

CLEVELAND INDUSTRIAL MARKET

AMIDST CHAOS, INDUSTRIAL MARKET POSTS LOWEST-EVER VACANCY

The fourth quarter of 2020 saw the Greater Cleveland industrial market post positive absorption for the fourth quarter in a row, with a near-historic tally of positive 1,294,802 square feet. This was the third most absorption the industrial market has seen in the last 10 years. As a result, overall vacancy decreased by 30 basis points from the third quarter to 5.1%, which brought the market to its lowest vacancy percentage ever, or at least in the 20 years the market has been tracked. In fact, tenants and owner-users taking substantive amounts of space this year brought the final 2020 absorption number to net positive 1,754,133 square feet, a healthy increase from 2019's total of 747,892 square feet. The market remained healthy all year and showed no meaningful signs of crumbling under the specter of the coronavirus pandemic.

The market remains tight, though the average asking rental rate decreased in fourth-quarter 2020 to \$4.44/SF, down \$0.13/SF from the third quarter. Rental rates remained higher in the suburban submarkets, and the South Central submarket jumped to the highest position in the market despite notching a decrease from the previous quarter, dipping \$0.02/SF to \$5.35/SF. Last quarter's highest submarket in terms of average asking rental rate, the Northeast, took a steep drop by \$0.97/SF to \$4.92/SF. The Southeast submarket had the second-highest rental rate this past quarter at \$5.17/SF, up \$0.15/SF from the third quarter.

Despite being located just outside of the Cleveland market in the Akron-Canton Metro area, one of the Northeast Ohio industrial market's most newsworthy events of the quarter came in early December, with the Plymouth Industrial REIT purchase of a 10-building, 2.1-million-square-foot portfolio that spans three cities: Akron, Canton and Stow. The portfolio was purchased for approximately \$94 million, or roughly \$44/SF. The Summit and Stark County assets were 98.0% leased at the time of the sale to 15 tenants from a variety of industries, including transportation and logistics, healthcare, industrial manufacturing and food and beverage. The properties are located at: 3081 Gilchrist Road, Akron (129,931 square feet); 3111 Gilchrist Road, Akron (79,661 square feet); 3325 Gilchrist Road, Akron (188,846 square feet); 3375 Gilchrist Road, Akron (255,000 square feet); 3400 Gilchrist Road, Akron (335,521 square feet); 3425 Gilchrist Road, Akron (29,200 square feet); 4211 Shuffel Street, Northwest, Canton (255,000 square feet); 2100 International Parkway, Canton (274,464 square feet); 2210 International Parkway, Canton (350,000 square feet); and 1366 Commerce Drive, Stow (216,000 square feet).

CURRENT CONDITIONS

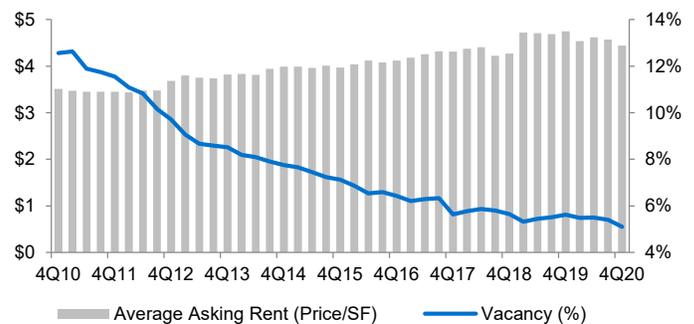
The overall vacancy rate dipped from the third to fourth quarter, showing continued resiliency and stability for this asset class during COVID-19.

Industrial vacancy has remained under 6.0% for the last 13 quarters, dating back to the fourth quarter of 2017. In fact, fourth quarter vacancy was the lowest it has ever been.

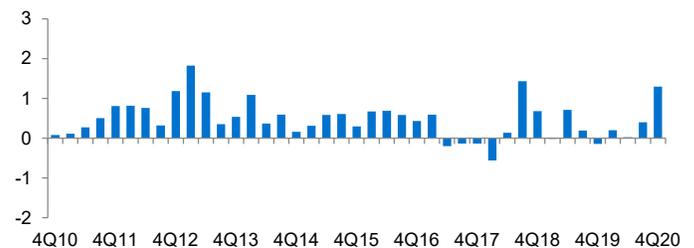
Sales were plentiful as owner-users and investors alike remain enamored with industrial properties.

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	286 MSF	286 MSF	↑
Vacancy Rate	5.1 %	5.4 %	5.6 %	↓
Quarterly Net Absorption	1,294,133	338,359	(142,591)	→
Average Asking Rent	\$4.44	\$4.57	\$4.75	→
Under Construction	1,152,166	1,202,462	1,706,150	→
Deliveries	335,296	170,527	0	→

The Southwest submarket was the second tightest in the Cleveland area, with a vacancy rate of 3.4%, down 40 basis points from the third quarter. This submarket posted 66,911 square feet of absorption in the fourth quarter. Unfortunately, this did not compensate enough to bring its year-end total into the positive, as the Southwest ended 2020 with negative 63,821 square feet of absorption. In addition, the Southwest had the third highest asking rental rate in the fourth quarter at \$5.15/SF and had the largest increase from last quarter at \$0.20/SF.

Making news in the Southwest was the 68,300-square-foot occupancy of furniture and home goods ecommerce company Wayfair at the newly completed spec building located at 14720 Foltz Industrial Parkway in Strongsville. Wayfair opened a distribution center at its space at this 179,578-square-foot facility that was developed by Scannell Properties; 111,191 square feet remains available for lease.

Staying in the Southwest, a couple notable sales took place in the fourth quarter, as the 39,656-square-foot warehouse located at 5375 Wegman Drive in Valley View transferred to ITR America LLC for \$2.4 million, or \$61/SF. Also of note in the Southwest was the transfer of the 100,301-square-foot warehouse located in Brunswick at 1120 West 130th Street. The property, built in 2000, sold for \$4.9 million, or \$49/SF to ID Images.

Southeast Submarket Paced the Market in 2020

The Southeast submarket was also amongst the tightest in the Cleveland area, with a vacancy rate of 3.7%, down 120 basis points from the third quarter. This was the largest tightening of any submarket this quarter. The Southeast posted 954,876 square feet of absorption in the fourth quarter, which led to a significant year-end total of 1,235,893 square feet of absorption.

Three of the quarter's most significant sales took place in the Southeast, led by the Amazon-occupied 43500 Victory Parkway in Glenwillow, which was by far the quarter's biggest sale. The 434,000-square-foot warehouse is a little over a year old and was leased by Amazon in second-quarter 2020. The company moved into the facility in the third quarter. An affiliate of global real estate investor Investcorp purchased the building as part of a \$280.0-million, 32-property portfolio transaction that spanned multiple Midwest cities. Within that deal, this property transferred for just over \$50 million, or \$115/SF.

Also in the Southeast, the 195,093-square-foot facility at 6800 Arnold Miller Parkway in Solon transferred as an investment to AIC Ventures for \$11.2 million, or \$57/SF. Heading south within the Southeast submarket, the 300,900-square-foot warehouse/distribution property at Twinsburg's 1793 Enterprise Parkway transferred in an owner/user sale to Russell Equipment Company, Inc. for \$9.85 million, or \$33/SF.

Staying in the Southeast, the 156,000-square-foot spec building on the former Mr. Coffee site at 24800 Miles Road in Bedford Heights finished construction and was occupied by Amazon in the fourth quarter. This occupancy, along with the Russell Equipment owner/user acquisition, as well as others, helped contribute to a banner quarter of positive absorption in the Southeast submarket.

Amazon also made news just up the road from Bedford Heights but in the Northeast submarket, as local developer Industrial Commercial Properties commenced construction on a 300,000-square-foot distribution center for the ecommerce juggernaut at 20801 Miles Road in North Randall. This new property will be directly adjacent to Amazon's 855,000-square-foot fulfillment center on the site of the former Randall Park Mall.

Also in the Northeast, office equipment and related services provider Lake Business Products made news as it announced the purchase of the 44,741-square-foot former Alloy Bellows property located at 653 Miner Road in Highland Heights, for just under \$2.6 million, or \$58/SF. The company plans to right-size its operations here after it sold its longtime 105,557-square-foot facility at 37200 Research Center Drive in Eastlake to an investor group with the name of CLE37200RESEARCH LLC for \$4.25 million, or \$40/SF. The Research Center Drive facility will be occupied by Bevcorp, which leased the property in a consolidation move from multiple Willoughby buildings.

Northeast vacancy increased 10 basis points from the previous quarter to 4.7%, after giving back 14,031 square feet in absorption in the fourth quarter, the only negative tally for a submarket. The Northeast gained 34,166 square feet for the year; 554,400 square feet of product is under construction here, the most of any submarket.

The Northwest submarket was relatively quiet in the fourth quarter, as there wasn't a major lease or sale of note. The average asking rental rate in this submarket was slightly higher than the overall industry average, coming in at \$4.56/SF, having increased by \$0.03/SF from third-quarter 2020. The Northwest performed steadily in the fourth quarter, as vacancy decreased in the area's tightest submarket by 20 basis points, to 2.6%, as a result of 41,800 square feet of positive absorption that added to its year-long total of 277,489 square feet.

The South Central submarket's vacancy rate decreased by 10 basis points from the third quarter to 6.6%, after recording 33,417 square feet in positive absorption. The South Central also notched the second most absorption of any submarket for the year with 461,580 square feet in the affirmative. As mentioned earlier, this submarket's asking average rental rate jumped to the highest position in the market at \$5.35/SF as a result of the large decrease in the Northeast's rate.

The Downtown submarket again had the lowest asking rental rate at \$3.14/SF, down \$0.07/SF from the previous quarter. Vacancy dipped 30 basis points to 7.5%, as the submarket posted 211,829 square feet of positive absorption in the fourth quarter. Amazon's fourth-quarter occupation of the 168,750-square-foot Weston spec building located at 10801 Madison Avenue helped the Downtown submarket's overall absorption for the quarter. Unfortunately, Downtown ended 2020 with a year's total of negative 191,174 square feet.

Another headline-grabber, though at a property that hasn't previously been tracked, was the GOJO Industries 700,000-square-foot lease at the I-X Center, located at 6200 Riverside Drive. Also getting notice was the announcement that the long-vacant 638,000-square-foot former Richman Brothers garment factory complex, located in an opportunity zone at 1600 East 55th Street, is on the market for redevelopment.

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	7.5 %	211,829	(191,174)	\$2.79	\$5.27	\$3.14
Northeast	57,547,626	554,400	4.7%	(14,031)	34,166	\$4.06	\$8.34	\$4.92
Northwest	22,872,782	302,531	2.6%	41,800	277,489	\$4.80	\$8.28	\$4.56
South Central	33,999,872	0	6.6%	33,417	461,580	\$4.69	\$6.81	\$5.35
Southeast	69,487,753	295,235	3.7%	954,876	1,235,893	\$4.66	\$6.36	\$5.17
Southwest	31,380,758	0	3.4%	66,911	(63,821)	\$5.05	\$5.60	\$5.15
Market Total	287,195,721	1,152,166	5.1%	1,294,802	1,754,133	\$4.01	\$6.85	\$4.44

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
GOJO Industries	6200 Riverside Dr.	Downtown	New	700,000
Delivery Force	17000 Rockside Rd.	Southeast	Sublease	60,000
Cleveland Whiskey	601 Stones Levee	Downtown	New	27,969
Intralot USA	13500 Darice Pkwy.	Southwest	Renewal	26,577
3 Barn Doors	1978 W. 3rd St.	Downtown	New	22,769

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
43500 Victory Pkwy.	Southeast	\$50,050,000	\$115.32	434,000
5375 Wegman Dr.	Southwest	\$2,400,000	\$60.52	39,656
653 Miner Rd.	Northeast	\$2,575,000	\$57.55	44,741
6800 Arnold Miller Pkwy.	Southeast	\$11,200,000	\$57.41	195,093
1120 W. 130 St.	Southwest	\$4,900,000	\$48.85	100,301
10-Building Portfolio: Summit & Stark Counties	Outside Market Area	\$94,000,000	\$44.47	2,113,623

ECONOMIC CONDITIONS

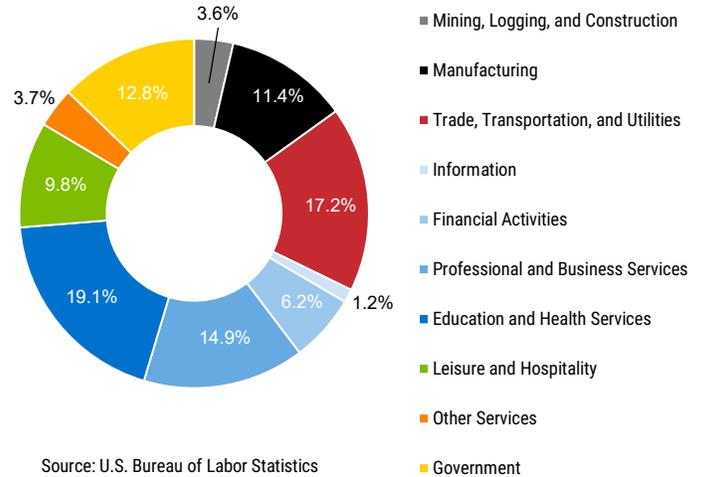
The Greater Cleveland economy lost more jobs in November 2020, as preliminary total nonfarm payroll employment contracted by 8.3% year-over-year. By contrast, the United States contracted by 6.0% year-over-year. The November numbers were an improvement from August, which saw Greater Cleveland payroll employment dip by 11.0% year-over-year and the United States as a whole fall by 6.9% year-over-year. The nation's unemployment rate stood at 6.7% in November, down from 8.4% in August.

Only one industry sector saw employment growth from November 2019 to November 2020: mining, logging and construction, at positive 6.5%.

All other sectors saw a drop in the past year due to the continued implications of COVID-19. The leisure and hospitality industry contracted the most, by negative 24.9%; followed by professional and business services at negative 11.1%; government at negative 7.2%; education and health services at negative 7.1%; other services at negative 6.5%; trade/transportation/utilities at negative 6.4%; the information sector at negative 6.1%; manufacturing at negative 4.6%; and financial activities at negative 4.0%.

EMPLOYMENT BY INDUSTRY

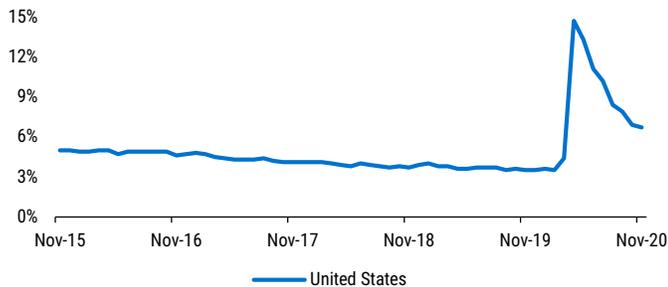
Cleveland-Elyria-Mentor



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

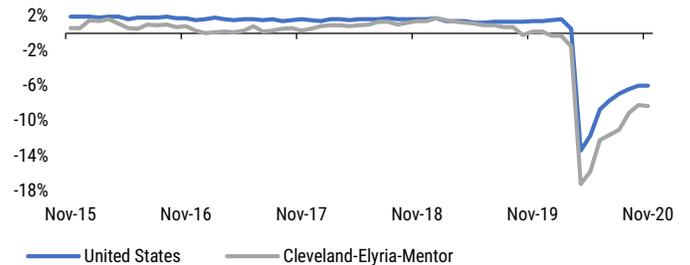
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

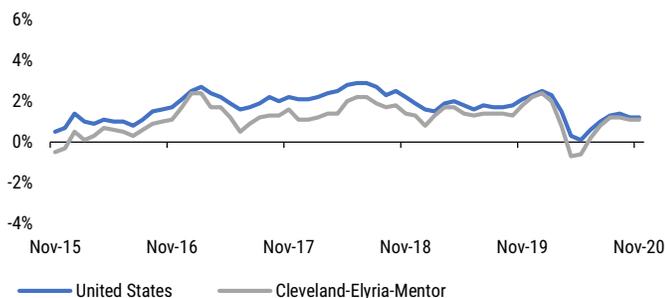
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

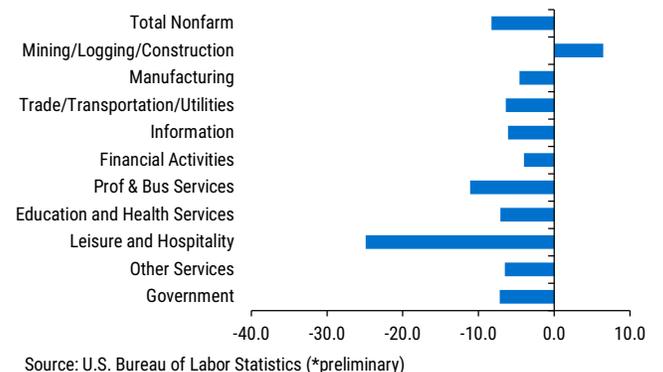
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Cleveland-Elyria-Mentor, November 2020*, 12-Month % Change, Seasonally Adjusted



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

