



Cleveland Industrial Market

Market Solid as Vacancy Reaches All-Time Low, Rents Near All-Time High

The Greater Cleveland industrial market continued to perform solidly in the second quarter of 2022. The market tallied 743,455 square feet of positive net absorption; as a result, the overall vacancy rate decreased by 20 basis points to 4.2%, the lowest in the Cleveland industrial market's history. Over the last three years, the market's vacancy rate has been at or under 5% for 11 of the last 13 quarters and for eight consecutive quarters. All but one of the six industrial submarkets posted vacancy gains and 165,006 square feet of new product delivered in the second quarter of 2022.

Year to date, over 2.6 million square feet has been absorbed. This was the market's fourth consecutive quarter with positive absorption. Over the last 10 years, the Cleveland industrial market has posted positive net absorption in 34 of the last 41 quarters.

Construction

As the second quarter of 2022 concluded, nearly 2.9 million square feet of industrial product was under construction, over 51% of which was earmarked for occupation thus far. Many of these properties' construction schedules have been extended due to complications arising from material availability, a sharp rise in construction costs and financing snags. As of the end of the second quarter of 2022, most of these projects were expected to deliver in the fourth quarter of 2022 or early 2023. An additional 3.85 million square feet remained in the planning stage.

Current Conditions

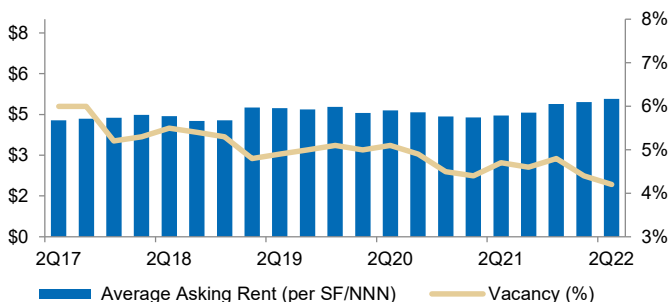
- Vacancy was 4.2% as the quarter ended, the lowest in the Cleveland industrial market's history.
- The \$5.07/SF asking average rental rate for industrial properties as the second quarter of 2022 ended was the highest since the first quarter of 2001, and was amongst the highest ever.
- Only one of the six industrial submarkets posted negative net absorption.
- Over the last 10 years, the market has posted negative net absorption in only seven of the last 41 quarters.

Market Summary

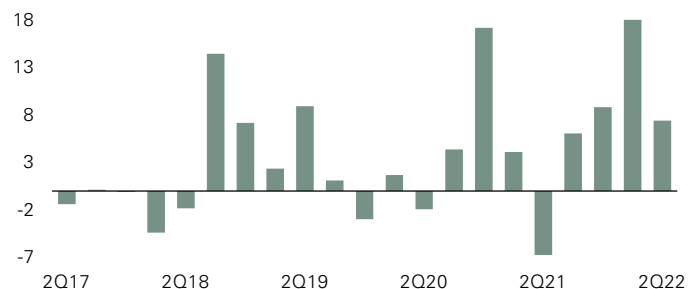
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	290.85M	290.67M	288.22M	↑
Vacancy Rate	4.2%	4.4%	4.7%	↓
Quarterly Net Absorption (SF)	743,455	1.9M	(672,055)	→
Average Asking Rent/SF	\$5.07	\$4.96	\$4.46	↑
Under Construction (SF)	2.9M	2.2M	4.04M	↑
Deliveries (SF)	165,006	1.2M	0	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, Hundred Thousands)



Rental Rates, Market Outlook

The second quarter of 2022 saw the overall average rental rate increase by \$0.11/SF to \$5.07/SF, the highest since the first quarter of 2001 and amongst the highest ever. Four of the six industrial submarkets saw an increase. The warehouse/distribution sector of the market dipped slightly, as its overall average asking rental rate dropped by \$0.02/SF to \$4.83/SF. The Class A warehouse/distribution asking rental rate ended the second quarter of 2022 at \$6.58/SF, up \$0.17/SF from the previous quarter.

Over the last six quarters, overall rates have steadily increased after taking a slight dip during the height of the pandemic.

In fact, since the second quarter of 2017, the average asking rental rate has risen by 8.8%. Over the last 10 years, it has gone up by nearly 21%; over the last year, rents have risen by 6.6%. It is anticipated that the average asking rental rate will continue to rise.

Supply and demand are nearly in line because developers in the Cleveland market haven't traditionally built a high volume of speculative warehouses. Yet, the market still favors landlords for a couple of key reasons: construction prices are very costly, which helps existing buildings in the market be considered by tenants; and investment in manufacturing facilities has increased in Rust Belt cities such as Cleveland due to the socioeconomic turmoil in Ukraine and China, which has precipitated more reshoring to the United States.

The Southeast Submarket

Vacancy in the Southeast submarket decreased by 40 basis points from the first quarter of 2022 to 4.3%, a result of accruing the most amount of space of any submarket, at 267,708 square feet in positive absorption. Year-to-date, the Southeast has 669,337 square feet in positive absorption over the first two quarters; 720,593 square feet of new product was under construction in this submarket, the second most of the submarkets. The Southeast also has the market's second highest inventory, at approximately 69.9 million square feet.

The Southeast's average asking rental rate was \$6.00/SF, the second highest in the market and up \$0.47/SF from the previous quarter. The warehouse/distribution asking rental rate in the Southeast increased by \$0.11/SF from the first quarter of 2022 to \$5.24/SF.

Of the many large and small industrial sales in the second quarter of 2022, only one of note took place in the Southeast: the 365,882-square-foot 1333-1373 S. Chillicothe Rd. in Aurora, which transferred for \$10.8 million, or \$29.52/SF, to Cleveland-based real estate development company Industrial Commercial Properties.

The Southeast will also be home to a couple of newly announced proposed construction projects: a 1.0-million-square-foot

speculative warehouse by Geis Companies and Stonemont Financial Group in Shalersville dubbed Turnpike Commerce Center, which is expected to be completed in 2023 pending public approvals; and a new 210,000-square-foot warehouse/headquarters project at 7400 Oakleaf Rd. in Oakwood Village for Interstate-McBee.

Leases of note that came out of the Southeast in the second quarter of 2022 were: a 289,645-square-foot sublease by Spectrum Diversified Design Solutions at 7005 Cochran Rd. in Glenwillow, one of the largest lease transactions of the past quarter; a 40,125-square-foot lease extension by Unitrex, Ltd. at 23500 Corbin Dr. in Bedford Heights; and ICM Distributing Company, Inc.'s renewal of 35,066 square feet at Twinsburg's 1755 Enterprise Pkwy.

Southwest Submarket News

The Southwest submarket finished the second quarter of 2022 with a vacancy rate of 3.8%, down by 40 basis points from the previous quarter, tied for the second lowest vacancy in the market. The Southwest accrued 120,042 square feet in positive absorption and had the most construction underway at 760,192 square feet as the quarter ended. The second quarter of 2022's positive absorption moved the submarket's year-to-date absorption tally into the positive at 17,465 square feet.

The Southwest's average asking rental rate was \$5.84/SF, down by \$0.45/SF from the previous quarter, the largest decrease of any submarket. The warehouse/distribution average asking rental rate was up by \$0.09/SF to \$5.83/SF.

Also in the Southwest, there were several significant building transfers, including the 135,412-square-foot property located at 5370 Wegman Dr. in Valley City, which sold to Swagelok, Co. for a confidential price.

Other notable property transfers in the Southwest were: 19388 Progress Dr., a 28,000-square-foot property in Strongsville that sold to Rumaani Holdings LLC & GYOM Realty LLC for \$2.35 million, or \$83.93/SF; and the 29,384-square-foot property located at 17831 Englewood Dr. in Middleburg Heights to Biynah Industrial Partners for \$2.07 million, or \$70.47/SF, as part of a national logistics portfolio purchase.

Of note in the Southwest were two construction projects: Scannell Properties's 310,080-square-foot Strongsville Commerce Center, located at 21487 Royalton Rd., with approximately 56,378 square feet still available, is due to deliver by the fourth quarter of 2022; and Stonemont's 450,112-square-foot Westfield Commerce Park broke ground and is due for completion in early 2023 at 8989 Lake Rd. in Seville.

RESEARCH Q2 2022

The South Central, Northwest, and Northeast

The South Central submarket finished the second quarter of 2022 with an average asking rental rate of \$6.47/SF, up by \$0.27/SF from last quarter, becoming the highest in the market. Its warehouse/distribution asking average asking rental rate was also the highest of any submarket at \$6.37/SF, up by \$0.11/SF from the first quarter.

The South Central's vacancy rate stayed flat at 4.6%, after the submarket recorded 9,919 square feet in negative absorption, the only negative absorption of the submarkets in the second quarter of 2022; 600,000 square feet of new product is under construction there.

Also in the South Central, there were a couple of prominent property transfers, including one of the past quarter's biggest sales in terms of price per square foot: the 187,000-square-foot data center located at 4150 W. 150 St. in Cleveland, which sold to StratCap through its real estate investment company Strategic Datasphere for \$16.05 million, or \$85.83/SF.

Another large property transfer in the South Central was: 5800 Grant Ave., a 206,417-square-foot property in Cuyahoga Heights that sold to DP 136 LLC for \$7.5 million, or \$36.33/SF.

Moving to the Northwest, this submarket again had the second-lowest average asking rental rate at \$4.48/SF, a \$0.09/SF decrease from the first quarter of 2022. Vacancy stayed flat at 2.2% and kept the Northwest the tightest in the market, as 8,508 square feet was positively absorbed. 220,000 square feet was under construction in the Northwest, which has long had the least amount of inventory in the market, measuring approximately 23.1 million square feet as the quarter ended.

A significant lease in the Northwest was RiverCap Ventures, LLC

signing a full-building, 109,075-square-foot lease at 1350 Moore Rd. in Avon. This location will house RiverCap's first Canvas facility, which will specialize in the conversion of retired wind turbine blades into innovative, one-of-a-kind furniture.

Heading east to the Northeast, this submarket registered 227,054 square feet in positive absorption in the second quarter of 2022, the second most of any submarket. This prompted its vacancy to fall from the prior quarter by 10 basis points to 3.8%. The Northeast has gained the most amount of space year-to-date, with 924,150 square feet of positive absorption. The submarket's average asking rental rate increased by \$0.07/SF to \$5.05/SF.

One sizable sale in the second quarter of 2022 in the Northeast was the long-anticipated transfer of General Electric's (GE) Nela Park complex. Located at 1705-1795 Noble Rd. in East Cleveland, the 1.07-million-square-foot facility sold for \$5.0 million, or \$4.66/SF to Phoenix Investors. GE Lighting leased back a portion of the space, and Phoenix intends to renovate the buildings on the property to prepare to lease out to new tenants.

The Downtown Submarket

The Downtown submarket again had the area's lowest asking average rental rate at \$3.79/SF, up \$0.01/SF from the previous quarter. The submarket's vacancy was the highest in the market, despite a decrease of 20 basis points from the past quarter to 5.0%. This was precipitated by 130,062 square feet of positive absorption.

The Downtown submarket was home to a significant lease transaction, as Candor Logistics signed a 73,936-square-foot lease at 18451 Euclid Ave. A notable sale here was the transfer of the 93,481-square-foot 3000 W. 121 St. to Gladstone Commercial Corporation for \$6.71 million, or \$71.80/SF, as part of a two-building portfolio (the other in Alabama) leased to Plasman.

Select Lease/User Transactions

Tenant	Building/Address	Submarket	Type	Square Feet
Spectrum Diversified Design Solutions	7005 Cochran Rd.	Southeast	Sublease	289,645
RiverCap Ventures, LLC	1350 Moore Rd.	Northwest	New	109,075
Candor Logistics	18451 Euclid Ave.	Downtown	New	73,936
Unitrex, Ltd.	23500 Corbin Dr.	Southeast	Extension	40,125
ICM Distributing Company, Inc.	1755 Enterprise Pkwy.	Southeast	Renewal	35,066

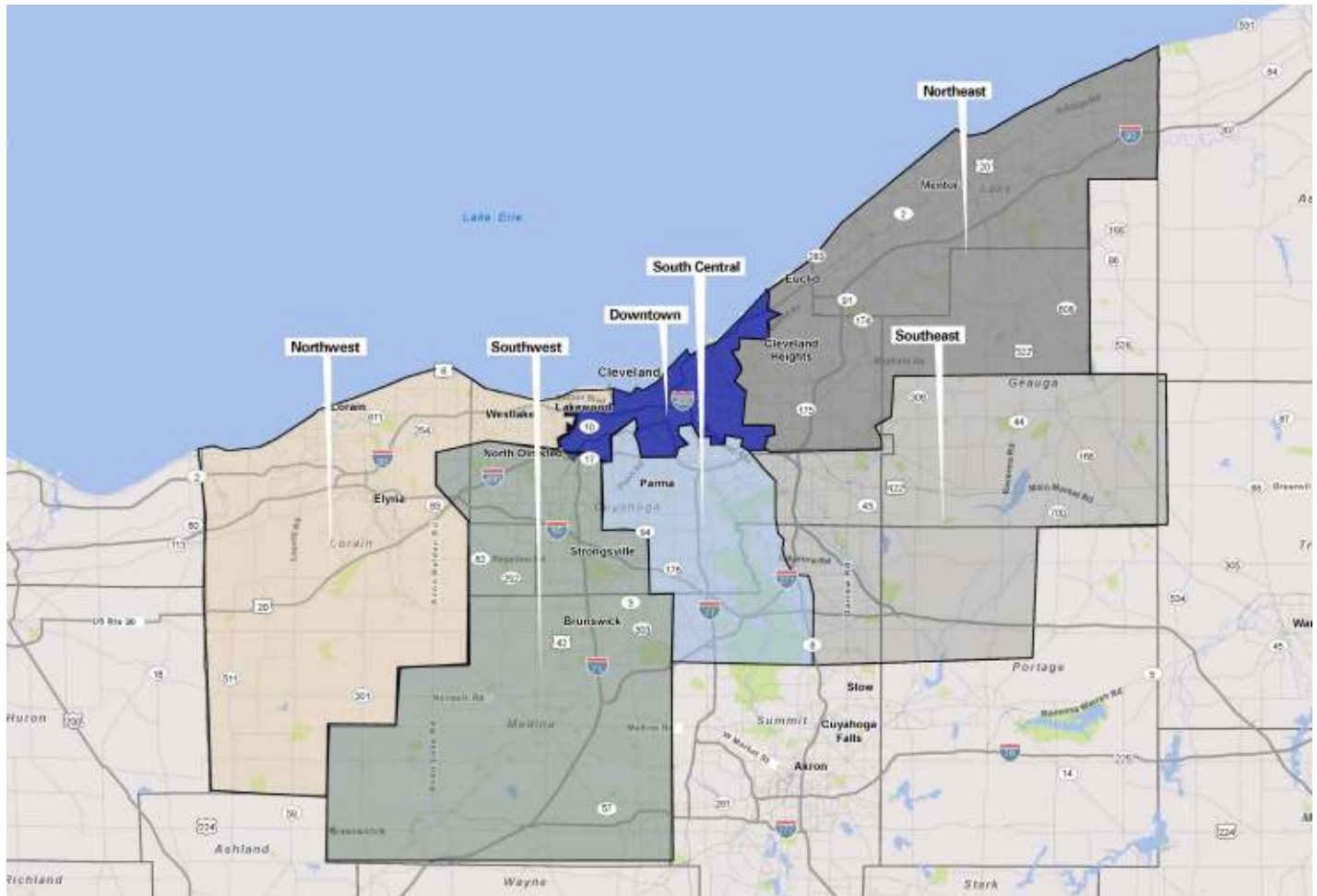
Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
4150 W. 150 St.	South Central	\$16,050,000	\$85.83	187,000
19388 Progress Dr.	Southwest	\$2,350,000	\$83.93	28,000
3000 W. 121 St.	Downtown	\$6,712,094	\$71.80	93,481
17831 Englewood Dr.	Southwest	\$2,070,636	\$70.47	29,384
5370 Wegman Dr.	Southwest	Confidential	n/a	135,412

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	71,857,204	354,775	5.0%	130,062	488,946	\$3.81	\$5.73	\$3.79
Northeast	58,254,691	240,288	3.8%	227,054	924,150	\$4.25	\$7.88	\$5.05
Northwest	23,121,735	220,000	2.2%	8,508	260,223	\$4.50	\$9.80	\$4.48
South Central	35,819,900	600,000	4.6%	(9,919)	278,016	\$6.37	\$7.84	\$6.47
Southeast	69,940,338	720,593	4.3%	267,708	669,337	\$5.24	\$7.79	\$6.00
Southwest	31,858,233	760,192	3.8%	120,042	17,465	\$5.83	\$7.11	\$5.84
Market Total	290,852,101	2,895,848	4.2%	743,455	2,638,137	\$4.83	\$7.57	\$5.07

Cleveland Industrial Submarkets



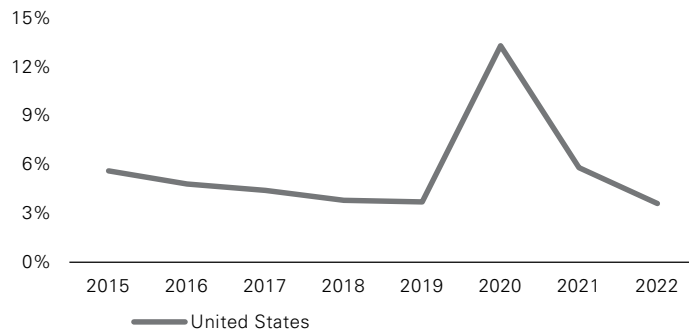
Economic Conditions

The Greater Cleveland economy gained back more jobs in the second quarter of 2022, as total payroll employment increased in May by 3.5% year-over-year. The national total payroll employment number was also up in May, by 4.5% year-over-year. The Consumer Price Index for Cleveland was up 9.0% year-over-year in May.

Only two industry sectors saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics, from May 2021 to May 2022: education and health services at -0.5% and financial activities at -1.0%. All other sectors saw an increase from the past year. The leisure and hospitality industry gained the most, by 13.6%; followed by other services at 10.6%; information at 6.9%; mining/logging/construction at 6.8%; professional and business services at 4.2%; manufacturing at 3.9%; government at 2.3%; and trade/transportation/utilities at 2.1%.

Unemployment Rate

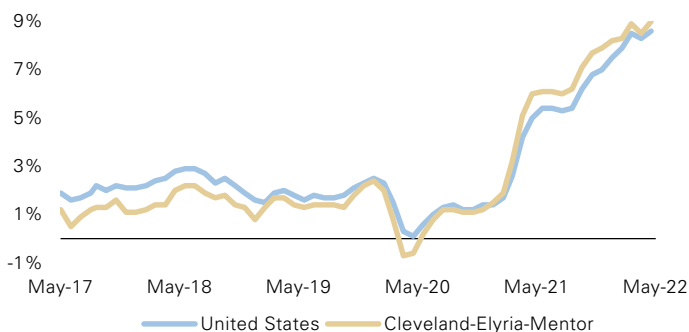
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

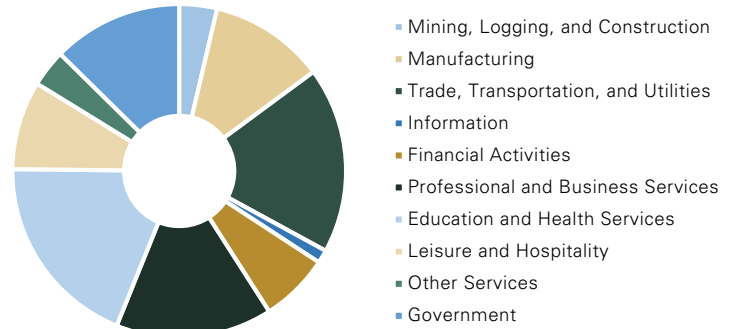
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

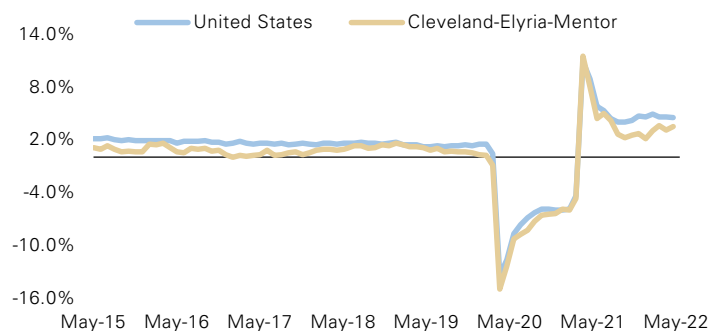
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

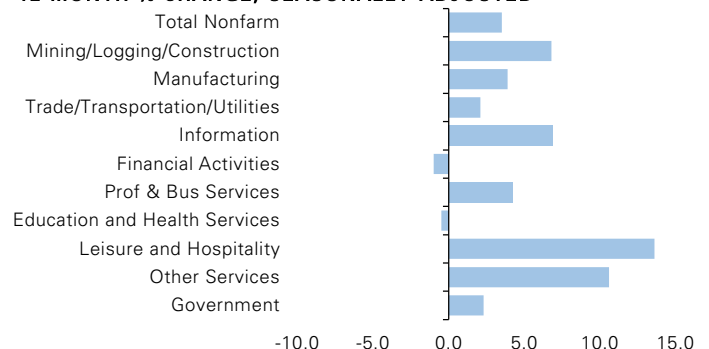
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics

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