



Cleveland Industrial Market

Market Cements Resilience with Strong Absorption, Rising Rents

The Greater Cleveland industrial market cemented its pandemic resilience with stability in the first quarter of 2022. The market tallied 1.79 million square feet of positive net absorption, the result of many factors, including lease occupations from previous quarter signings, as well as some owner/user sales that prompted occupation. As a result, the overall vacancy rate decreased by 40 basis points to 4.4%, the lowest mark (tied with the first quarter of 2021) in decades. This was the industrial market’s third consecutive quarter with positive absorption and the sixth out of the last seven quarters to absorb space.

The market’s vacancy rate has stayed under 5.0% for seven consecutive quarters. All but one of the six industrial submarkets posted vacancy gains and 1.19 million square feet of new product delivered, of which 17.1% was available as the quarter ended.

Construction

As the first quarter of 2022 concluded, 2.20 million square feet of industrial product was under construction. Many of these properties were originally due to deliver sooner, but complications arising from material availability, amongst other things, have delayed delivery. As of the end of the first quarter of 2022, most of these buildings were expected to deliver in the second or third quarters of 2022. An additional 3.41 million square feet remained in the planning stage.

Current Conditions

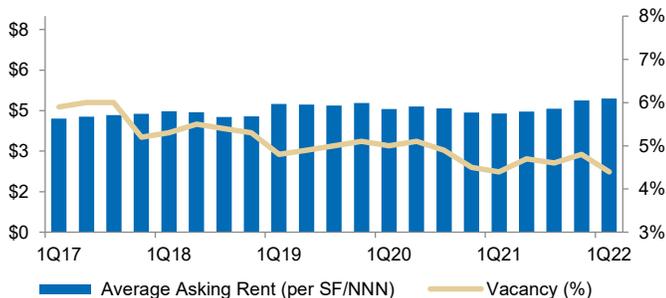
- Vacancy was 4.4% as the quarter ended, the lowest mark (tied with the first quarter of 2021) in decades.
- 1.19 million square feet of product delivered in the first quarter of 2022, the most since the third quarter of 2018.
- Only one of the six industrial submarkets posted negative absorption.
- Several notable sales took place in the first quarter.
- The asking rental rate for industrial properties as the first quarter of 2022 ended was the highest in decades, at \$4.95/SF.

Market Summary

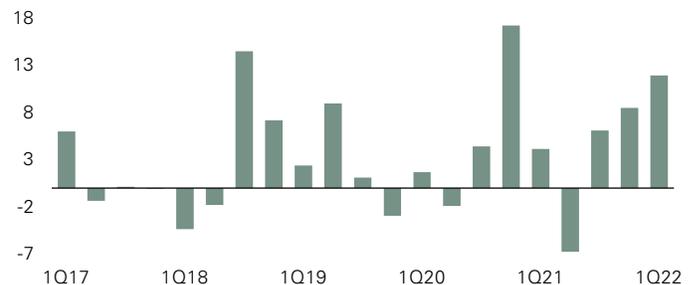
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	290.7M	290.4M	287.2M	↑
Vacancy Rate	4.4%	4.8%	4.4%	→
Quarterly Net Absorption (SF)	1.79M	848,958	412,683	→
Average Asking Rent/SF	\$4.95	\$4.88	\$4.39	↑
Under Construction (SF)	2.20M	3.57M	2.92M	↑
Deliveries (SF)	1.19M	1.07M	0	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, Hundred Thousands)



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Rental Rates, Class A Warehouses, Market Outlook

The first quarter of 2022 saw the overall average rental rate increase by \$0.07/SF to \$4.95/SF, the highest the market has seen in decades. Four out of the six industrial submarkets saw an increase. The warehouse/distribution sector of the market remained flat, as its overall average asking rental rate stayed at \$4.85/SF. The Class A warehouse/distribution asking rental rate ended the first quarter of 2022 at \$6.41/SF, up \$0.52/SF from the previous quarter.

The Cleveland market, while performing well during and now coming out of the pandemic, has not had the same surge of ecommerce and logistics space demand as other markets in the region. Projects under construction, as well as those in the proposed or planned phase, are still fairly robust for the market. One variable in assessing how the market will fare going forward in 2022 is whether land and/or the redevelopment of obsolete facilities can accommodate the potential desire for warehouse/distribution centers over 500,000 square feet, considering most recent new construction projects have measured between 100,000 and 350,000 square feet.

The Southeast Submarket

Vacancy in the Southeast decreased by 60 basis points from the fourth quarter of 2021 to 4.6%, a result of accruing the second highest amount of space of any submarket, at 472,083 square feet in positive absorption; 510,584 square feet of new product was under construction in this submarket, which also has the market's second highest inventory, at approximately 69.9 million square feet.

The Southeast's average asking rental rate was \$5.57/SF, the third highest in the market and up \$0.25/SF from the previous quarter. The warehouse/distribution asking rental rate in the Southeast increased \$0.37/SF from the fourth quarter of 2021 to \$5.16/SF.

Of the many large and small industrial sales in the first quarter of 2022, two of the top sales in terms of price per square foot took place in the Southeast: the 136,800-square-foot 8295 Bavaria Dr. in Macedonia, which transferred for \$12.9 million, or \$94.30/SF to real estate investment trust STAG Industrial; and Twinsburg's 1700 Highland Rd., a 116,152-square-foot facility that sold for \$9.46 million, or \$81.40/SF to Farallon Capital Management, LLC.

Another notable sale in the Southeast was the transfer of 26400 Richmond Rd. in Bedford Heights to a joint venture of Jade-Sterling Steel and Industrial Commercial Properties for \$5.42 million, or \$30.00/SF. Jade-Sterling Steel intends to move its headquarters to this location from Twinsburg, while also consolidating warehouse space at this location by the third quarter of 2022.

The Southeast will also be home to a future Kroger grocery fulfillment center, as it was announced that the company is planning a 270,000-square-foot facility in Oakwood Village, at the southwest corner of Alexander and Macedonia roads. Technology

company Ocado Group will operate the automated facility, which will support up to 400 jobs and allow for the fulfillment of fresh and frozen foods for delivery.

Leases of note that came out of the Southeast in the first quarter of 2022 were: a 66,433-square-foot extension by The NOCO Company, Inc. at 30339 Diamond Pkwy. in Glenwillow; and a new 61,812-square-foot-lease by Avantor (VWR Chemical) at 8796 Independence Pkwy. in Twinsburg's Cornerstone Business Park.

Southwest and South Central Submarket News

The Southwest submarket finished the first quarter of 2022 with a vacancy rate of 4.5%, up by 70 basis points from the previous quarter, yet was the third lowest vacancy in the market. It had the only negative absorption of the submarkets, tallying 193,658 square feet in lost space. The Southwest had the third most construction underway, at 310,080 square feet, as the quarter ended. The Southwest's average asking rental rate was \$6.32/SF, up by \$0.56/SF from the previous quarter, the largest increase of any submarket.

The South Central submarket finished the first quarter of 2022 with an average asking rental rate of \$6.20/SF, down by \$0.03/SF, yet the second highest in the market.

The South Central's vacancy rate decreased to 4.9%, a drop of 60 basis points from the previous quarter, a rate that was the second highest vacancy in the market. The submarket recorded 230,179 square feet in positive absorption; 661,025 square feet of new product is under construction there.

Also in South Central, there were several significant building transfers, including the 523,722-square-foot warehouse property located at 5520 Chevrolet Blvd. in Parma, which sold to American Postal Infrastructure for \$34.0 million, or \$64.92/SF. The United States Post Office leased most of this property, a former Chevrolet plant, in the third quarter of 2021. American Postal Infrastructure is an investment fund that owns hundreds of postal-related properties across the country.

Other notable property transfers in the South Central were buildings located in Valley View: 9797 Sweet Valley Dr., a 127,224-square-foot property that sold to RLLD Realty, LLC for \$10.5 million, or \$82.53/SF; and the 83,404-square-foot property located at 7750 Hub Pkwy. to Farallon Capital Management, LLC for \$6.19 million, or \$74.16/SF.

Another piece of news from the South Central was the announcement of DiGeronimo Companies confirming its pending headquarters move within the submarket to its Valor Acres mixed-use development on the former Veteran's Administration Hospital site in Brecksville from its longtime home at 5720 E. Schaaf Rd. in Independence. Valor Acres is also home to Sherwin-Williams's under-construction research and development center.

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The Northwest and Northeast Submarkets

The Northwest submarket again had the second-lowest average asking rental rate at \$4.57/SF, a \$0.14/SF decrease from the fourth quarter of 2021. Vacancy increased by 20 basis points to 2.0% and kept the Northwest the tightest in the market, although 281,715 square feet was positively absorbed. The discrepancy was accounted for by the addition of square footage to the Northwest's inventory. 240,000 square feet remained under construction in the Northwest, which, despite the addition of product, has the least amount of inventory in the market, at approximately 23.1 million square feet.

One significant sale in the Northwest was the Heidelberg Distributing building located at 5901 Baumhart Rd. in Lorain. The 170,000-square-foot facility transferred to an affiliate of Redwood Capital Investments for \$5.4 million, or \$31.76/SF.

The Northeast submarket registered 638,756 square feet in positive absorption in the first quarter of 2022, the most of any submarket. This prompted its vacancy to fall from the prior quarter by 30 basis points to 4.0%. The submarket's average asking rental rate increased by \$0.10/SF to \$4.86/SF. The Northeast had 285,294 square feet of product being built as of the end of the first quarter of 2022 and added over 500,000 square feet of newly delivered product to its 58.1 million square feet of inventory.

The Northeast was home to one of the first quarter's most significant lease transactions, as Lincoln Electric signed a 130,000-square-foot lease at Weston's spec building located at 38585 Jet Center Pl. Headquartered in Euclid, also in the Northeast Submarket, Lincoln Electric is a world leader in the design, development and manufacture of arc welding products, assembly and cutting systems and other products.

The Downtown Submarket

The Downtown submarket again had the area's lowest asking rental rate at \$3.78/SF, up \$0.04/SF from the previous quarter. The submarket's vacancy was the highest in the market, despite a decrease of 50 basis points from the past quarter to 5.2%. This was precipitated by 358,884 square feet of positive absorption, the third most for the quarter; 198,000 square feet of new product was under construction in the first quarter of 2022.

One significant news item from the Downtown submarket pertained to Orlando Baking Company's planned 156,775-square-foot cold storage facility that will be located at 2777 E. 75th St. near the company's headquarters in Cleveland's Opportunity Corridor. The \$32.0-million project was awarded a \$500,000 grant by Cuyahoga County in January to keep the project moving forward. The facility is widely considered a catalyst to attract new investment in the area. Orlando will take some space in the building and then lease out the remainder to other companies.

Also in the Downtown submarket, Out of the Box Enterprises signed a new 10,480-square-foot lease at 5500 Walworth Ave.

Large Portfolio Transaction

A large portfolio sale of approximately 886,851 square feet that spanned two submarkets and consisted of four buildings transferred to Treeview Cleveland LLC for \$40.0 million, or approximately \$45.10/SF as a whole. Three buildings in the Southwest submarket, located in Strongsville – 20784 Westwood Dr. (294,299 SF; sold for \$11.63 million, or \$39.50/SF), 23221 Morgan Ct. (175,500 SF; sold for \$8.59 million, or \$48.93/SF), and 21848 Commerce Pkwy. (142,052 SF; sold for \$5.62 million, or \$39.54/SF) – and one building located in Solon in the Southeast submarket at 28600 Fountain Pkwy. (275,000 SF; sold for \$14.17 million, or \$51.53/SF) – were part of the sale.

Select Lease/User Transactions

Tenant	Building/Address	Submarket	Type	Square Feet
Lincoln Electric	38585 Jet Center Pl.	Northeast	New	130,000
The NOCO Company, Inc.	30339 Diamond Pkwy.	Southeast	Extension	66,433
Avantor (VWR Chemical)	8796 Independence Pkwy.	Southeast	New	61,812
Jamesway Chick Master Incubator	945 Lafayette Rd.	Southwest	New	17,500
Sensical, Inc.	5821-5895 Harper Rd.	Southeast	New	13,362

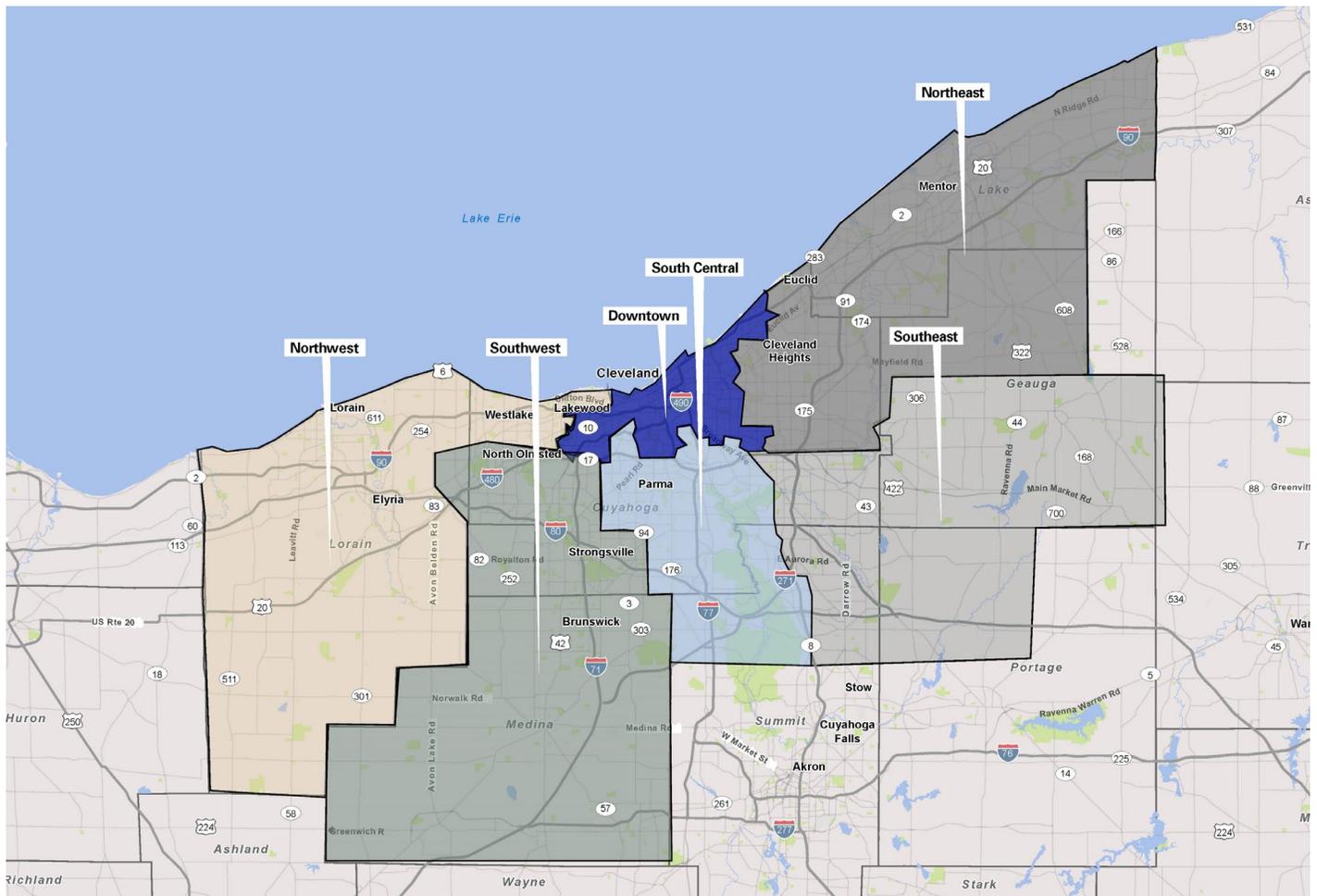
Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
8295 Bavaria Dr.	Southeast	\$12,900,000	\$94.30	136,800
9797 Sweet Valley Dr.	South Central	\$10,500,000	\$82.53	127,224
1700 Highland Rd.	Southeast	\$9,455,000	\$81.40	116,152
7750 Hub Pkwy.	South Central	\$6,185,300	\$74.16	83,404
5520 Chevrolet Blvd.	South Central	\$34,000,000	\$64.92	523,722

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	72,857,204	198,000	5.2%	358,884	358,884	\$3.86	\$5.56	\$3.78
Northeast	58,109,685	285,294	4.0%	638,756	638,756	\$4.56	\$8.09	\$4.86
Northwest	23,101,735	240,000	2.0%	281,715	281,715	\$4.76	\$9.45	\$4.57
South Central	35,819,900	661,025	4.9%	230,179	230,179	\$6.27	\$6.95	\$6.20
Southeast	69,940,338	510,584	4.6%	472,083	472,083	\$5.16	\$6.72	\$5.57
Southwest	31,858,233	310,080	4.5%	(193,658)	(193,658)	\$5.69	\$11.47	\$6.32
Market Total	290,687,095	2,204,983	4.4%	1,787,959	1,787,959	\$4.85	\$7.66	\$4.95

Cleveland Industrial Submarkets



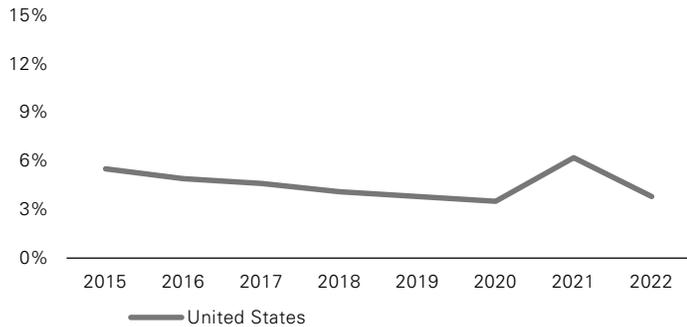
Economic Conditions

The Greater Cleveland economy gained back a modest number of jobs in early 2022, as total payroll employment increased in January by 2.3% year-over-year. The national total payroll employment number was also up in January, by 4.6% year-over-year. The Consumer Price Index for Cleveland was up 8.3% year-over-year in February.

Only two industry sectors saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics, from January 2021 to January 2022: education and health services at -1.0% and professional and business services at -0.1%. All other sectors saw an increase from the past year. The leisure and hospitality industry gained the most, by 10.3%; followed by the information sector at 8.8%; mining/logging/construction at 8.3%; other services at 5.9%; manufacturing at 3.6%; financial activities at 3.0%; trade/transportation/utilities at 2.1%; and government at 0.9%.

Unemployment Rate

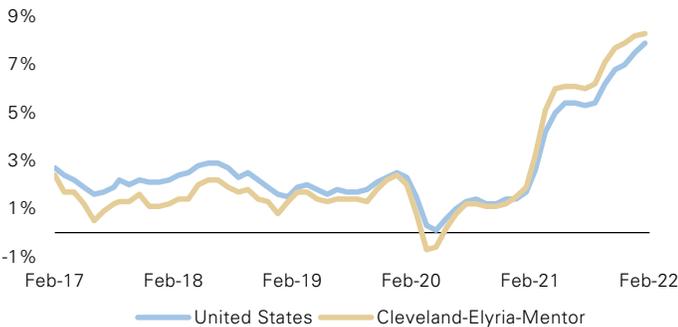
SEASONALLY ADJUSTED



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 By Industry

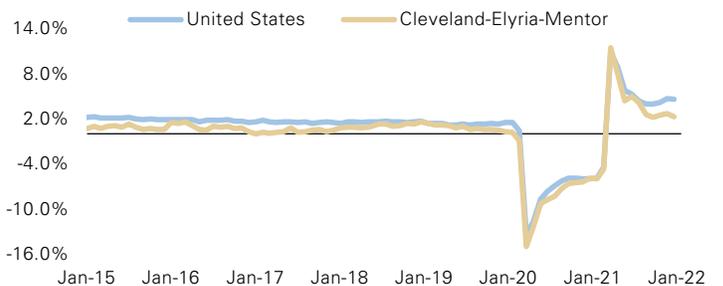
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

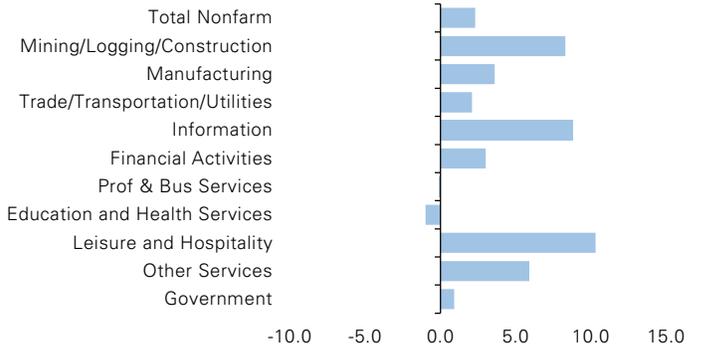
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

CLEVELAND-ELYRIA-MENTOR, Jan. 2022 (preliminary), 12-MONTH % CHANGE, SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

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