

CLEVELAND INDUSTRIAL MARKET

INDUSTRIAL MARKET STEADY DESPITE COVID-19 UNCERTAINTY

Similar to the office market, conditions in the Greater Cleveland industrial market held steady during the second quarter of 2020, despite COVID-19 taking a firm grip upon the United States. The market netted 23,036 square feet in positive absorption. The vacancy rate held steady at 5.5%, the same as last quarter, keeping it under 6.0% for the 11th consecutive quarter. Four out of the six industrial submarkets posted positive absorption.

Despite the market's stable performance in recent months and years, the advent of the pandemic presents uncertainty going forward. The continued need for added warehousing and distribution, as well as manufacturing space, could keep the market stable, but softening lease demand in the overall market presents a challenge. Nonetheless, industrial construction remained at 844,058 square feet, while over 3.5 million square feet remained categorized as proposed.

As vacancy held steady, the average asking rental rate increased. Second-quarter 2020 saw the average rental rate increase by \$0.08/SF to \$4.62/SF, higher than last quarter, but lower than the four quarters of 2019. However, second-quarter 2020's average asking rental rate was higher than the average of \$4.55/SF over the last two years.

The suburban submarkets continued to command higher rental rates than the Downtown submarket, which stood at \$3.13/SF, up \$0.17/SF from first-quarter 2020. Downtown had the highest increase from last quarter. The Northeast submarket had the highest average asking rental rate of the suburban submarkets, rising \$0.01/SF from last quarter to \$5.81/SF. The Southeast had the second-highest rental rate at \$5.43/SF, up \$0.05/SF from the first quarter. The South Central submarket followed the Southeast with an average rental rate of \$5.22/SF, up by \$0.06/SF. It stayed ahead of the Southwest submarket, which had the largest decrease of all submarkets and ended the quarter at \$4.88/SF, down \$0.10/SF. The Northwest submarket's rental rate decreased by \$0.04/SF from last quarter to \$3.71/SF and was again the lowest of the suburban submarkets.

The Southwest posted the second-lowest vacancy rate of any submarket at 2.6%, which was a decrease of 10 basis points from last quarter. This was helped by a modest 5,117 square feet of positive absorption. This submarket had the second-lowest amount of inventory in the market and the third-largest amount of space under construction at 179,296 square feet.

The Southwest submarket was also home to the market's second-largest lease in a lackluster quarter of leasing, as Select Express subleased 50,833 square feet at 3048 Nationwide Parkway in Brunswick.

CURRENT CONDITIONS

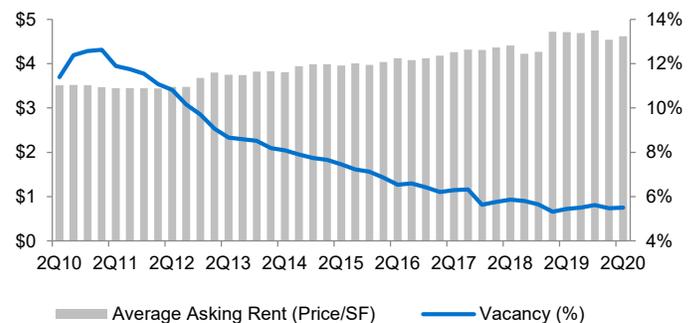
The overall vacancy rate held from the first to second quarter, keeping the market stable for the quarter during the height of the first wave of COVID-19.

Industrial vacancy has remained under 6.0% for the last 11 quarters, dating back to the fourth quarter of 2017.

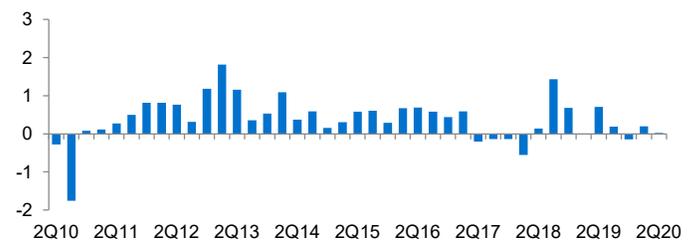
GOJO made headlines, as it ended the second quarter with letters of intent to lease ~430,000 SF in Massillon (just outside of the market area) and purchase ~320,000 SF in Maple Heights in the Southeast submarket.

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	286 MSF	↑
Vacancy Rate	5.5 %	5.5 %	5.4 %	→
Quarterly Net Absorption	23,036	201,463	707,955	→
Average Asking Rent	\$4.62	\$4.54	\$4.71	↑
Under Construction	844,058	875,223	2,033,525	→
Deliveries	375,400	1,020,576	1,092,000	→

The Northeast submarket's vacancy rate increased by 10 basis points to 4.9% after posting 121,739 square feet of negative absorption, which was the most given back of all the submarkets. The submarket also generated some news. In Wickliffe, an affiliate of Premier Development Partners of Cleveland purchased the vacant former ABB industrial/office campus complex measuring 485,312 square feet on 40 acres at 1400 Worden Road/29801 Euclid Avenue. Premier, a well-known Northeast Ohio full-service developer, paid approximately \$1.84 million, or \$3.79/SF, a very low price for this facility. The deal will allow Premier to pursue multiple options for transforming the long-vacant site. ABB, a global engineering company, relocated from here in 2018 to a brand-new Highland Hills facility, also in the Northeast submarket, and the Wickliffe property has remained empty ever since.

The Southeast submarket also made headlines in the second quarter, as one of the most active companies in Northeast Ohio during the pandemic was GOJO, manufacturer of skin and hand health and hygiene products, including hand sanitizer. The Akron, Ohio-based company announced that it intends to expand its operations in Northeast Ohio through two commercial real estate deals: a recently-signed 430,000-square-foot lease agreement at a facility in Navarre, Ohio, just outside the Cleveland industrial market, which will be used for storage and distribution; and the purchase of a 320,703-square-foot warehouse/distribution facility in Maple Heights, located in the Southeast submarket.

Although the property's sale wasn't due to officially close until the very beginning of the third quarter, GOJO stated that it intends to manufacture PURELL® Surface Spray at the Maple Heights facility, which is located at 5700 Lee Road South. Situated on 25 acres, the property boasts high ceilings, a new roof, racking system and a strategic location that is accessible to many crucial Northeast Ohio thoroughfares such as I-77, I-480 and I-271. GOJO's investment will bring 100 additional high-quality manufacturing jobs to Maple Heights.

Another significant development in the Southeast was the announcement of Lowe's Home Improvement's intent to lease the remaining 180,000 square feet at Twinsburg's Cornerstone Business Park's second spec building. In addition to that, developer Scannell Properties has proposed a third and final spec building on the grounds of this industrial park, which is home to Amazon, FedEx, O'Reilly Auto Parts, Bridgestone Tires, Dunkin' Donuts and others. As currently projected, the third spec warehouse at Cornerstone will measure 279,000 square feet and feature two drive-in doors, 32 docks, 32-foot clear ceilings, ESFR sprinklers, LED lighting, wide column spacing, heavy power, ample surface automobile parking spaces, up to 70 truck trailer parking spaces and offices to-suit.

The Southeast's vacancy rate in the second quarter decreased by 10 basis points to 5.4%, just below the overall market's average and in the middle of the submarket pack. Over 1.3 million square feet of potential construction has been proposed for this submarket, while 295,235 square feet is currently under construction, the second most of all

the submarkets. Historically, the Southeast has been near the top in terms of desirability for the industrial market. This is due to its proximity to highways and business-friendly communities, such as Solon and Twinsburg.

The South Central submarket's vacancy rate increased by 20 basis points from the first quarter to 7.1%, the second highest in the Cleveland market. This submarket has recorded 302,915 square feet in positive absorption through the first two quarters of 2020, the second most in the market.

The Downtown submarket experienced a vacancy decrease of 10 basis points to 7.5% in the second quarter. This submarket has given back the most space of any submarket thus far in 2020, with 205,920 square feet in negative absorption in the first two quarters.

In the Downtown submarket, it is believed that Weston's new industrial facility at 10801 Madison Avenue, located at the intersection of Madison and Berea Road, as well as another site near I-77 and Pershing Avenue, both in Cleveland, could soon be home to new Amazon facilities. Situated on the 20-acre site of the former Cleveland operations of Midland Steel Products, the 168,750-square-foot Weston project is a state-of-the-art modern distribution and manufacturing center. The I-77/Pershing site could feature a 121,000-square-foot delivery center. If these two projects, though smaller than typical Amazon properties, come to fruition, along with potential locations in the Southeast and Northeast submarkets that together eclipse 564,000 square feet, the company's overall Northeast Ohio footprint will be nearly 3.4 million square feet.

The Northwest had the lowest vacancy of any submarket at 2.4% after dropping 80 basis points from the first quarter. This submarket posted 170,398 square feet of positive absorption, the most in the past quarter and increasing its overall market-leading absorption tally to 319,595 square feet for the first half of the year.

Overall, general industrial assets make up the majority of the Cleveland area's industrial market, with 173.9 million square feet of inventory. The vacancy rate for this type of facility was 4.3% in the second quarter, while the average asking rental rate stood at \$4.14/SF. Conversely, R&D/flex industrial facilities, comprised of nearly 22 million square feet of inventory, commanded the highest average asking rent at \$6.93/SF, although its vacancy rate was higher at 7.2%.

Warehouse/distribution facilities comprise the second-most inventory in the market at 90.4 million square feet, although its vacancy rate was above the 5.5% industry average at 7.4%. The average asking rental rate for warehouse/distribution was \$4.53/SF. The submarket with the most warehouse/distribution inventory is the Southeast, with over 33 million square feet.

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 %	1,040	(205,920)	\$2.85	\$5.60	\$3.13
Northeast	57,693,026	0	4.9%	(121,739)	(117,545)	\$6.69	\$7.96	\$5.81
Northwest	22,769,255	302,527	2.4%	170,398	319,595	\$3.66	\$8.34	\$3.71
South Central	33,932,872	67,000	7.1%	64,044	302,915	\$4.61	\$6.79	\$5.22
Southeast	69,331,753	295,235	5.4%	(95,824)	(92,176)	\$4.86	\$6.81	\$5.43
Southwest	31,202,451	179,296	2.6%	5,117	17,630	\$4.98	\$6.13	\$4.88
Market Total	286,836,287	844,058	5.5%	23,036	224,499	\$4.53	\$6.93	\$4.62

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Victor Metals Inc.	1351 Lloyd Rd.	Northeast	New	55,110
Select Express	3048 Nationwide Pkwy.	Southwest	Sublease	50,833
YTL Manufacturing	8100 Tyler Blvd.	Northeast	New	46,090
Nichols Paper & Supply Company	26350 Broadway Ave.	Southeast	New	45,000
Unitrex, Ltd./SpaRoom	5060 Taylor Dr.	Southeast	Expansion	33,971

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
24202 Aurora Rd.	Southeast	\$620,000	\$46.97	13,200
20910 Miles Pkwy.	Northeast	\$336,600	\$32.84	10,250
4521 Willow Pkwy.	South Central	\$1,910,000	\$32.32	59,088
33625 Pin Oak Pkwy.	Northwest	\$3,970,000	\$31.85	124,647
12701 Prospect Rd.	Southwest	\$635,000	\$28.40	22,356

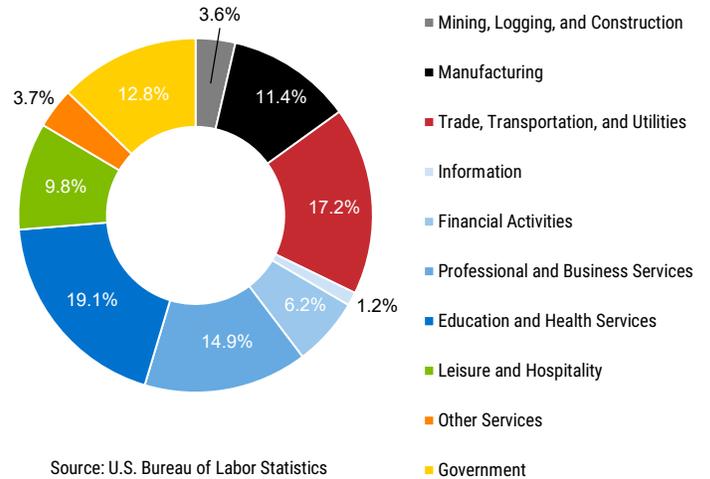
ECONOMIC CONDITIONS

The Greater Cleveland economy lost an unprecedented amount of jobs throughout the first half of 2020, especially as the pandemic took over the entirety of the second quarter. Total nonfarm payroll employment plummeted in May by 15.9% year-over-year after dropping 17.2% in April year over year. Overall payroll employment for the United States also fell in May, by 11.8% year over year.

All but one Greater Cleveland industry sector saw significant declines from May 2019 to May 2020. The mining, logging and construction industry grew by 0.3%. Conversely, the leisure and hospitality industry contracted the most, by negative 49.3%. The other industries to report a negative change year over year were the other services industry (negative 19.3%); professional and business services (negative 18.2%); government (negative 14.2%); education and health services (negative 13.3%); trade, transportation and utilities (negative 10.6%); information (negative 9.6%); manufacturing (negative 9.7%); and financial activities (negative 3.9%).

EMPLOYMENT BY INDUSTRY

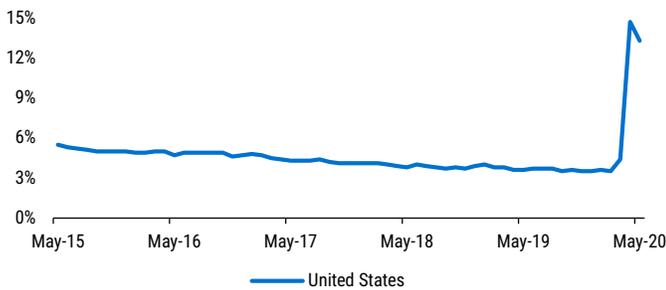
Cleveland-Elyria-Mentor



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

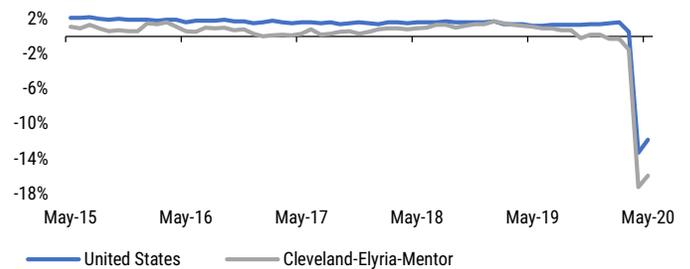
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

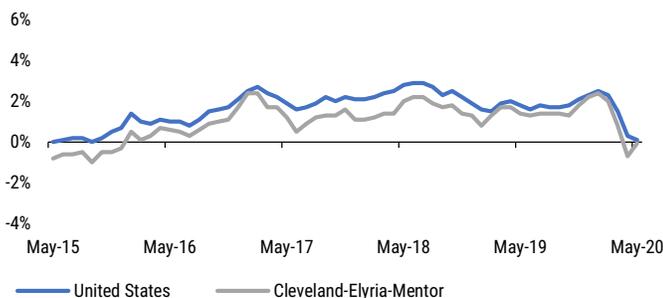
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

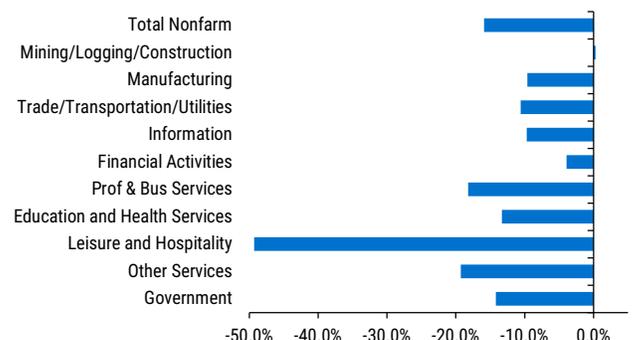
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

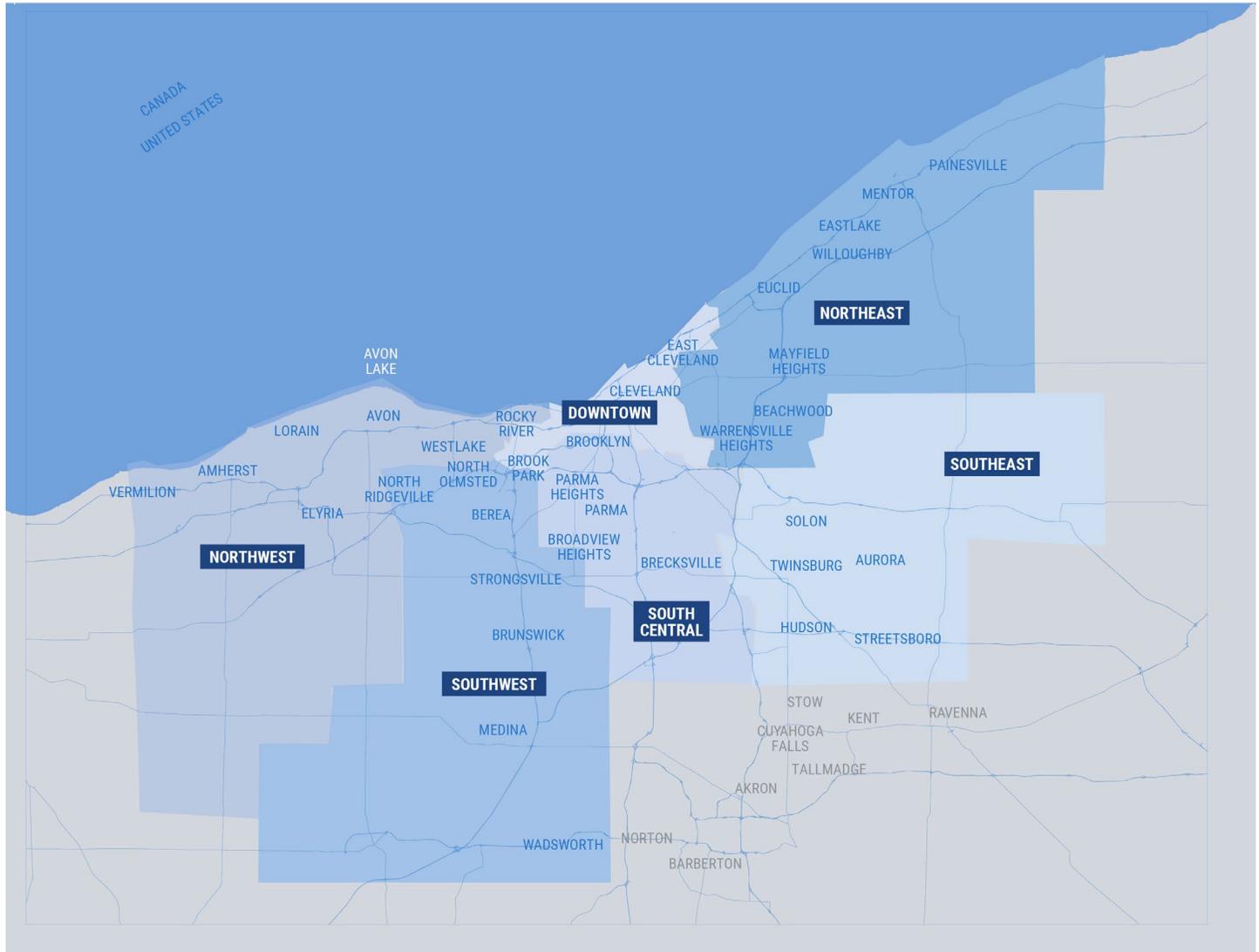
EMPLOYMENT GROWTH BY INDUSTRY

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



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

CLEVELAND INDUSTRIAL SUBMARKETS



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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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