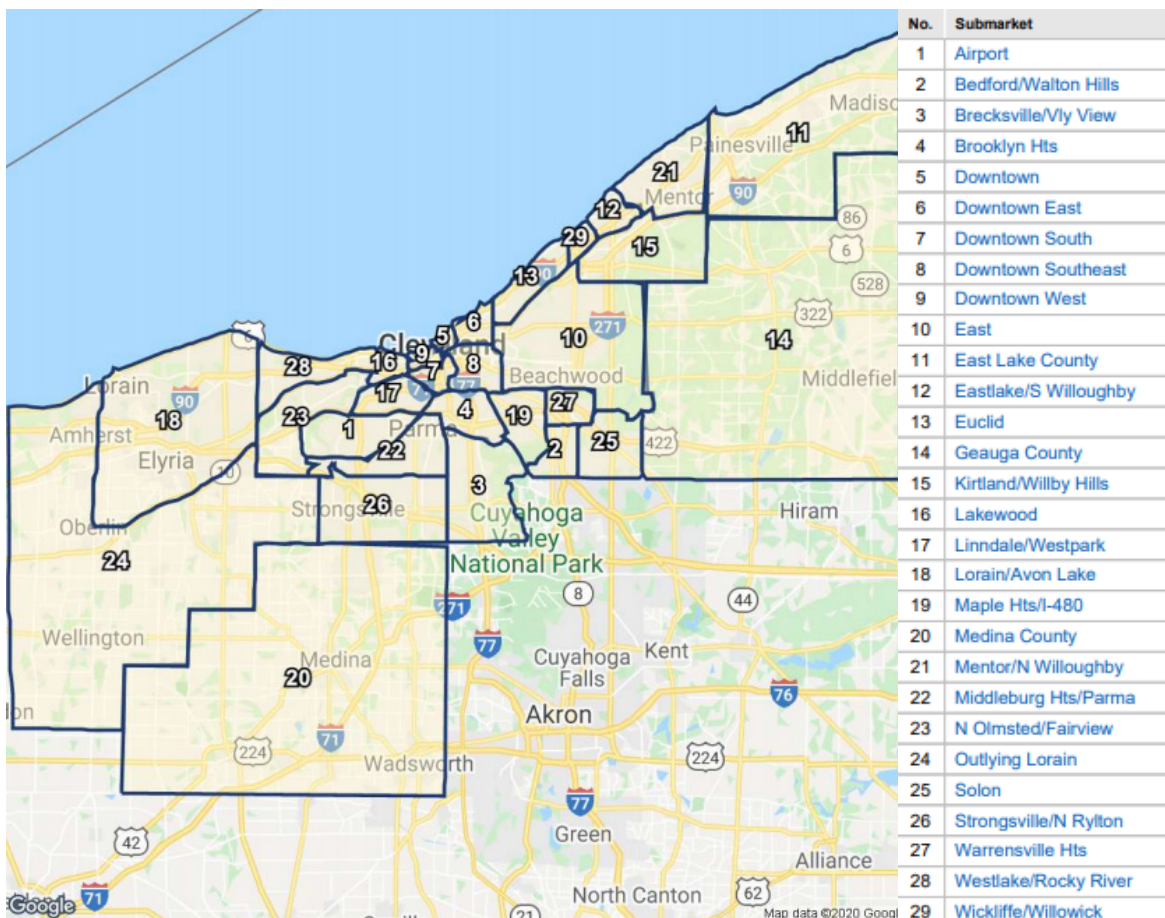


2020 Q2 INDUSTRIAL MARKET REPORT

Cleveland, OH

OVERVIEW

THE CLEVELAND MSA has a population of 2.05 million making it the 33rd most populous market in the United States. The City of Cleveland has an estimated population of 385,000. Cleveland is the 52nd most populous city in the US and is 31st in the nation in terms of economic output with a GDP of \$134 billion. The Cleveland market consists of five Ohio counties: Cuyahoga County, Geauga County, Lake County, Lorain County, and Medina County.



Much like the rest of the world, Cleveland is feeling the immediate fallout of the coronavirus pandemic. Unemployment claims have continued to increase with more than 960,000 Ohioans filing for unemployment as of April 18, 2020. Cleveland was already in the midst of rising unemployment and negative population growth. Unlike some other markets, Cleveland's economy is not as heavily saturated with retail, leisure, and hospitality which have been the hardest hit job sectors in America. Healthcare services is one of Cleveland's largest industries and the surge in healthcare demand could mitigate some of the negative impact. Cleveland Clinic and University Hospitals represent the market's two largest employers and are continually demonstrating strong growth with the recent real estate expansion announcements. UH has a \$200 million expansion of Ahuja Medical Center planned and Cleveland Clinic has a new hospital planned in Mentor.

Cleveland started 2020 with the positive news that Sherwin-Williams global headquarters would remain in Cleveland. The company initially planned to invest another \$600 million into the Cleveland market with a new 1 million square foot headquarters building in downtown Cleveland and a 500,000 square foot research facility in Brecksville. It is unclear how the current economic conditions will impact this corporate investment.

MARKET REVIEW

The coronavirus pandemic has had less of a negative impact nationally on the industrial sector than the office or retail sector. Many industrial operations are deemed an essential business in Ohio. E-commerce and 3PL businesses have experienced an increase in activity in the short-term due to increased home deliveries.

The Cleveland industrial market has a total of 349 million square feet of inventory. Manufacturing space represents 44% of the industrial supply compared to 23% for the United States. Cleveland has long been an affordable market for warehouse/distribution users with average rents of \$4.85 per square foot compared to the national average of \$7.92 per square foot. Annual average rent gains have been at 2% over the last decade compared to 3.7% for the United States overall. This is also due to Cleveland's large manufacturing presence as the market continues to lack as a major distribution hub.

Demand had already begun to weaken in Cleveland at the start of 2020. Net absorption totaled 624,000 square feet in 2019 compared to 2 million in 2018. This was due to lower lease volume in 2019 of just 3.2 million square feet, the lowest figure since 2010. Vacancy for warehouse/distribution product is at 3.7% as of May 2020. Cleveland has a relatively small inventory and new construction is limited, which will keep supply low in this market. This may end up being a benefit to Cleveland as we evaluate the effects of COVID-19 on the industrial sector.

The largest lease YTD was signed in January by Elyria based pipe supplier, Dura-Line which leased 140,000 square feet at a Class B warehouse building that was renovated in 2006.

New construction in Cleveland peaked in 2019 with 2.1 million square feet added into the market or 1% of the total warehouse/distribution inventory. Amazon was the largest delivery with the completion of an 857,000 square foot fulfillment center in the Euclid submarket. Ravago also occupied a 506,000 square

foot build-to-suit distribution center in the Medina submarket. 2020 is a different story. There are currently only three warehouse/distribution buildings under construction and one is a build-to-suit for a total of 519,400 square feet. Estimated completion dates have been adjusted for the coronavirus pandemic.

Leases Signed (2019-Q1 2020)					
Tenant	Address	City	Submarket	SF	Date Signed
Tap Packaging Solutions	4600 Tiederman Rd	Brooklyn	Linndale/Westpark	208,000	Jan-19
Consolidated Percision Products	26751 Bluestone Blvd	Euclid	Wickliffe/Willowick	145,000	Aug-19
Dura-Line	669 Sugar Ln	Elyria	Lorain/Avon Lake	136,920	Jan-20
Family, Farm & Home	745 Leos Bullocks Pky	Elyria	Lorain/Avon Lake	70,500	Dec-19
Great Lakes Brewing Company	13675 Darice Pkwy	Strongsville	Strongsville/N Rylton	67,540	Feb-20

Under Construction (2020)						
Developer	Tenant	Address	City	Submarket	SF	Estimated Completion
JKR Development	Spec	6825 Engle Rd	Cleveland	Airport	300,000	Sep-20
Scannell Properties	Spec	14720 Foltz Industrial Pkwy	Strongsville	Strongsville/N Royalton	159,400	Jul-20
Red Creek Dev Corp	Greenleaf	15335 Madison Rd	Middlefield	Geauga County	60,000	Aug-20

Sales activity has also been slowing down over the past few years. 2019 had total sales of just \$180 million which is 40% less than 2018. Average sales prices were \$28.20 per square foot which was 20% less than the previous year. The largest transaction in 2019 was a 33-property portfolio sale by AIC ventures to Brennan Investment Group for \$195.3 million in July 2019. Q1 2020 totaled just \$22.4 million in sales - the weakest quarterly sales volume in the past six years.

SUBMARKET SUMMARY – WAREHOUSE/DISTRIBUTION

Medina County		Lorain/Avon Lake	
Inventory SF	13.3 M	Inventory SF	11.8 M
Under Construction SF	0	Under Construction SF	0
12 Mo Net Absorp SF	(110 K)	12 Mo Net Absorp SF	129 K
Vacancy Rate	1.8%	Vacancy Rate	2.0%
Market Rent/SF	\$5.11	Market Rent/SF	\$4.74
Annual Rent Growth	2.7%	Annual Rent Growth	3.4%

Airport		Solon	
Inventory SF	10.8 M	Inventory SF	10.1 M
Under Construction SF	300 K	Under Construction SF	0
12 Mo Net Absorp SF	(99.6 K)	12 Mo Net Absorp SF	(91.7 K)
Vacancy Rate	3.7%	Vacancy Rate	2.6%
Market Rent/SF	\$4.85	Market Rent/SF	\$5.69
Annual Rent Growth	1.0%	Annual Rent Growth	4.3%

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