

CLEVELAND INDUSTRIAL MARKET

INDUSTRIAL MARKET SHOWS RESILIENCY THROUGH ADVERSITY

The third quarter of 2020 saw the Greater Cleveland industrial market absorb 396,843 square feet, bringing year-to-date net absorption to positive 517,815 square feet and giving the industrial market eight of the last ten quarters of positive absorption. Despite the specter of the pandemic for two-plus quarters, the industrial market has shown resiliency and stability.

Overall vacancy stood below 6.0% for the 12th consecutive quarter and remained essentially flat at 5.4%, contracting by 10 basis points from the second quarter.

The third quarter also did not witness much of a shift in the overall average asking rental rate, which at \$4.57/SF was down \$0.05/SF from the prior quarter but above \$4.50/SF for the seventh straight quarter. The overall asking rental rate for the warehouse/distribution segment of the market fell by \$0.12/SF from last quarter to \$4.41/SF. The R&D segment's asking rental rate also dipped similarly, by \$0.13/SF to \$6.80/SF.

As of the end of the third quarter, 1.2 million square feet was under construction, most of which is scheduled to deliver between the fourth quarter of 2020 and second-quarter 2021. The pandemic hasn't curbed the planning of new spec facilities, many of which likely came about in the hopes of becoming distribution centers for ecommerce and other businesses that fulfill online orders. Nearly 1.6 million square feet of new industrial product has been delivered thus far in 2020.

The Southeast recorded the most absorption of any submarket, with 368,243 square feet of positive quarterly absorption. Its vacancy decreased by 50 basis points from the second quarter to 4.9% as a result. 295,235 square feet of new product was under construction in the Southeast as the quarter ended, with another 1.5 million square feet that remained in either the proposed or planned stages.

Amongst the proposed and planned facilities in the Southeast is a 434,000-square-foot warehouse/distribution center at 10242 State Route 43 in Streetsboro. This reported \$10.0-million project was announced as a joint venture between Streetsboro-based Geis Companies and Westminster Capital, a Chicago-based real estate investor as the third quarter ended. The property will kick off a planned development on an 85.42-acre site known as Gateway Commerce Center and is expected to deliver in second-quarter 2021.

Also in the Southeast, Amazon is expected to begin operations in two locations by the end of the year, one in Bedford Heights and one in Glenwillow, along with another new facility in the Downtown submarket.

CURRENT CONDITIONS

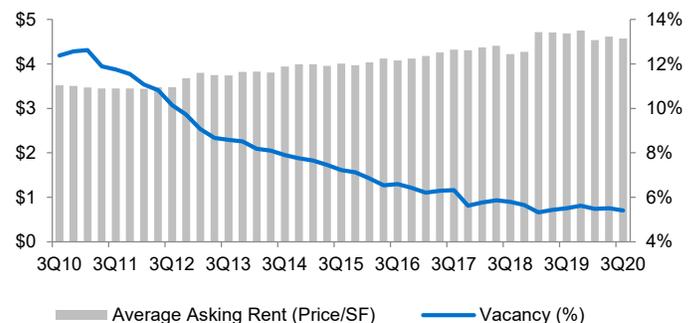
The overall vacancy rate dipped from the second to third quarter, showing resiliency and stability during the second wave of COVID-19.

Industrial vacancy has remained under 6.0% for the last 12 quarters, dating back to the fourth quarter of 2017.

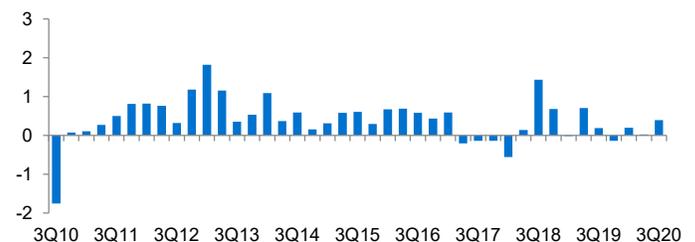
Property leasing, as well as sale transfers, came at a steady clip during the third quarter, as continued demand for e-commerce, third-party logistics and distribution made industrial one of the strongest performing assets.

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	287 MSF	↑
Vacancy Rate	5.4 %	5.5 %	5.5%	→
Quarterly Net Absorption	396,843	23,036	190,364	→
Average Asking Rent	\$4.57	\$4.62	\$4.69	↑
Under Construction	1,202,462	844,058	1,744,925	→
Deliveries	170,527	375,400	434,000	→

Three of the quarter's top five leases took place in the Southeast, with Lowe's generating the most buzz of them all as the company signed a key 180,000-square-foot lease at Cornerstone Business Park's 8601 Independence Parkway in Twinsburg. This lease brought the park's most recently delivered speculative distribution center to full occupancy. Scannell Properties will be adding a final 279,000-square-foot speculative building on the 17 highly visible acres located at the northwest corner of the park. This final spec building will bring the park's phased development to a close.

Breaking as the quarter ended was the sale of the aforementioned 8601 Independence Parkway, by far the third quarter's top transfer. The 276,000-square-foot facility sold to STAG Industrial Properties from Twinsburg Industrial Properties VI LLC, an affiliate of Scannell Properties, and principals of DiGeronimo Companies for \$27.8 million, or \$101/SF.

Another significant lease in the Southeast was Stride Tool's 120,000-square-foot extension at 30333 Emerald Valley Parkway in Glenwillow. Also in the Southeast, Cosmax signed a new 100,410-square-foot lease at 1261 Highland Road in Macedonia. The company intends to occupy the space in fourth-quarter 2020.

An \$11.35-million sale occurred in the third quarter that featured a Northeast Ohio-based, nationally known buyer in the Southeast submarket. The buyer, GOJO, manufacturer of skin, hand health and hygiene products, including hand sanitizer, closed on its purchase of the 320,703-square-foot warehouse/distribution facility located at 5700 Lee Road South in Maple Heights. GOJO stated that it intends to manufacture PURELL® Surface Spray at the Maple Heights facility.

In the Downtown submarket, vacancy jumped 30 basis points to 7.8% from last quarter and continued to be the highest of all submarkets. Downtown also had the most negative absorption, as 197,083 square feet of space was returned. For the year thus far, this submarket has given back the most space, at negative 403,003 square feet.

News coming out of the Downtown submarket was the transfer of 5501 Cass Avenue to Carnegie Management & Development Corporation from HKM Direct Market Communications Inc., the longtime owner and occupier of the building. Carnegie purchased the 85,0000-square-foot building on 4.7 acres in August for an undisclosed price and intends to redevelop the property into a mixed-use asset, though no formal plans have been released.

The Northeast submarket's vacancy rate dropped slightly, by 20 basis points from the previous quarter, to 4.7%, as a result of 142,742 square feet of positive absorption. The Northeast led all industrial submarkets as the third quarter ended, with 425,400 square feet of space under construction. In this submarket, Mentor-based Buyers Products began a 280,000-square-foot expansion to the 250,000-square-foot facility at its 9049 Tyler Boulevard location. Heading southwest within the Northeast submarket, Industrial Commercial Properties began the development of a 300,000-square-foot speculative distribution center within walking distance of Amazon's 855,000-square-foot North Randall facility that was built in 2018. This project should deliver in late 2021.

The South Central submarket had the highest vacancy rate of any suburban submarket, despite dropping 40 basis points to 6.7%. It had a good amount of absorption at 140,382 square feet and has absorbed the most space, with 443,297 square feet through three quarters.

The Southwest tied the Northwest with the lowest vacancy of all the submarkets at 2.8%, an increase of 20 basis points from last quarter. This was a result of 77,062 square feet of negative absorption. This submarket is the future home of a spec warehouse on Commerce Parkway in Middleburg Heights. This 125,500-square-foot building will be located on 14.1 acres; 73,000 square feet remains available for lease. This facility will feature a 32-foot clear ceiling, ESFR sprinklers, 50-foot by 50-foot column spacing, high bay LED lighting and other features befitting of a big-box distribution warehouse.

Beyond the 179,296 square feet that was under construction in the Southwest as of the end of the third quarter, another nearly 640,000 square feet of space is either planned or proposed.

Several significant sales occurred in the Southwest in the third quarter, led by a three-building portfolio that Cleveland-area real estate company Weston scooped up in an off-market deal. The 96,000-square-foot 18401 Sheldon Road, located in Middleburg Heights, was purchased for \$6.3 million, or \$66/SF, while the Brook Park combo located at 21000-21500 Aerospace Parkway sold for \$12.6 million, or \$44/SF. These two buildings total 285,000 square feet.

Also in the Southwest, the two-building flex industrial portfolio located at 21337 and 21339 Drake Road in Strongsville transferred to Med Restoration LLC for \$1.5 million, or \$46/SF. Staying in Strongsville, the 243,188-square-foot 11792 Alameda Drive sold to Pipeline Development Co., also known as PLIDCO, for \$8.0 million, or \$33/SF.

The Northwest submarket's vacancy also ended the third quarter as the market's lowest, at 2.8%. It had 19,621 square feet of absorption in the third quarter, while absorption for the year stood at 235,689 square feet. As the quarter ended, this submarket had the second most space under construction with 302,531 square feet.

The Downtown submarket saw its rental rate decrease to \$3.07/SF by \$0.06/SF from second-quarter 2020, yet the suburban submarkets continued to command higher rates. The Northeast submarket once again had the highest average asking rental rate of the suburban submarkets, increasing by \$0.07/SF from last quarter to \$5.88/SF. The South Central's rental rate increased by \$0.15/SF to \$5.37/SF to come in second highest. The Southeast stood in the middle of the pack at \$5.02/SF, down \$0.41/SF from the second quarter. The Southwest submarket posted an \$0.11/SF increase from the second quarter to \$4.99/SF. The Northwest submarket again had the lowest rental rate of the suburban submarkets, though its rental rate had the highest increase of the quarter, by \$0.82/SF from last quarter, to \$4.53/SF.

The Downtown and Southeast submarkets were the only two to show a decrease in the average asking rental rate, yet due to being number one and two in inventory, respectively, they paced 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	71,906,930	0	7.8 %	(197,083)	(403,003)	\$2.59	\$5.16	\$3.07
Northeast	57,547,626	425,400	4.7%	142,742	25,197	\$6.59	\$8.00	\$5.88
Northwest	22,872,782	302,531	2.8%	19,621	235,689	\$4.77	\$8.28	\$4.53
South Central	33,999,872	0	6.7%	140,382	443,297	\$4.72	\$6.82	\$5.37
Southeast	69,331,753	295,235	4.9%	368,243	276,067	\$4.46	\$6.11	\$5.02
Southwest	31,202,451	179,296	2.8%	(77,062)	(59,432)	\$4.97	\$6.06	\$4.99
Market Total	286,861,414	1,202,462	5.4%	396,843	517,815	\$4.41	\$6.80	\$4.57

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
D&S Distribution	1366 Commerce	Akron/Outside Market Area	New	216,000
Lowe's	8601 Independence Pkwy.	Southeast	New	180,000
Stride Tool	30333 Emerald Valley Pkwy.	Southeast	Extension	120,000
AMWARE	18901 Snow Rd.	Southwest	New	105,600
Cosmax	1261 Highland	Southeast	New	100,410

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
8601 Independence Pkwy.	Southeast	\$27,825,000	\$100.82	276,000
18401 Sheldon Rd.	Southwest	\$6,305,000	\$65.68	96,000
21337 and 21339 Drake Rd.	Southwest	\$1,500,000	\$45.82	32,737
21000-21500 Aerospace Pkwy.	Southwest	\$12,610,000	\$44.25	285,000
5700 Lee Rd. S.	Southeast	\$11,355,855	\$35.00	324,453

ECONOMIC CONDITIONS

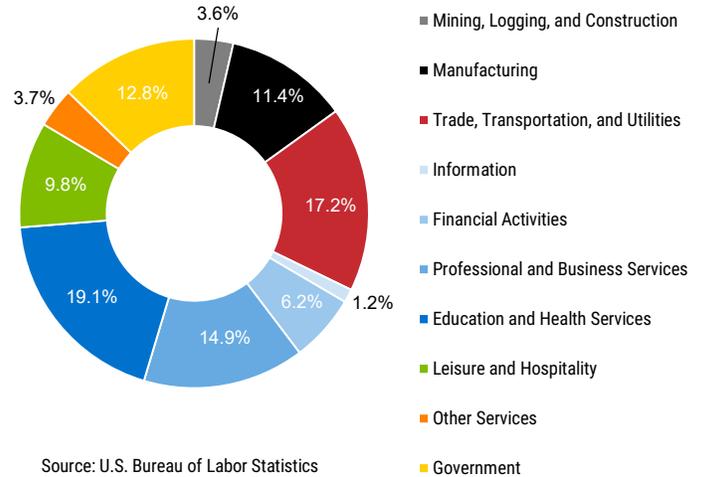
The Greater Cleveland economy lost more jobs in August 2020, as preliminary total nonfarm payroll employment contracted by 11.0% year-over-year. By contrast, the United States contracted by 7.0% year-over-year. The August numbers were an improvement from July, which saw Greater Cleveland payroll employment dip by 11.6% year-over-year and the United States as a whole fall by 7.7% year-over-year. The nation's unemployment rate stood at 8.4% in August, down from 10.2% in July.

Only one industry sector saw employment growth from August 2019 to August 2020: mining, logging and construction, at positive 1.0%.

All other sectors saw a drop in the past year due to the implications of COVID-19. The leisure and hospitality industry contracted the most, by negative 28.8%, followed by professional and business services at negative 15.0%, government at negative 11.7%, education and health services at negative 10%, the information sector at negative 9.7%, trade/transportation/utilities at negative 6.9%, financial activities at negative 6.5%, manufacturing at negative 5.7% and other services at negative 3.0%.

EMPLOYMENT BY INDUSTRY

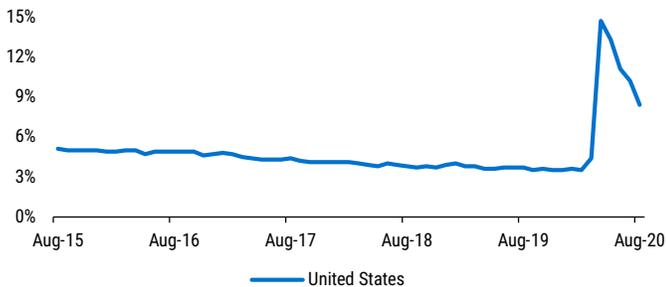
Cleveland-Elyria-Mentor



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

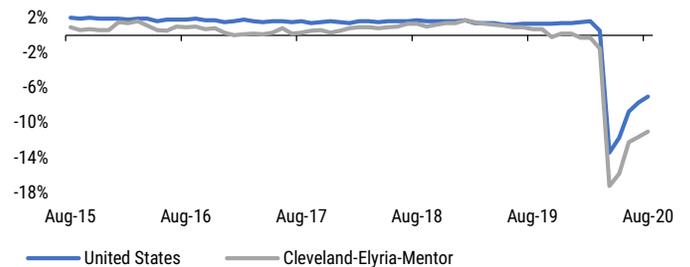
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

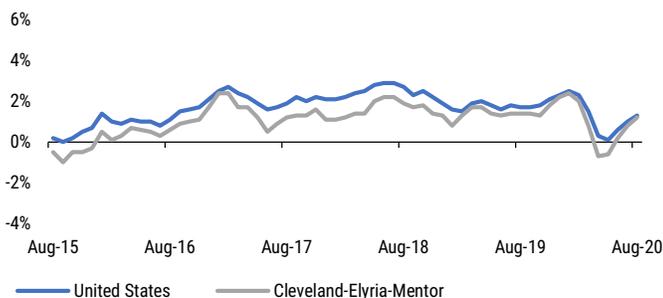
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

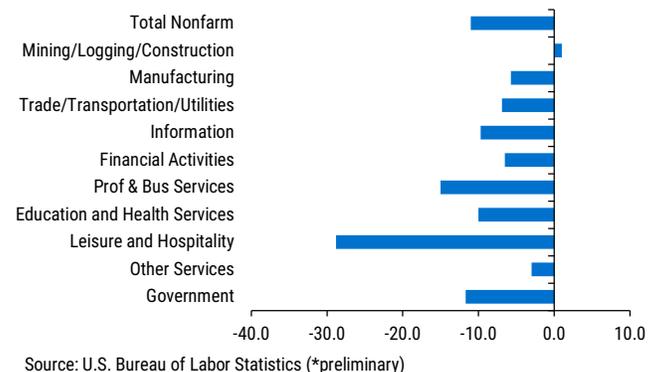
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

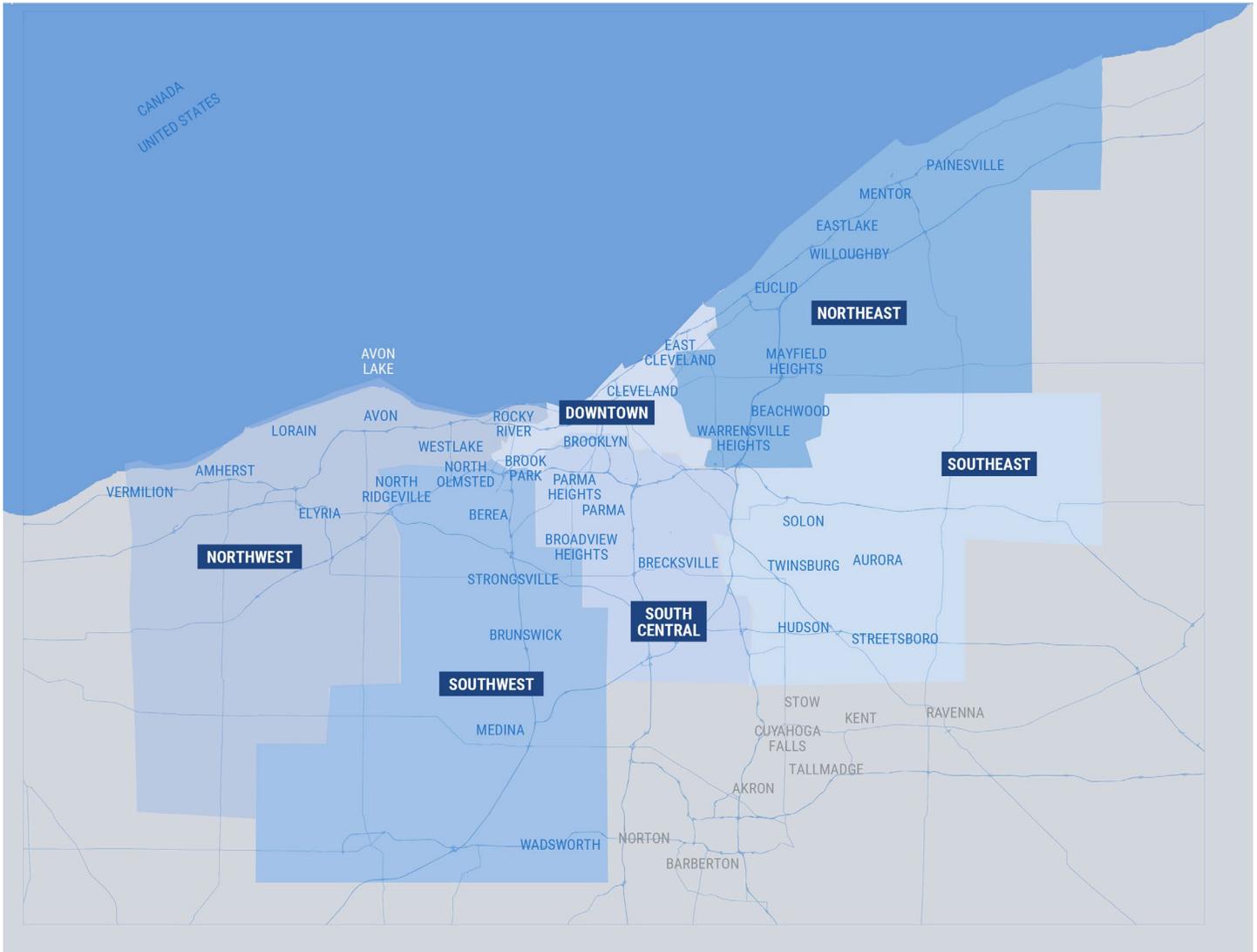
EMPLOYMENT GROWTH BY INDUSTRY

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



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

CLEVELAND INDUSTRIAL SUBMARKETS



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