

Cleveland Industrial Market

Industrial Market Steady as Construction Accelerates

The Greater Cleveland industrial market continued to show signs of health and stability in the first quarter of 2021, as the market achieved a new low 4.5% vacancy rate in first-quarter 2021. This marked a decrease of 10 basis points from fourth-quarter 2020. The market held steady overall with 8,797 square feet of positive absorption in the first quarter, the result of a balance between large spaces that came online and similarly large lease occupations. The market has posted positive absorption for three consecutive quarters and for 16 of the last 21 quarters. In the past quarter, four of the six industrial submarkets posted positive absorption.

Construction Accelerates

As first-quarter 2021 concluded, over 2.9 million square feet of industrial product was under construction, the majority of which is slated to become speculative warehouses; 43.0% of the space was available for lease. The Downtown submarket was the only submarket where there was no construction activity. 2.3 million square feet of the product under construction is scheduled to deliver by the second and third quarters of 2021. With the market continuing to remain tight, more construction should commence in 2021, as an additional 1.3 million square feet is in the planning stage and projects amounting to several million additional square feet have been proposed in recent quarters.

Current Conditions

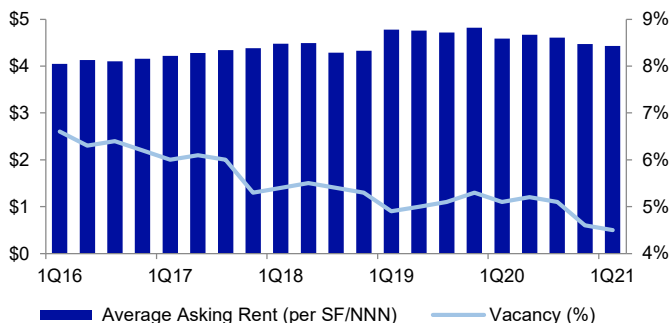
- Vacancy achieved a new low at 4.5% as the trend of a slow tightening over the last 10 years continued.
- Properties that were under construction accelerated as 2021 began, with many projects commencing.
- Four of the six industrial submarkets posted positive absorption.
- At over \$322/SF, the sale of the newly-built Amazon-leased warehouse at 24800 Miles Road in Bedford Heights became the Cleveland market's biggest sale in terms of price per square foot.

Market Summary

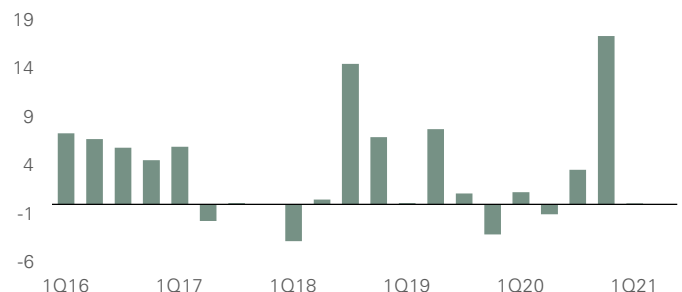
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	287M	287M	287M	↑
Vacancy Rate	4.5%	4.6%	5.1%	→
Quarterly Net Absorption (SF)	8,797	1,962,198	124,690	→
Average Asking Rent/SF	\$4.43	\$4.47	\$4.59	→
Under Construction (SF)	2,907,037	877,537	771,696	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, Hundred Thousands)



RESEARCH Q1 2021

Slight Dip in Overall Average Asking Rental Rate

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, kept the market stable, as predicted.

As vacancy held fairly steady, the average asking rental rate dipped slightly. First-quarter 2021 saw the average rental rate decrease by \$0.04/SF to \$4.43/SF, the lowest since fourth-quarter 2018's \$4.33/SF; however, since first-quarter 2016, the asking rental rate averaged exactly the same as the first quarter at \$4.43/SF, while the vacancy rate steadily dropped by 210 basis points over that period of five years and 21 quarters.

Ever-Relevant Southeast Saw Notable Transfers Despite a Subpar Statistical Quarter

The Southeast submarket, which has the most inventory of all the suburban industrial submarkets and second only to Downtown in the entire market, continued to show its prominence in the market as a result of its location and the favorable business communities within it. This was demonstrated mostly by significant building transfers in first-quarter 2021.

At over \$322/SF, the sale of the newly built Amazon-leased last-mile warehouse at 24800 Miles Road in Bedford Heights raised eyebrows as the largest sale in terms of price per square foot the Cleveland market has seen in recent history. Mirae Asset Global Investments, a Seoul-headquartered private equity firm, paid \$46.8 million for the 145,235-square-foot warehouse that Indianapolis-based Scannell Properties delivered in fourth-quarter 2020. Amazon moved into the facility in that same quarter. Despite being a market outlier, this sale represented the microtrend of desirability for Amazon-occupied properties.

In any other quarter, the \$26.0 million sale of 6531 Cochran Road would have been the top newsmaker. That is because the 210,000-square-foot cold storage facility transferred to Lineage Logistics for just under \$124/SF. The Michigan-based cold storage company bought the Solon building as part of a larger corporate deal that involved the purchase of the Great Lakes Cold Storage company and its workforce.

Vacancy in the Southeast increased by 10 basis points from fourth-quarter 2020 to 3.7%, paced by 201,041 square feet of negative absorption, the most of any submarket. This came as 584,000 square feet of new product was 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 third highest at \$5.16/SF, up \$0.02/SF from the previous quarter. One unfortunate piece of news came out of this submarket in the first quarter and was a major factor in its negative absorption: TTI Floor Care, the company behind the Hoover and Dirt Devil brands, closed its 458,000-square-foot

facility on 7005 Cochran Road in Glenwillow. That space came online as vacant sublease space that includes over 126,000 square feet of office.

Southwest Records Significant Leases and Sales

The Southwest submarket was the second tightest in the Cleveland area, with a vacancy rate of 3.0% that remained unchanged from the previous quarter, despite 5,481 square feet of positive absorption in the first quarter. It has the second-lowest inventory of all submarkets at 31.4 million square feet, but at the end of the first quarter had 545,500 square feet of construction that was underway. The Southwest's average asking rental rate was \$5.10/SF, down by \$0.15/SF from the previous quarter.

In this submarket, a 79,203-square-foot lease was signed by Woodpeckers, LLC at 14720 Foltz Industrial Parkway, a newly constructed speculative distribution facility in Strongsville. The company's lease makes it the largest occupant of the brand-new, 179,578-square-foot asset which delivered in fourth-quarter 2020 as the second of a pair of speculative industrial buildings developed by Scannell Properties at Mills Business Park. Up to approximately 32,000 square feet remains available for lease.

Also in the Southwest, a 125,500-square-foot, state-of-the-art speculative warehouse/distribution center that is under construction in Middleburg Heights became 92.0% pre-leased. The development project was initially announced in third-quarter 2020 with a 52,500-square-foot tenant, Forward Air. Shortly thereafter, construction commenced at the end of 2020. A second lease was signed in February of 2021 by Lasership® for 63,000 square feet. The \$9.0-million project, located at 19681 Commerce Parkway, is expected to deliver in second-quarter 2021. There is 10,000 square feet remaining for lease.

A notable sale-leaseback transfer took place in the Southwest in the first quarter, as a portfolio of three buildings totaling 774,328 square feet and occupied by Shiloh Industries in Valley City's Liverpool Industrial Park transferred to Dallas-based Spirit Realty Capital Inc. from MiddleGround Capital, a private equity firm that acquired majority ownership of Shiloh in December 2020. The combined 509,000-square-foot 5580 Wegman Drive and 5569 Innovation Drive sold for \$25.9 million, or \$51/SF, and the 265,328-square-foot 880 Steel Drive sold for \$12.6 million, or \$48/SF.

Northwest Submarket Had Tightest Vacancy

The Northwest had the second-lowest average asking rental rate of all submarkets at \$4.49/SF, representing a \$0.07/SF decrease from fourth-quarter 2020. Vacancy decreased by 50 basis points to 2.2%, the tightest in the market, while 88,391 square feet was positively absorbed, the second most for any submarket this past quarter.

RESEARCH Q1 2021

New product totaling 302,531 square feet is under construction in the Northwest, which has the least amount of inventory in the market at approximately 22.8 million square feet.

The Northwest was home to two significant sales from the past quarter, as the 62,504-square-foot 801 Canterbury Road (26235 First Street) transferred from Solon-based Industrial Commercial Properties to Roger D. Miles Trust, an investor group based in San Francisco, for \$5.7 million, or \$91/SF.

As the quarter ended, the Northwest also saw the 100,186-square-foot 31000 Viking Parkway transfer to Plymouth 31000 Viking Parkway OH LLC for \$7.7 million, or \$76.86/SF.

Northeast and South Central Lead Construction

The Northeast led all submarkets in the first quarter with 239,438 square feet in positive absorption. This prompted the submarket's vacancy to decrease 40 basis points from the prior quarter to 4.1%. The submarket's rental rate increased by \$0.08/SF to \$5.04/SF. The Northeast had the second-largest amount of construction activity in the first quarter, with 725,006 square feet of product being built, to add to its 57.6 million square feet of inventory. Most of the construction activity is accounted for by an ICP-developed 300,000-square-foot speculative warehouse on Miles Road on the former Randall Park Mall site adjacent to the 855,000-square foot Amazon fulfillment center that was constructed two years ago and a Scannell Properties-developed 145,000-square-foot speculative warehouse on the 24000 block of Aurora Road in Bedford Heights.

The South Central submarket was in the middle of the pack, with

an average rental rate of \$5.13/SF, down by \$0.44/SF. The submarket's vacancy rate rose to 6.3%, a market-leading increase of 100 basis points from the previous quarter and tied for the highest vacancy in the market with the Downtown submarket. The South Central also gave back the second most amount of space of all submarkets, with 186,023 square feet in negative absorption.

A notable transaction in the South Central was a 58,000-square-foot new lease by Mpac Switchback at a former Walmart located at 5638-5744 Transportation Boulevard in an ICP-redeveloped former retail center now being marketed as Highland Park. Another piece of news from this submarket was the announcement of Best Buy emerging as the potential tenant for the 750,000-square-foot distribution center that Indiana-based Becknell Industrial is developing in Richfield Township. This facility is the largest that is currently under construction in the market and gave the South Central submarket the most product that was under construction as the first quarter ended.

The Downtown submarket, which has the most inventory of any submarket, with 71.3 million square feet, continued to have the area's lowest asking rental rate, which was \$3.24/SF, up \$0.09/SF from the previous quarter. The submarket's vacancy was tied for the highest in the market, despite a decrease of 40 basis points over the past quarter to 6.3%. This was precipitated by 62,551 square feet of positive absorption. A notable transaction in this submarket was the first quarter's most significant lease, a renewal by Gateway Warehouses of 96,132 square feet at 799 East 73rd Street.

Select Lease/User Transactions

Tenant	Building/Address	Submarket	Type	Square Feet
Gateway Warehouses	799 E. 73rd St.	Downtown	Renewal	96,132
Woodpeckers, LLC	14720 Foltz Industrial Pkwy.	Southwest	New	79,203
Lasership®	19681 Commerce Pkwy.	Southwest	New	63,000
Delivery Force	17000 Rockside Rd.	Southeast	Sublease	60,000
Mpac Switchback	5638-5744 Transportation Blvd.	South Central	New	58,000

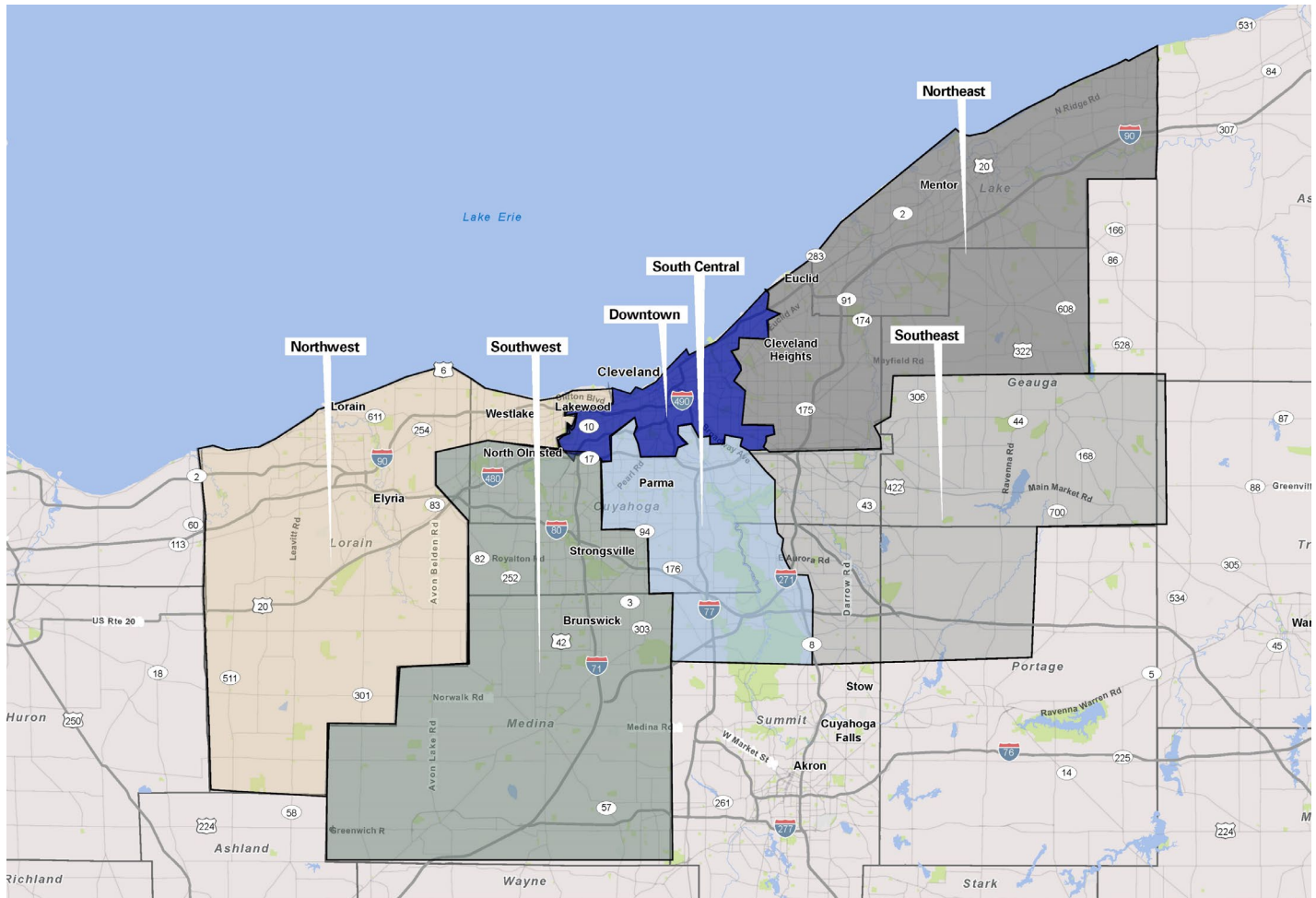
Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
24800 Miles Rd.	Southeast	\$46,800,000	\$322.24	145,235
6531 Cochran Rd.	Southeast	\$26,000,000	\$123.81	210,000
801 Canterbury Rd. (26235 First St.)	Northwest	\$5,700,000	\$91.19	62,504
31000 Viking Pkwy.	Northwest	\$7,700,000	\$76.86	100,186
5580 Wegman Dr. & 5569 Innovation Dr.	Southwest	\$25,939,244	\$50.96	509,000
880 Steel Dr.	Southwest	\$12,616,341	\$47.55	265,328

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Quarter 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	71,329,396	0	6.3%	62,551	62,551	\$2.87	\$4.48	\$3.24
Northeast	57,666,884	725,006	4.1%	239,438	239,438	\$4.06	\$8.76	\$5.04
Northwest	22,887,227	302,531	2.2%	88,391	88,391	\$3.93	\$8.50	\$4.49
South Central	34,966,598	750,000	6.3%	(186,023)	(186,023)	\$4.09	\$6.94	\$5.13
Southeast	69,328,156	584,000	3.7%	(201,041)	(201,041)	\$4.61	\$6.21	\$5.16
Southwest	31,365,777	545,500	3.0%	5,481	5,481	\$5.48	\$5.66	\$5.10
Market Total	287,544,038	2,907,037	4.5%	8,797	8,797	\$3.95	\$6.80	\$4.43

Cleveland Industrial Submarkets



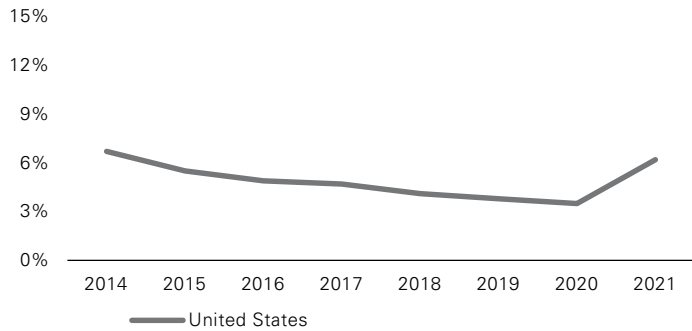
Economic Conditions

The Greater Cleveland economy lost a significant number of jobs early in first-quarter 2021, as total payroll employment declined in January by 7.5% year over year. The national total payroll employment number was also down, by 6.1% year over year.

Only one industry sector saw employment growth from January 2020 to January 2021: financial activities, at positive 0.8%. All other sectors saw a drop in the past year. The leisure and hospitality industry contracted the most, by negative 18.6%; followed by other services at negative 15.2%; manufacturing at negative 9.7%; the information sector at negative 7.6%; professional and business services at negative 7.5%; government at negative 7.1%; education and health services at negative 6.4%; trade/transportation/utilities at negative 3.7%; and mining/logging/construction at negative 2.5%.

Unemployment Rate

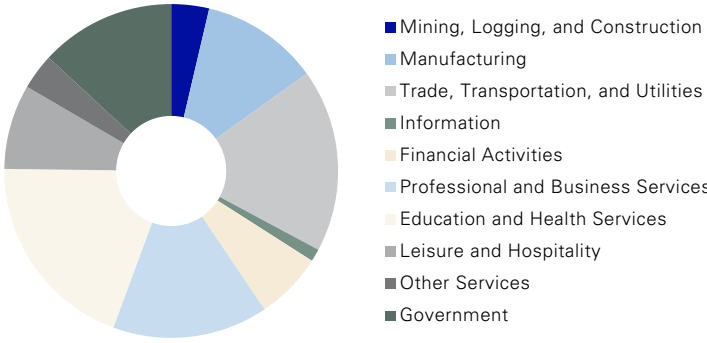
SEASONALLY ADJUSTED



Source: Source: U.S. Bureau of Labor Statistics

Employment By Industry

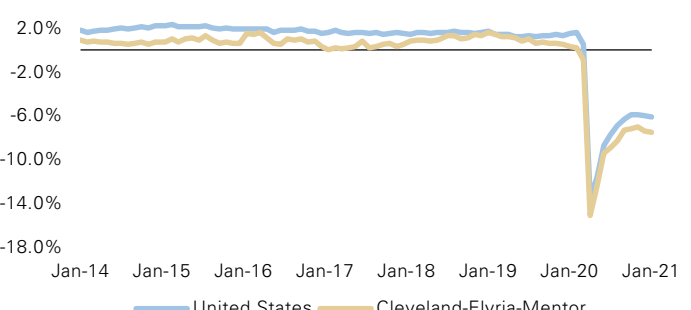
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

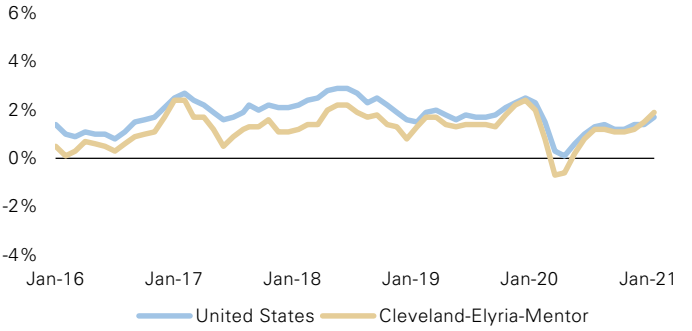
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

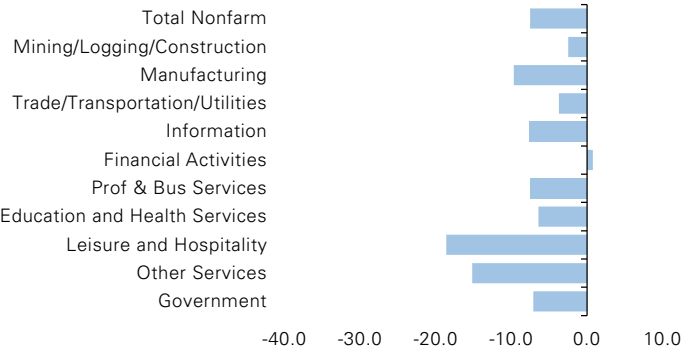
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

CLEVELAND-ELYRIA-MENTOR, JANUARY 2021, 12-MONTH % CHANGE, SEASONALLY ADJUSTED



Source: Source: U.S. Bureau of Labor Statistics

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