

Cleveland Industrial Market

Market Stable as Construction Reaches Another New High

The Greater Cleveland industrial market rebounded from its second-quarter setback, as the third quarter of 2021 saw the vacancy rate remain flat at 4.9%. The market's vacancy rate has stayed under 5.0% for five consecutive quarters and nine of the last 11. Property sales were solid once again, and lease demand and occupations improved, with 474,134 square feet of positive absorption. This brought the industrial year-to-date absorption closer to the positive, having finished the third quarter at negative 45,976 square feet for the first three quarters in total.

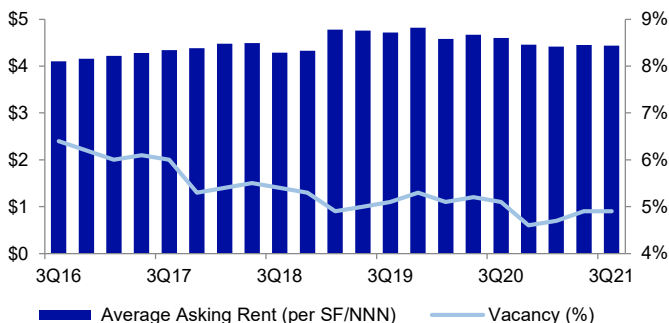
Only two of the six submarkets had negative absorption in the third quarter. Despite the delivery of the empty Gateway Commerce speculative warehouse, the market stabilized. The 434,000-square-foot facility located in the Southeast submarket at 10242 State Route 43 in Streetsboro is situated in a good location and shouldn't remain empty for long, as it will likely attract potential tenants soon with continued ecommerce demand in the region.

Construction

As third-quarter 2021 concluded, 4.13 million square feet of industrial product was under construction, the most being built in the market's history for the second quarter in a row. Most of the product under construction is scheduled to deliver by the end of the year or by the first half of 2022.

Market Analysis

ASKING RENT AND VACANCY RATE



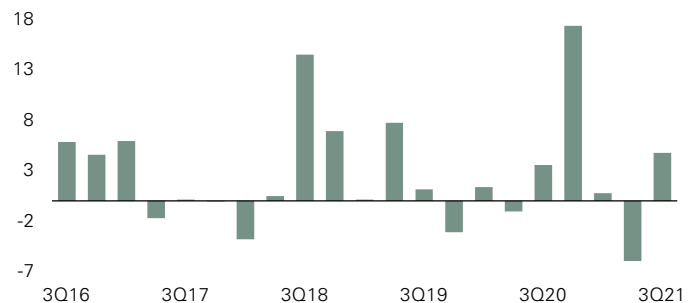
Current Conditions

- Vacancy stayed at 4.9% and remained under 5.0% for five consecutive quarters, and nine of the last 11.
- Property construction rose to 4,126,512 million square feet.
- Only two of the six industrial submarkets posted negative absorption.
- The sale of the Scannell-built facility at 14460-14580 Foltz Industrial Parkway in Strongsville was the industrial market's biggest transaction of the quarter.
- The U.S. Postal Service made news with the largest lease of the quarter, at 400,000 square feet, in preparation for the holidays.

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	289M	288M	287M	↑
Vacancy Rate	4.9%	4.9%	5.1%	→
Quarterly Net Absorption (SF)	474,134	(596,428)	353,605	→
Average Asking Rent/SF	\$4.44	\$4.45	\$4.60	→
Under Construction (SF)	4.13M	4.04M	1.06M	↑
Deliveries (SF)	434,000	150,000	170,531	↑

NET ABSORPTION (SF, Hundred Thousands)



RESEARCH Q3 2021

As the quarter ended, 51.2% of the under-construction product was available for lease. An additional 2.47 million square feet was in the planning stage, along with another 2.2 million square feet proposed.

Rental Rates and Class A Warehouses

Vacancy stayed steady, as did the average asking rental rate. Third-quarter 2021 saw the overall average rental rate decrease by just \$0.01/SF to \$4.44/SF. The warehouse/distribution sector of the market saw an increase, however, as its overall average asking rental rate ticked up by \$0.02/SF to \$4.24/SF. In fact, the Class A warehouse/distribution asking rental rate ended the third quarter at \$5.75/SF, up \$0.03/SF from the previous quarter. Class A warehouse/distribution properties continue to be the most desirable industrial product, and finished the quarter at a 4.0% vacancy rate, 90 basis points under the market's overall average. At 17.6 million square feet, Class A warehouses make up approximately 6.1% of the overall market.

Southeast Submarket

Vacancy in the Southeast increased by 70 basis points from second-quarter 2021 to 4.6%, and the submarket gave back 60,456 square feet of space. 851,464 square feet of new product was under construction in this submarket, which also has the market's second most inventory at more than 70 million square feet. The Southeast is also home to the most Class A warehouse space in the market, with 9.85 million square feet that carried a 5.2% vacancy rate as the quarter ended. The delivery of the empty Gateway Commerce speculative warehouse had an impact on the Southeast's overall and Class A warehouse vacancy.

The Southeast's average asking rental rate was \$5.19/SF, the third highest in the market and down \$0.01/SF from the previous quarter. However, the warehouse/distribution asking rental rate in the Southeast saw the largest increase of any submarket, as it increased by \$0.11/SF from the second quarter to \$4.77/SF.

A notable development in the Southeast was the ribbon-cutting of Swagelok's new \$35.0-million, 124,000-square-foot headquarters on its 29500 Solon Road campus.

One lease of note that came out of this submarket in the third quarter was for 109,186 square feet by Frito-Lay at Twinsburg's Cornerstone Business Park's third, and final, speculative building. Located at the park's northwest corner where Aurora Road and Chamberlain Road intersect, the 280,880-square-foot building is due to deliver before the end of 2021. Approximately 109,186 square feet remains available for lease.

Southwest and South Central Submarket News

The Southwest submarket finished the third quarter with a vacancy rate of 2.3%, which was down by 60 basis points from the previous quarter. It had the second most absorption of the submarkets, tallying 193,812 square feet. The Southwest has the

second-lowest amount of inventory of all submarkets at 31.4 million square feet, yet had the most construction underway, at 1.17 million square feet, as the quarter ended. The Southwest's average asking rental rate was \$5.26/SF, up by \$0.25/SF from the previous quarter, the largest increase of any submarket.

A newsworthy development in the Southwest the past quarter was the groundbreaking announcement that the former Ford Motor Company engine plant site at 18300 Snow Road in Brook Park, recently purchased by developers Weston Inc., Scannell Properties and the DiGeronimo Companies, will be called Forward Innovation Center. The ownership group expects the 200-plus-acre site to accommodate more than 3 million square feet of Class A industrial space at the redevelopment's conclusion, up from the Ford Plant's original 1.7-million square feet.

Also in the Southwest, the 179,296-square-foot Scannell Properties-built Class A warehouse located at 14460-14580 Foltz Industrial Parkway in Strongsville traded to STAG Industrial Holdings, LLC, for \$19.5 million, or \$108.76/SF. This building was constructed in 2020 and is home to a Wayfair distribution center, as well as TricorBraun and Woodpeckers locations. It is the second speculative warehouse that was built at the Mills Industrial Park.

The South Central finished the third quarter with an average asking rental rate of \$5.24/SF, down by \$0.31/SF, the past quarter's biggest decrease. The South Central's vacancy rate decreased, however, to 6.9%, a drop of 80 basis points from the previous quarter, the most tightening of the vacancy rate of any submarket. The South Central still recorded the second-highest vacancy in the market behind the Downtown submarket. Its quarter-leading vacancy drop was a result of a quarter-leading 260,324 square feet in positive absorption; 750,000 square feet of new product is under construction there.

The third quarter's most notable lease transaction came in the South Central and was a 400,000-square-foot new long-term lease by the United States Post Office at the former General Motors transmission plant in Parma, located at 5520 Chevrolet Boulevard. The Post Office intends to store and process mail at this facility in an attempt to mitigate potential holiday delivery delays.

Another piece of news from the South Central was the unanimous approval by the Brecksville City Planning Commission and Brecksville City Council to grant Sherwin-Williams a conditional use permit for the company's R&D facility. The 118.8-acre campus will be located at 6701 Miller Road on the site of the former Brecksville VA Hospital, adjacent to Interstate 77. The preliminary site plan indicates a 600,000-square-foot, three-story building. Sherwin-Williams aims to start construction in either fourth-quarter 2021 or first-quarter 2022, with a delivery date by the second half of 2024.

RESEARCH Q3 2021

The Northwest submarket again had the second-lowest average asking rental rate at \$4.64/SF, despite an \$0.18/SF increase from second-quarter 2021, which was the largest rate uptick of any submarket. Vacancy increased by 10 basis points to 1.8% and kept the Northwest the tightest in the market, while 14,056 square feet was negatively absorbed.

New product totaling 349,000 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, the 235,000-square-foot Shiloh Industries facility at 350 Maple Street in Wellington traded to Spirit Realty Capital, Inc. for \$10.96 million, or \$46.64/SF.

The Northeast submarket accrued 4,821 square feet in positive absorption in the third quarter. This prompted the submarket's vacancy to remain flat from the prior quarter at 3.9%. The submarket's average asking rental rate decreased by \$0.19/SF to \$4.74/SF. The Northeast had 812,468 square feet of product being built as of the end of the third quarter, to add to its 57.86 million square feet of inventory. Year-to-date, the Northeast has the most absorption of any submarket at 326,797 square feet.

Of note in the Northeast was the sale of 4610 Hamann Parkway in Willoughby to Alexy Metals, which purchased the 21,060-square-foot building for \$2.0 million, or \$94.97/SF.

Industrial Commercial Properties and GE Current also made news in the Northeast, as a 42,000-square-foot deal was signed for the latter to move its current operations from its Nela Park facility in East Cleveland to the 115,308-square-foot industrial/office facility

located at 23550 Commerce Park Road in Beachwood. Industrial Commercial Properties purchased the northern part of the building from the City of Beachwood in second-quarter 2021 and plans to rebuild the façade, amongst other improvements. Beachwood City Council unanimously passed an incentive package for GE Current in August.

Downtown Submarket

The Downtown submarket had the area's lowest asking rental rate at \$3.23/SF, down \$0.04/SF from the previous quarter. The submarket's vacancy was highest in the market, despite a decrease of 10 basis points from the past quarter to 7.2%. This was precipitated by 94,779 square feet of negative absorption.

Arguably, the quarter's biggest news took place in the Downtown submarket, as Industrial Realty Group, along with investor Industrial Commercial Properties, acquired the stock of the troubled 2.2-million-square-foot I-X Center, owned by the City of Cleveland. A portion of the property will be revived as event space, and 500,000 to 1.2 million square feet is being marketed to commercial tenants, amounting to one of the largest contiguous available spaces in the Cleveland market. Within that leasable footprint, a variety of uses could be accommodated, including warehouse/distribution, manufacturing, showroom, office, company headquarters, call center, data center and flex.

Also in the Downtown submarket, KeyBank Foundation announced a donation of \$1.5 million to help fund the construction of the new 198,000-square-foot Greater Cleveland Food Bank distribution facility at 13815 Coit Road.

Select Lease/User Transactions

Tenant	Building/Address	Submarket	Type	Square Feet
U.S. Postal Service	5520 Chevrolet Blvd.	South Central	New	400,000
Frito-Lay	Cornerstone Business Park Spec 3	Southeast	New	109,186
American Tank & Fabricating	5500 Walworth Ave.	Downtown	New	50,964
GE Current	23550 Commerce Park Dr.	Northeast	New	42,000
Zippy Shell	5250 Naiman Pkwy.	Southeast	New	25,532

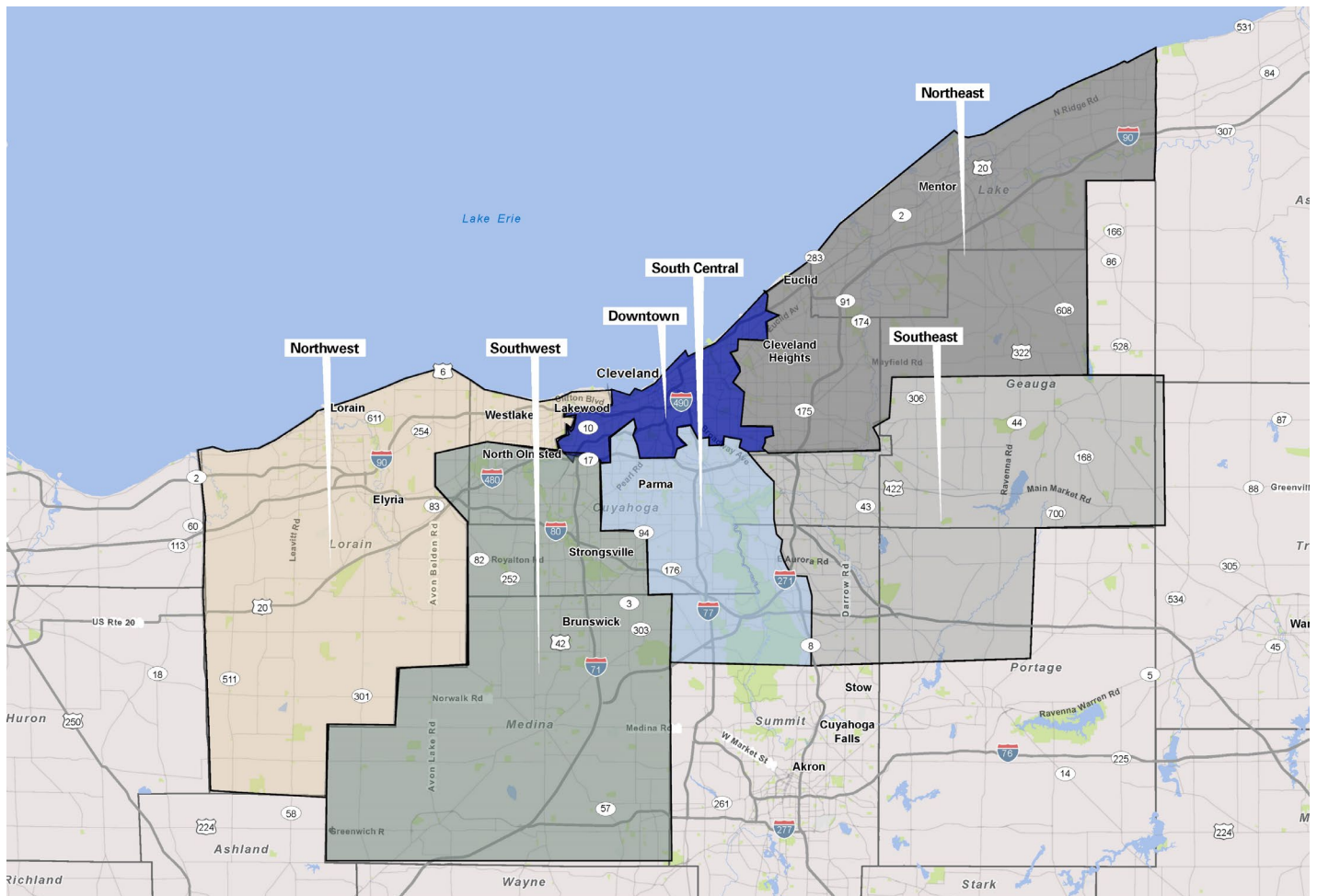
Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
14460-14580 Foltz Industrial Pkwy.	Southwest	\$19,500,000	\$108.76	179,296
4610 Hamann Pkwy.	Northeast	\$2,000,000	\$94.97	21,060
1060 W. 130th St.	Southwest	\$2,500,000	\$56.95	43,900
10040 Aurora-Hudson Rd.	Southeast	\$3,743,500	\$53.31	70,225
350 Maple St.	Northwest	\$10,959,294	\$46.64	235,000

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	71,097,183	198,000	7.2%	94,779	(600,273)	\$3.02	\$5.56	\$3.23
Northeast	57,855,884	812,468	3.9%	4,821	326,797	\$4.45	\$7.33	\$4.74
Northwest	22,887,227	349,000	1.8%	(14,056)	177,385	\$4.27	\$8.67	\$4.64
South Central	34,966,598	750,000	6.9%	260,324	68,861	\$4.91	\$6.67	\$5.24
Southeast	70,085,484	851,464	4.6%	(65,546)	(243,971)	\$4.77	\$6.68	\$5.19
Southwest	31,365,777	1,165,580	2.3%	193,812	225,225	\$5.43	\$6.20	\$5.26
Market Total	289,258,153	4,126,512	4.9%	474,134	(45,976)	\$4.24	\$6.67	\$4.44

Cleveland Industrial Submarkets



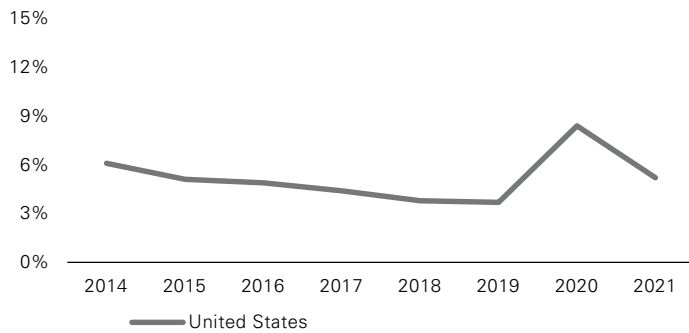
Economic Conditions

The Greater Cleveland economy gained back a modest number of jobs in third-quarter 2021, as total payroll employment increased in August by 1.7% year-over-year. The national total payroll employment number was also up, by 4.4% year-over-year.

Four industry sectors saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics, from August 2020 to August 2021: other services, at -8.1%; manufacturing at -0.4%; education and health services at -0.3%; and trade/transportation/utilities at -0.2%. All other sectors saw an increase from the past year. The leisure and hospitality industry gained the most, by 10.7%; followed by mining/logging/construction at 6.5%; the information sector at 5.9%; professional and business services at 3.5%; financial activities at 2.3%; and government at 1.5%.

Unemployment Rate

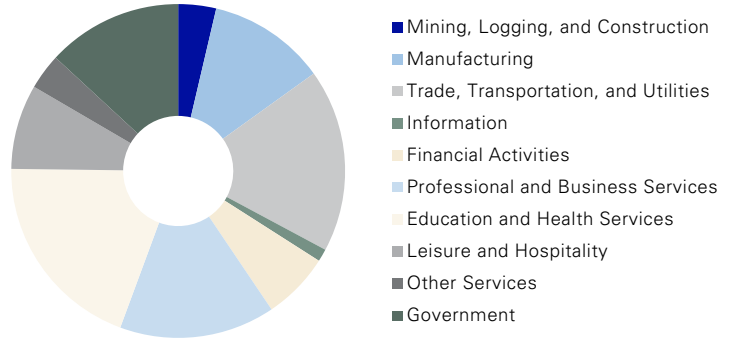
SEASONALLY ADJUSTED



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

Employment By Industry

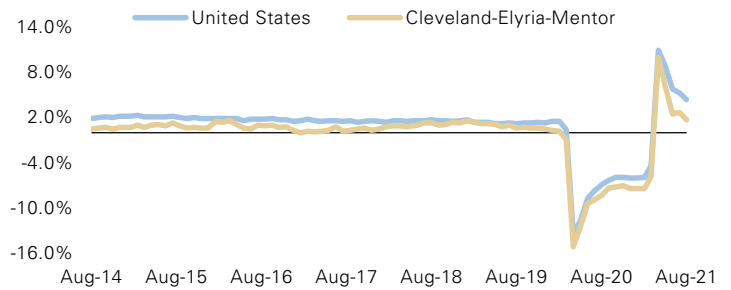
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

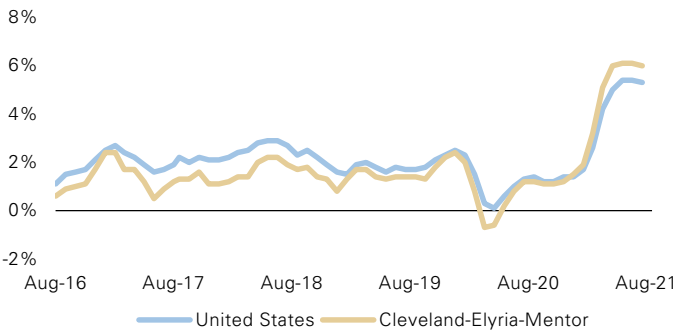
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Consumer Price Index (CPI)

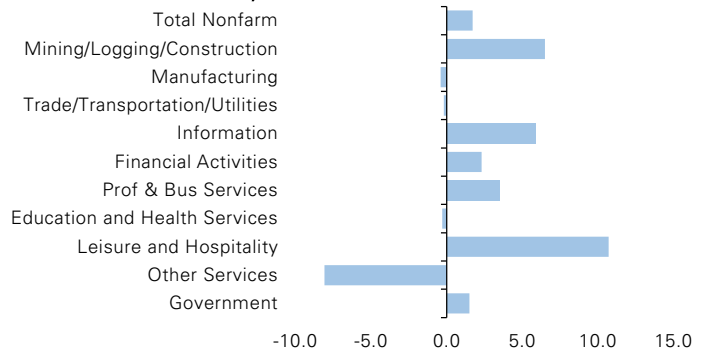
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



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

Employment Growth By Industry

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



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

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