

Cleveland Industrial Market

Construction at All-Time High; Mostly Older Properties Give Back Space; Class A Warehouse/Distribution Sector Remains Strong

The Greater Cleveland industrial market took a small step back in the second quarter of 2021 as the market's vacancy rate crept up to 4.9%, an increase of 30 basis points. The market's vacancy rate has stayed under 5.0% for three consecutive quarters. In all, vacancy has been below 5.0% for four total quarters in the last 20 years. Property sales were solid, but lease demand this past quarter was lukewarm, as lease occupations didn't outweigh the loss of space, with 814,115 square feet of negative absorption. A major factor was an increase in lower class vacant owner/user sales that came to market, as well as older buildings that gave up space. The negative absorption is likely a short-term setback, as interest in industrial assets remains high, especially for the Class A warehouse/distribution sector of the market, which was solid this past quarter and remains very strong at a 3.8% vacancy rate.

Construction Accelerates

As second-quarter 2021 concluded, over 4.03 million square feet of industrial product was under construction, the most square feet being built in the market's history. 3.15 million square feet is slated to become Class A speculative warehouses. Most of the product under construction is scheduled to deliver by the third and fourth quarters of 2021. As the quarter ended, 61.5% of the under-construction product was available for lease. An additional 2.3 million square feet is in the planning stage.

Current Conditions

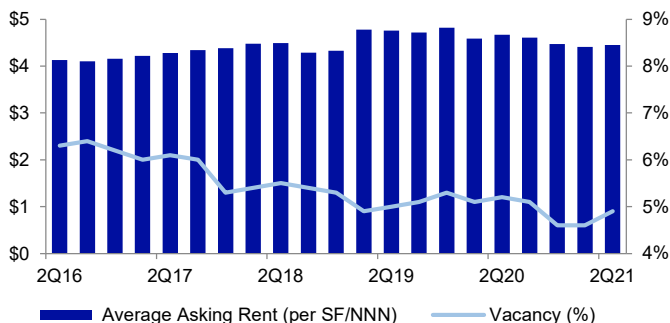
- Vacancy rose to 4.9%, though it stayed under 5.0% for the third consecutive quarter.
- Property construction rose to over 4 million square feet, the most square feet being built in at least 20 years.
- Five of the six industrial submarkets posted negative absorption. The majority of the negative absorption was driven by older buildings.
- The sale of the newly-built Amazon-leased facility at 10801 Madison Avenue in Cleveland was one of the industrial market's biggest sales this year in terms of price per square foot.
- Class A warehouse/distribution rents were up and vacancy for this strong-performing product at 3.8% was over a percent lower than the market average.

Market Summary

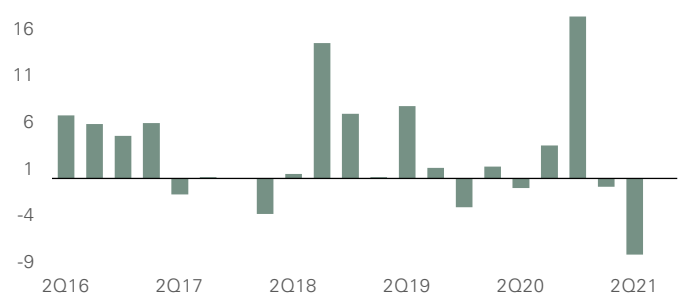
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	288M	287M	287M	↑
Vacancy Rate	4.9%	4.6%	5.2%	→
Quarterly Net Absorption (SF)	(814,115)	(90,482)	(103,738)	→
Average Asking Rent/SF	\$4.45	\$4.41	\$4.67	→
Under Construction (SF)	4.03M	2.91M	595,296	↑
Deliveries (SF)	150,000	0	375,400	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, Hundred Thousands)



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Warehouses Pace Uptick in Overall Average Asking Rental Rate

Along with vacancy increasing slightly, the average asking rental rate increased, as well. Second-quarter 2021 saw the average rental rate increase by \$0.04/SF to \$4.45/SF. The warehouse/distribution sector of the market helped pace this increase, as its overall average asking rental rate increased by \$0.26/SF to \$4.22/SF. In fact, the Class A warehouse/distribution asking rental rate ended the second quarter at \$5.72/SF, up \$0.07/SF from the previous quarter. Class A warehouse/distribution facilities are defined as being at least 100,000 square feet, have a 24-foot minimum interior ceiling height and were constructed since 2000. These properties are currently the most desirable industrial product and at just under 17 million square feet make up approximately 5.8% of the overall market.

Southeast Rebounds After Subpar First Quarter

Vacancy in the Southeast increased by 10 basis points from first-quarter 2021 to 3.8%, despite posting 60,456 square feet of positive absorption, the discrepancy a result of some inventory being added to the submarket. Roughly 1.2 million square feet of new product was under construction in this submarket, which also has the market's second most inventory at more than 69.6 million square feet. The Southeast is also home to the most Class A warehouse space in the market with 9.4 million square feet that carried a 0.8% vacancy rate as the quarter ended.

The Southeast's average asking rental rate was \$5.20/SF, the second highest in the market and up \$0.05/SF from the previous quarter. A notable sale in the Southeast was the transfer of the 68,400-square-foot 28999 Aurora Road in Solon to 28999 Aurora Road, LLC for \$2.2 million, or \$32.16/SF.

Two leases that came out of this submarket in the second quarter were the lease of 39,155 square feet by a confidential tenant of the freestanding warehouse portion of the 16490 Chillicothe campus in Chagrin Falls, as well as a confidential 35,066-square-foot lease extension at 1755 Enterprise Parkway in Twinsburg.

Southwest Underperforms but Had Notable News

The Southwest submarket finished the second quarter with a vacancy rate of 4.3%, which was up 110 basis points from the previous quarter. It led the suburban submarkets with the most space given up, tallying 368,373 square feet of negative absorption. The Southwest has the second-lowest amount of inventory of all submarkets at 31.4 million square feet but had the second-most construction underway at 1.16 million square feet as the quarter ended. The Southwest's average asking rental rate was \$5.00/SF, down by \$0.03/SF from the previous quarter, but higher than the overall market average.

In this submarket, a 161,984-square-foot lease expansion was signed at 12930 Darice Parkway, as well as a 31,987-square-foot

new lease signed by TricorBraun Inc. at 14750 Foltz Industrial Parkway, both in Strongsville.

However, several sales within this submarket are what made it stand out in the second quarter. While not near the top in terms of price per square foot, one of the most newsworthy transfers of the past quarter was the purchase of the former Ford Motor Company engine plant at 18300 Snow Road in Brook Park by a joint venture of developers Weston Inc., Scannell Properties and the DiGeronimo Companies. The 1.7 million-square-foot property on 195 acres sold for \$31.5 million, or \$18.53/SF. The new owners expect to begin demolition and renovations in the fall. Their ultimate plans will depend upon tenant interest and the ability to acquire financial incentives but will likely include new speculative warehouses. This same developer group has also shown an interest in Ford's shuttered 2.1 million-square-foot stamping plant in Walton Hills, in the South Central submarket.

Also in the Southwest, the 82,720-square-foot, two-building, multi-tenant flex/warehouse complex located at 19695 and 19987 Commerce Parkway in Middleburg Heights traded to Omega Industrial Real Estate LLC, of California, for \$7.38 million, or \$89.16/SF. Other prominent sales that took place in this submarket in the second quarter were: Brunswick's 50,289-square-foot 945 North Industrial Parkway, which sold for \$5.65 million, or \$112/SF to 36 MacArthur LLC and Trason; and the 39,320-square-foot Parma facility located at 12985 Snow Road sold for \$1.94 million, or \$49/SF to the Prince & Izant Company.

The South Central led all submarkets with an average asking rental rate of \$5.57/SF, up by \$0.45/SF, the past quarter's biggest jump. This increase was paced by the submarket's warehouse/distribution rental rate, which increased by \$0.84/SF to \$4.93/SF. The South Central's vacancy rate rose, however, to 6.4%, an increase of 10 basis points from the previous quarter. This was the second-highest vacancy in the market behind the Downtown submarket. The South Central also gave back the third most amount of space of all submarkets, with 48,182 square feet in negative absorption.

A notable transaction in the South Central was a 62,652-square-foot new lease by sister companies Innoplast and Thermoprene at a former Garfield Heights Dick's Sporting Goods/AJWright located at 5638-5744 Transportation Boulevard in the Industrial Commercial Properties-redeveloped former City View Center now being marketed as Highland Park. The companies are relocating in the second half of 2021 from Auburn Township in the Southeast submarket.

Other news from the South Central was the \$6.9-million sale of 6001 Towpath Drive in Valley View. The 127,930-square-foot warehouse, occupied by Event Source, transferred for \$53.94/SF to private equity real estate investment firm Bellevue Street Capital.

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Also in the South Central, the 55,128-square-foot flex building located at 8001 Sweet Valley Drive sold for \$3.05 million, or \$55.33/SF to an investor group named CLE8001SWEET LLC.

The Northwest had the second-lowest average asking rental rate of all submarkets at \$4.46/SF, representing a \$0.03/SF decrease from first-quarter 2021. Vacancy held steady at 2.2%, the tightest in the market, while 11,030 square feet was negatively absorbed.

New product totaling 199,000 square feet is under construction in the Northwest, which has the least amount of inventory in the market at approximately 22.9 million square feet.

Also in the Northwest, decorative lighting fixture and ceiling fan distributor Hinkley broke ground in June on a 130,000-square-foot building expansion to its 243,000-square-foot facility at 33000 Pin Oak Parkway in Avon Lake, with an expected completion in first-quarter 2022.

The Northeast accrued 33,032 square feet in negative absorption in the second quarter. This prompted the submarket's vacancy to increase 10 basis points from the prior quarter to 4.0%. The submarket's average asking rental rate decreased by \$0.08/SF to \$4.95/SF. The Northeast had 725,006 square feet of product being built as of the end of the second quarter, to add to its 57.85 million square feet of inventory. Year-to-date, the Northeast has the most absorption of any submarket at 290,282 square feet.

Of note in the Northeast was the sale of 37200 Research Drive in Eastlake to Royal Oak Realty Trust of Rochester, New York. The

real estate investment trust, or REIT, purchased the fully leased 105,557-square-foot building for \$6.0 million, or \$56.84/SF. Bevcorp LLC occupies the facility.

Industrial Commercial Properties also made news in the Northeast, as it acquired a 115,308-square-foot industrial/office facility located at 23550 Commerce Park Road in Beachwood for \$2.7 million, or \$23.42/SF. The active Northeast Ohio-based developer purchased the northern part of the building from the City of Beachwood and will refurbish it to appeal to prospective tenants. The city retained the 147,000-square-foot southern portion of the building for its service department.

Downtown Submarket Gives up Space but Makes News, Including Largest Sale

The Downtown submarket once again had the area's lowest asking rental rate at \$3.25/SF, up \$0.01/SF from the previous quarter. The submarket's vacancy was highest in the market, which increased by 50 basis points over the past quarter to 7.1%. This was precipitated by 413,954 square feet of negative absorption, the most of any submarket in the second quarter.

The quarter's biggest transaction took place in the Downtown submarket, as the Amazon-occupied last-mile facility at 10801 Madison Avenue in Cleveland transferred to an affiliate of global financial services firm Cantor Fitzgerald known as 10801 Madison Avenue Owner LLC. The 168,750-square-foot property transferred for \$30.8 million, or \$182.52/SF, making it one of the top Cleveland-area commercial sales of the year thus far.

Select Lease/User Transactions

Tenant	Building/Address	Submarket	Type	Square Feet
Confidential Tenant	12930 Darice Pkwy.	Southwest	Expansion	161,984
Innoplast and Thermoprene	5638-5744 Transportation Blvd.	South Central	New	62,652
Confidential Tenant	16490 Chillicothe	Southeast	New	39,155
Confidential Tenant	1755 Enterprise Pkwy.	Southeast	Extension	35,066
TricorBraun Inc.	14750 Foltz Industrial Pkwy.	Southwest	New	31,987

Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
10801 Madison Ave.	Downtown	\$30,800,000	\$182.52	168,750
945 N. Industrial Pkwy.	Southwest	\$5,650,000	\$112.35	50,289
19695 & 19987 Commerce Pkwy.	Southwest	\$7,375,000	\$89.16	82,720
37200 Research Dr.	Northeast	\$6,000,000	\$56.84	105,557
6001 Towpath Dr.	South Central	\$6,900,000	\$53.94	127,930
18300 Snow Rd. (former Ford Motor Co. plant)	Southwest	\$31,500,000	\$18.53	1,700,000

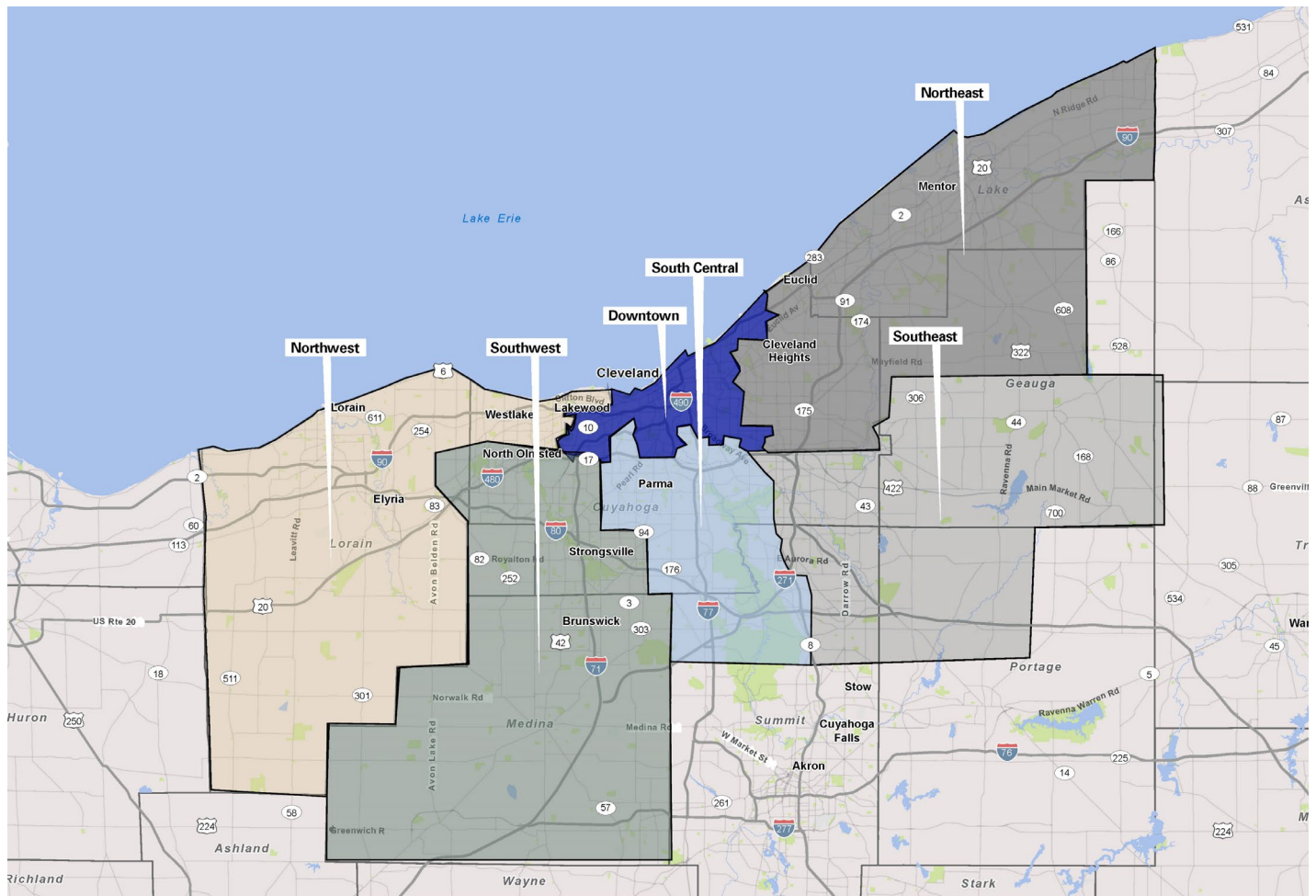
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Also in the Downtown submarket, as the first quarter transitioned into the second, local developer MRN Ltd. purchased the 240,044-square-foot former Voss Industries complex in Ohio City. The company paid \$7.5 million, or \$31.24/SF, and intends to redevelop the buildings and 4.3-acre site into a mixed-use project that includes apartments, offices and retail space.

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	7.1%	(413,954)	(531,403)	\$2.99	\$4.47	\$3.25
Northeast	57,855,884	725,006	4.0%	(33,032)	290,282	\$4.54	\$7.82	\$4.95
Northwest	22,887,227	199,000	2.2%	(11,030)	77,361	\$4.71	\$7.74	\$4.46
South Central	34,966,598	750,000	6.4%	(48,182)	(211,725)	\$4.93	\$6.99	\$5.57
Southeast	69,651,484	1,197,944	3.8%	60,456	(124,425)	\$4.66	\$6.35	\$5.20
Southwest	31,365,777	1,155,580	4.3%	(368,373)	(404,687)	\$5.58	\$6.13	\$5.00
Market Total	288,056,366	4,027,530	4.9%	(814,115)	(904,597)	\$4.22	\$6.59	\$4.45

Cleveland Industrial Submarkets



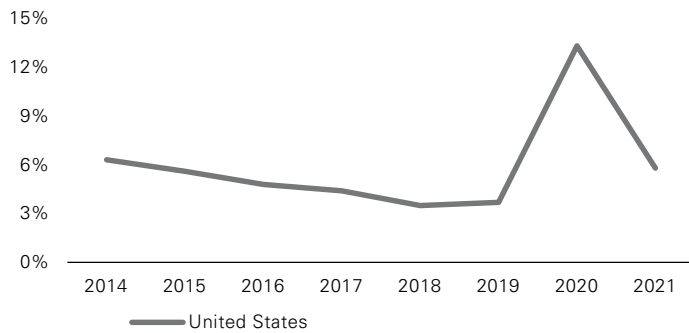
Economic Conditions

The Greater Cleveland economy gained back a number of jobs in second-quarter 2021, as total payroll employment increased in May by 6.2% year over year. The national total payroll employment number was also up, by 9.0% year over year.

Only one industry sector saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics from May 2020 to May 2021: government, at negative 0.5%. All other sectors saw an increase from the past year. The leisure and hospitality industry gained the most, by 43.0%; followed by other services at 14.6%; the information sector at 7.0%; mining/logging/construction at 6.9%; professional and business services at 6.0%; trade/transportation/utilities at 4.3%; financial activities at 3.9%; education and health services at 3.4%; and manufacturing at 0.5%.

Unemployment Rate

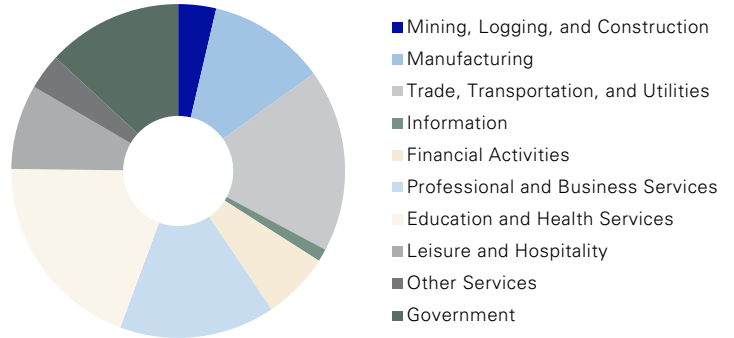
SEASONALLY ADJUSTED



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

Employment By Industry

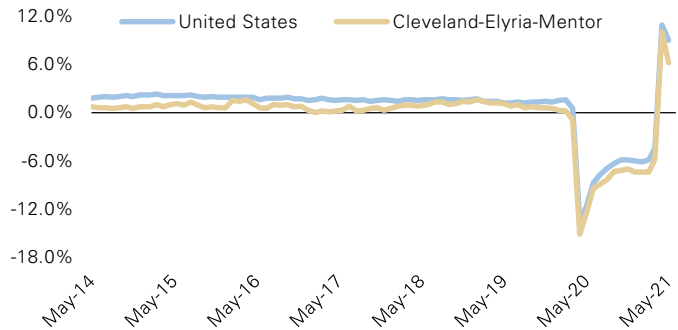
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

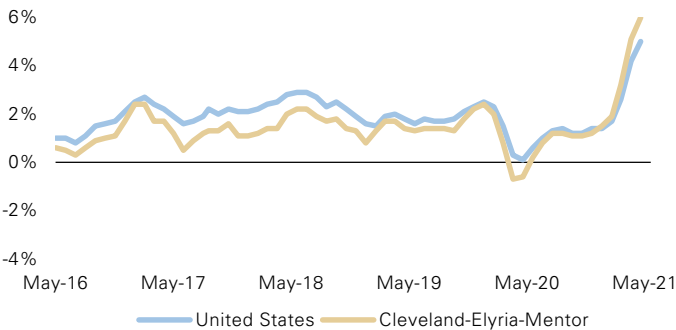
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Consumer Price Index (CPI)

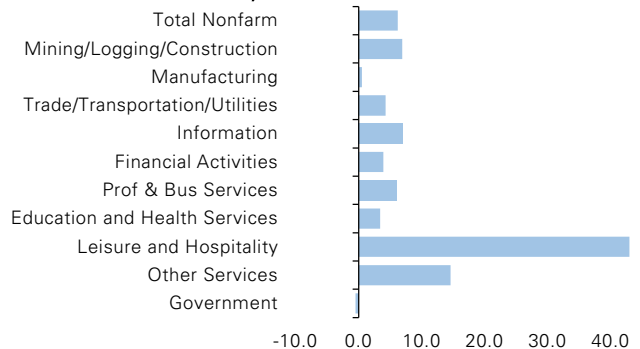
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



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

Employment Growth By Industry

CLEVELAND-ELYRIA-MENTOR, MAY 2021 (preliminary), 12-MONTH % CHANGE, SEASONALLY ADJUSTED



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

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