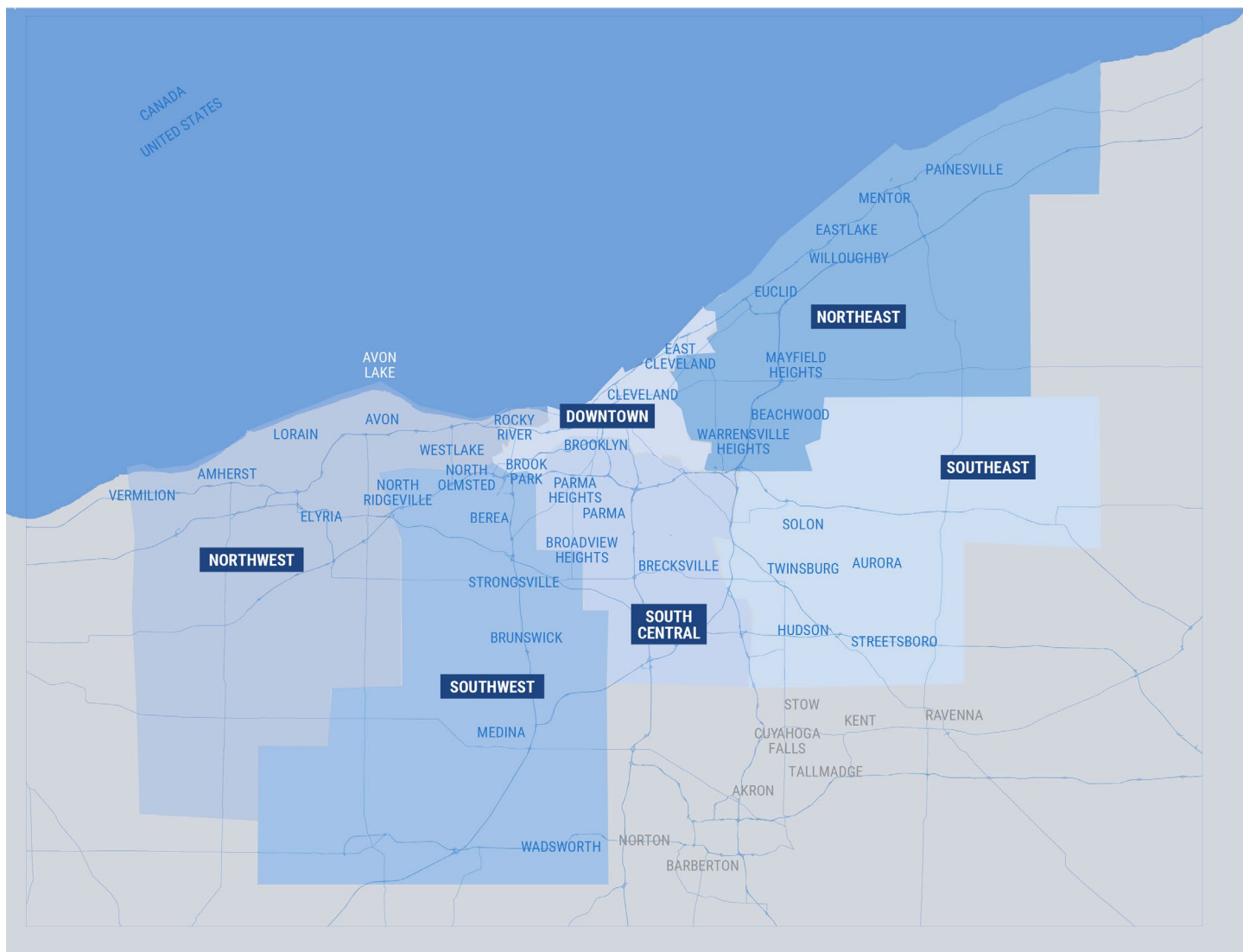
## EMPLOYMENT GROWTH BY INDUSTRY

### Cleveland-Elyria-Mentor, Jan. 2020\*, 12-Month % Change, Seasonally Adjusted



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

## CLEVELAND INDUSTRIAL SUBMARKETS



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