

FIGURES | CLEVELAND INDUSTRIAL | Q4 2022

Cleveland Industrial closes the year with positive net absorption and low vacancy

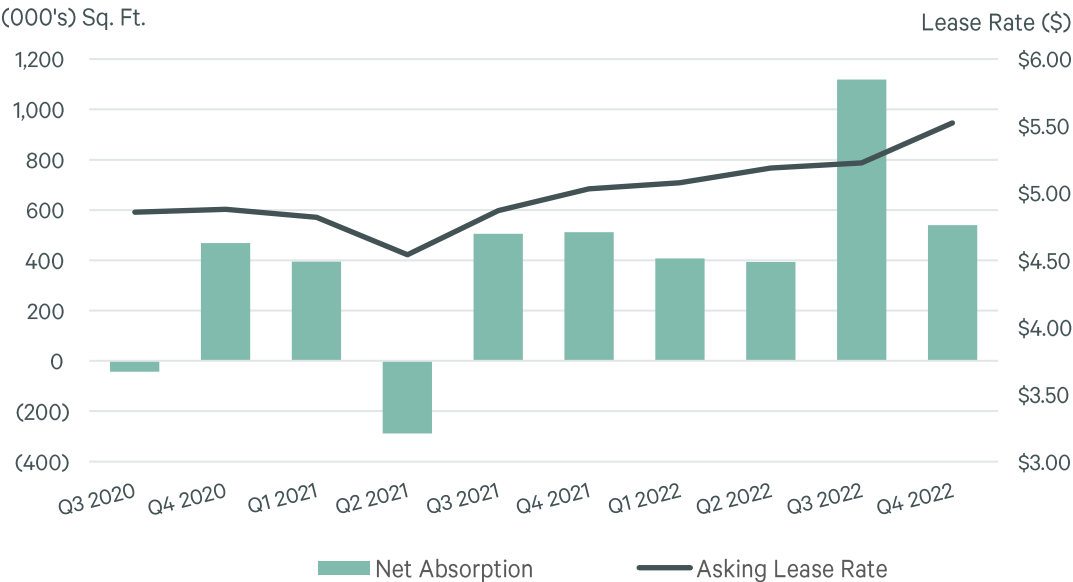


Note: Arrows indicate change from previous quarter.

Summary

- Throughout 2022, the Industrial market experienced low vacancy, positive net absorption, and overall strong activity. Closing the year with 2.8% vacancy rate, down 20 basis points (bps) from Q3 2022, demand has been resilient in Cleveland.
- New construction in the Cleveland market has decreased quarter-over-quarter, sitting at 947,527 sq. ft. in Q4 2022. Growing economic uncertainty, financing difficulties, and high supply costs are not only creating lengthier and harder to estimate timelines but causing the momentum of new construction to halt.
- Cleveland saw an increase in average asking lease rates from \$5.22 to \$5.52 quarter-over-quarter. Throughout the country, landlords are pushing for rent increases, and this is evident in the Cleveland market. Rents are also seen rising due to overall increases in project costs.
- Net absorption totaled 539,199 sq. ft. and was highly concentrated in the Southwest submarket.

FIGURE 1: Historical Net Absorption vs. Asking Lease Rates



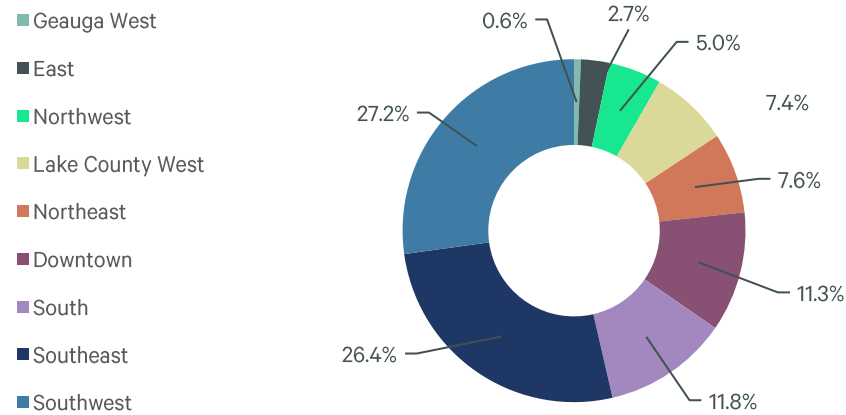
Source: CBRE Research, Q4 2022

Market Stats

Cleveland's vacancy rate decreased by 20 bps to 2.8% quarter-over-quarter. This was mostly due to tenants occupying previously vacant space. For example, Evergreen Industrial Batteries moved into the previously vacant, 150,000 sq. ft. space at 7000 Denison Ave. Though market activity was high throughout 2022, there are still many false starts and slow decisions. The Northwest submarket holds the lowest vacancy rate, sitting at 0.9% in Q4 2022. The submarket with the highest vacancy rate in Q4 2022 was the East, with 4.8% vacant.

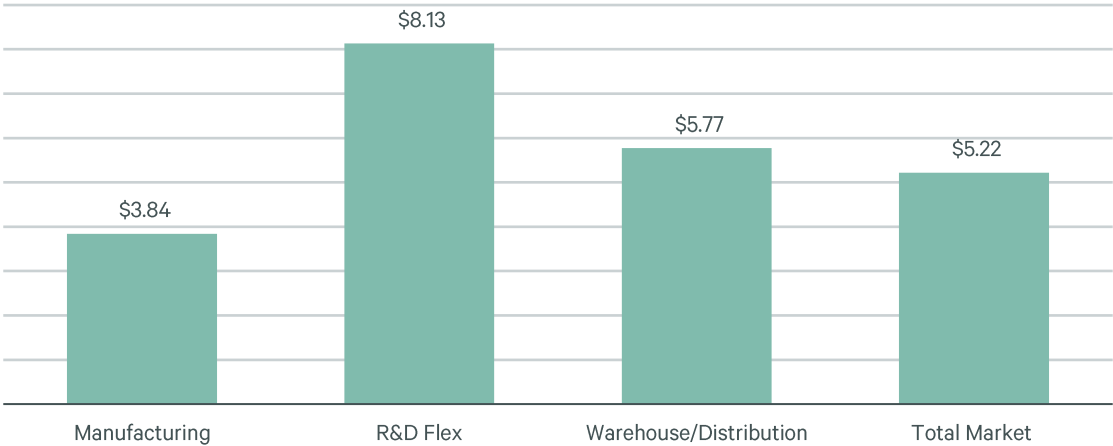
The market holds 15,731,808 sq. ft. of available space, with over 27% being in the Southwest submarket.

FIGURE 2: Total Available Space by Submarket



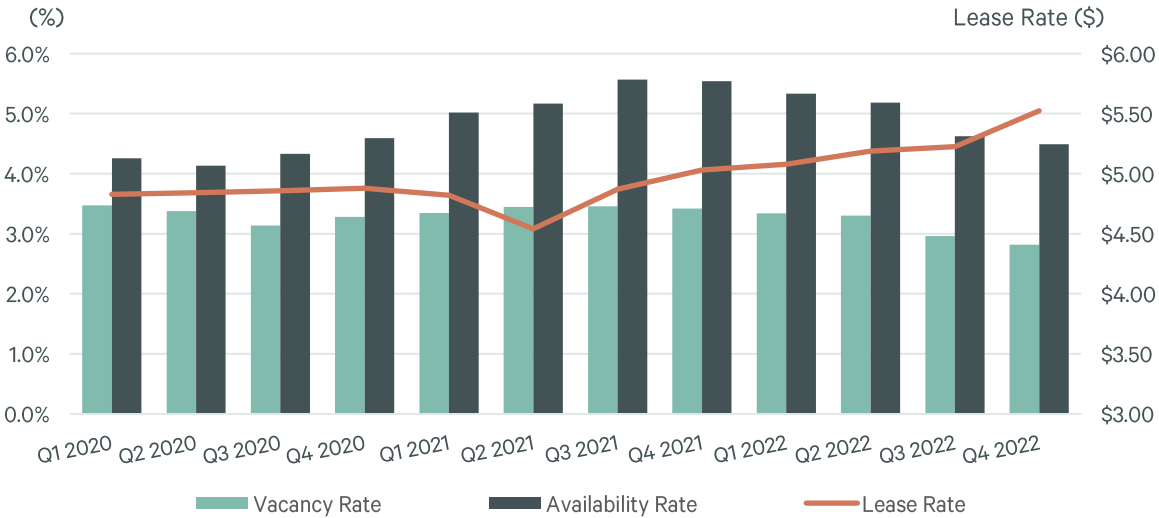
Source: CBRE Research, Q4 2022

FIGURE 3: Average Lease Rates by Property Type



Source: CBRE Research, Q4 2022

FIGURE 4: Vacancy, Availability, and Direct Asking Lease Rates



Source: CBRE Research, Q4 2022

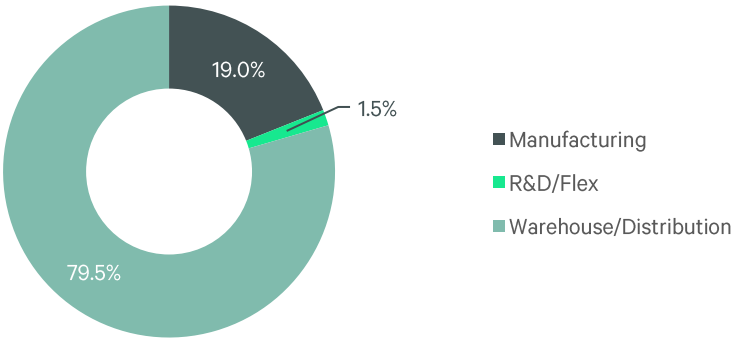
Future Construction Completions

The Southwest submarket saw the most industrial space under construction in Q4 2022 with 364,000 sq. ft. This accounts for the speculative building underway at 18300 Snow Rd in Brookpark, which is due to be delivered in early 2023.

Cleveland has seen more warehouse/distribution deliveries than any other property type since Q4 2019. Over 79.5% of construction completions were warehouse/distribution, totaling 3,904,686 sq. ft. of new space in the market.

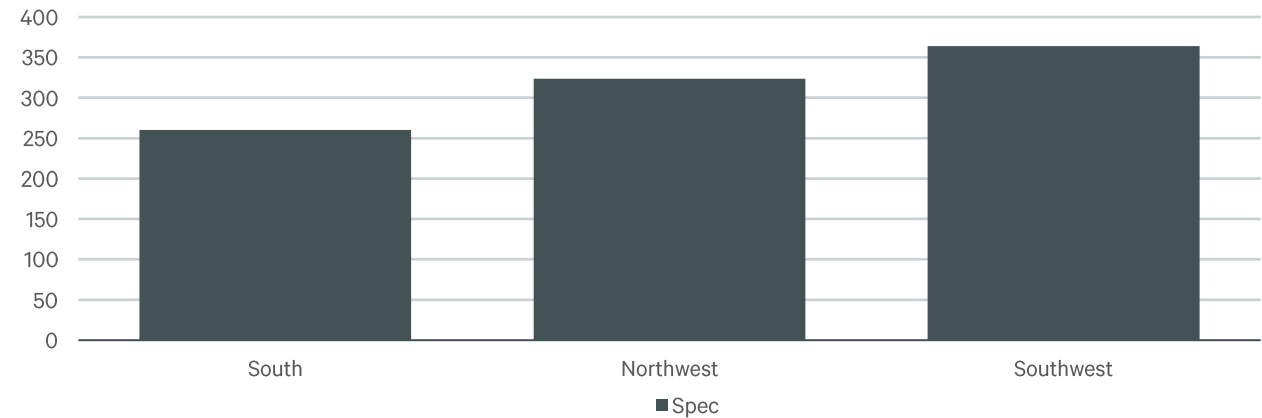
Construction completions were high this quarter, with 997,758 sq ft. of first-class space delivered. Because of this, product under construction dipped down, from 1.6M sq. ft. in Q3 2022 to 947,527 sq. ft. in Q4 2022.

FIGURE 5: Historical Construction Completions by Property Type (Q4 2019 – Q4 2022)



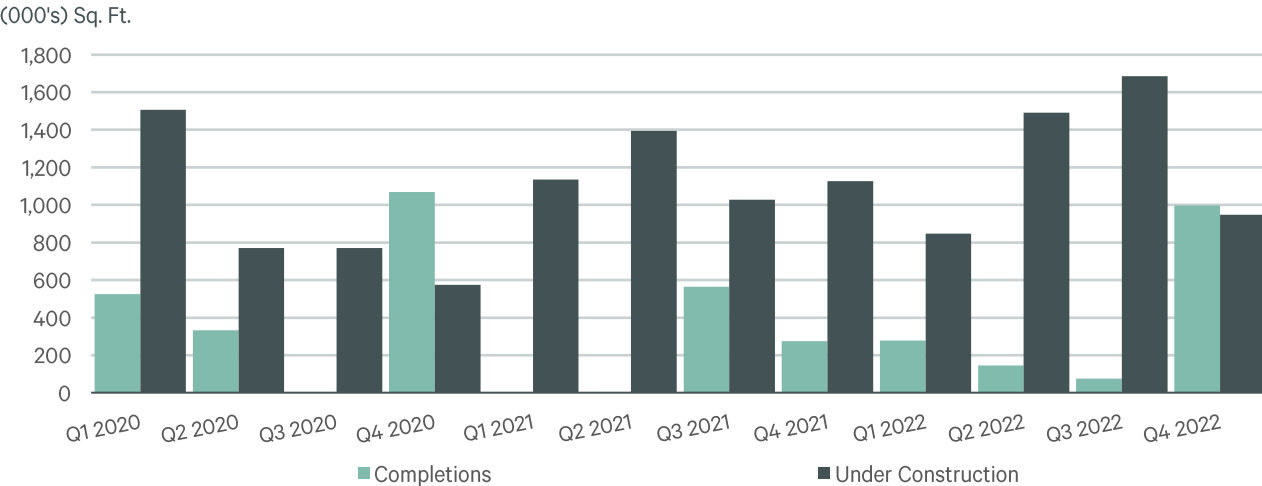
Source: CBRE Research, Q4 2022

FIGURE 6: Future Construction Completions by Submarket Under Construction (000)'s Sq. Ft.



Source: CBRE Research, Q4 2022

FIGURE 7: Construction Completions (000's) Sq. Ft.



Source: CBRE Research, Q4 2022

Leasing and Sales Activity

Q4 2022 saw the most leasing activity of the year with 2.1 million sq. ft. of leases signed, 83% of which were warehouse/distribution spaces. Warehouse/distribution properties also experienced the most leasing activity throughout all of 2022, accounting for 78% of total leases.

The largest lease of Q4 2022 occurred when Tremco, Inc. signed for 412,160 sq. ft. at Heritage Business Park.

Leasing activity continues to be active in the third-party logistics sector. 2022 saw major leases signed by DSV, Xpress Global Systems, Secor Logistics, and Veho. Mitigating the lack of labor, low inventory, supply chain issues, and transportation costs has increased demand for 3PL's in the Cleveland market.

First Industrial Realty Trust Inc. sold their final set of Northeast Ohio properties in Q4 2022. The six buildings total 1.2M sq. ft. and are located throughout Glenwillow and Twinsburg. The notable portfolio sold to EQT Exeter for \$106.5M.

FIGURE 8: Notable Sales and Lease Transactions

Buyer	Size (SF)	Address	Submarket	Sale Price
Stonemont Financial Group	123,366	10575 Memphis Ave	Southwest	\$53,911,290
Setzer Properties	88,000	12901 Snow Rd	Southwest	\$20,393,000
Omega Industrial Realty	126,000	19681 Commerce Pkwy	Southwest	\$13,700,000
Quality Steel Storage, LLC	60,500	4920 French Creek Rd	Northwest	\$12,500,000
Dura-Line Corporation	256,595	800 Garden St	Northwest	\$9,000,000

Tenant	Size (SF)	Address	Submarket	Lease Transaction Type
Tremco, Inc.	412,160	23555 Euclid Ave	Northeast	New Lease
Univar Solutions USA, Inc.	129,600	1840 – 1842 Enterprise Pkwy	Southeast	Renewal
Jade Sterling Steel Company, Inc.	100,000	23901 Aurora Rd	Southeast	New Lease
Secor Logistics	82,831	5638 Transportation Blvd	South	New Lease

Source: CBRE Research, Q4 2022

Economic Outlook

Everybody from Jerome Powell to single parents and Wall Street banks have been laser focused on inflation during the past year. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates, which are curtailing demand for housing and autos. Despite this good news inflation remains a menace. Food and shelter prices are heightened, and fears persist that inflation is embedded in the labor market.

Consequently, the Federal Reserve continues its aggressive tightening program. The pace of recent rate hikes has been the most dramatic in decades and this has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023, means that firms are looking to cut costs, helping to fulfill recessionary prophecies.

Some positive signals can be found in monthly payroll gains, but other labor market metrics are not so sanguine. Data from Challenger, Gray & Christmas shows that the current level of layoff announcements is consistent with past recessions. This is paired with business surveys exhibiting deteriorating activity and consumers grappling with eroding savings. The upshot is we believe the economy will face a moderate recession in 1H 2023.

FIGURE 9: Market Statistics

Submarket	Net Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Availability Rate (%)	Q4 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Asking Rate (\$/Sq. Ft.)	Under Construction (Sq. Ft.)
Downtown	44,392,850	3.5%	3.2%	110,992	205,947	\$3.77	-
East	6,162,281	4.8%	5.5%	(51,439)	(151,965)	\$9.16	-
Geauga West	2,129,734	2.9%	3.8%	(12,000)	16,650	\$7.31	-
Lake County West	26,438,562	2.2%	3.5%	39,616	294,774	\$4.78	-
Northeast	26,946,967	3.0%	3.6%	198,000	116,301	\$4.27	-
Northwest	32,934,071	0.9%	1.9%	150,008	265,539	\$5.76	323,527
South	37,885,763	2.3%	3.9%	15,954	509,078	\$5.96	260,000
Southeast	57,770,941	3.4%	5.8%	(192,771)	762,233	\$6.24	-
Southwest	46,782,699	3.2%	7.3%	280,839	439,737	\$5.50	364,000
Total Market	281,443,868	2.8%	4.5%	539,199	2,458,294	\$5.52	947,527

Property Type	Net Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Availability Rate (%)	Q4 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Asking Rate (\$/Sq. Ft.)	Under Construction (Sq. Ft.)
Warehouse/ Distribution	136,568,067	3.8%	6.30%	273,436	1,863,226	\$5.77	947,527
Modern Bulk*	14,740,597	9.2%	14.10%	350,590	1,513,585	\$6.56	-
Manufacturing	124,388,828	1.7%	2.40%	244,782	410,129	\$4.00	-
R&D/Flex	19,511,995	2.9%	4.70%	20,981	184,939	\$8.13	-
Total Market	281,443,868	2.8%	4.5%	539,199	2,458,294	\$5.52	947,527

*Modern Bulk is defined as Warehouse/Distribution properties built after 1999, sized 100,000 sq. ft. and above, and a clear height of 24' and above.

Source: CBRE Research, Q4 2022

FIGURE 10: Warehouse/Distribution Market Statistics

Submarket	Net Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Q4 2022 Net Absorption (Sq. Ft.)	Asking Rate (\$/Sq. Ft.)
Downtown	24,193,887	2.1%	9,000	\$5.63
East	2,787,185	5.3%	(44,353)	\$6.71
Geauga West	926,688	3.2%	0	\$6.92
Lake County West	8,892,898	5.7%	40,270	\$4.27
Northeast	9,700,821	2.9%	198,000	\$6.83
Northwest	11,109,661	1.9%	(2,992)	\$4.76
South	19,199,806	3.5%	(17,229)	\$5.73
Southeast	38,630,418	4.7%	(178,395)	\$6.16
Southwest	22,101,681	4.8%	269,135	\$5.47
Total Market	137,543,045	3.8%	273,436	\$5.77

FIGURE 11: Manufacturing Market Statistics

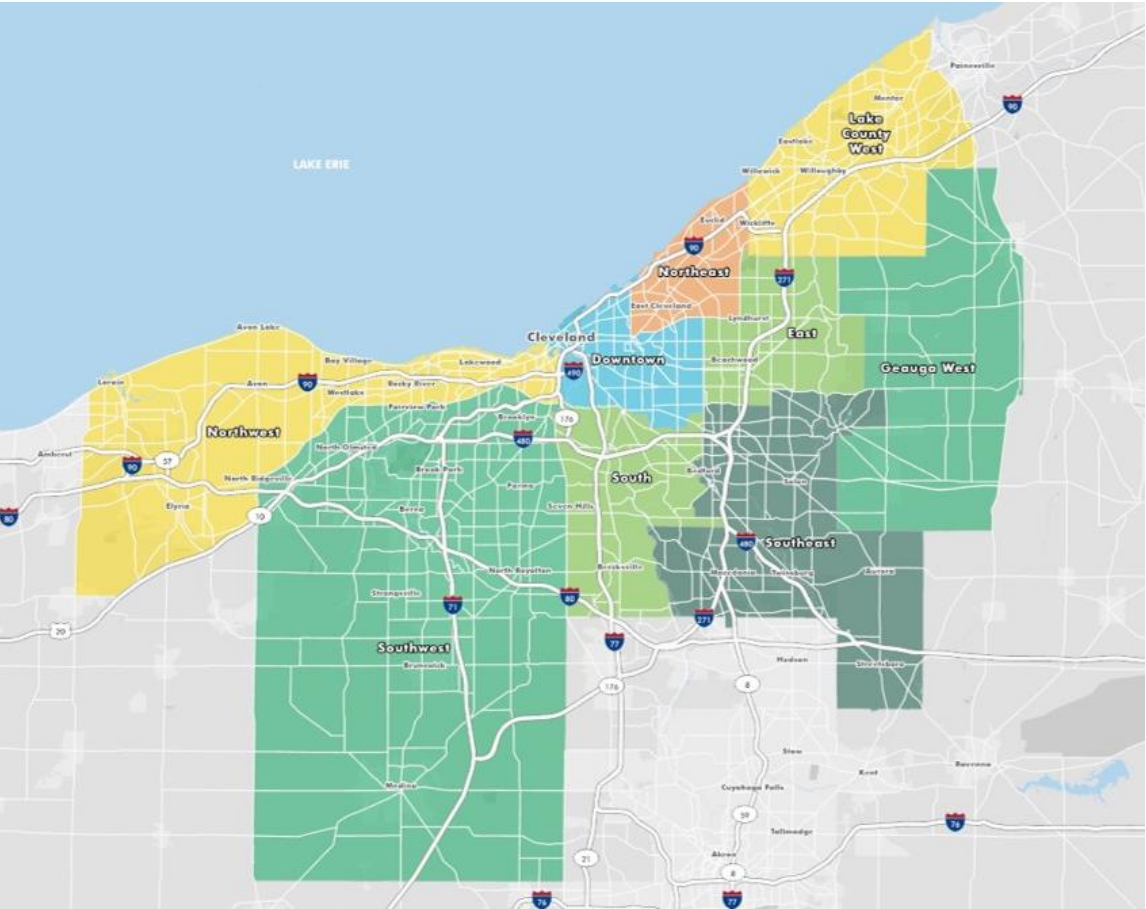
Submarket	Net Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Q4 2022 Net Absorption (Sq. Ft.)	Asking Rate (\$/Sq. Ft.)
Downtown	18,452,929	5.6%	101,992	\$3.50
East	1,662,652	1.2%	0	\$10.00
Geauga West	923,414	3.6%	(12,000)	\$7.41
Lake County West	14,738,871	0.2%	11,639	\$4.63
Northeast	16,854,601	3.1%	0	\$2.86
Northwest	20,756,085	0.3%	150,000	\$7.26
South	14,609,316	0.5%	10,837	\$5.93
Southeast	14,347,754	0.2%	(9,890)	\$8.54
Southwest	22,043,206	1.4%	(7,796)	\$4.64
Total Market	124,388,828	1.7%	244,782	\$4.00

Source: CBRE Research, Q4 2022

FIGURE 12: R&D/Flex Market Statistics

Submarket	Net Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Q4 2022 Net Absorption (Sq. Ft.)	Asking Rate (\$/Sq. Ft.)
Downtown	1,746,034	1.4%	0	\$5.55
East	1,712,444	7.5%	(7,086)	\$11.44
Geauga West	279,632	0.0%	0	\$16.58
Lake County West	2,806,793	1.2%	(12,293)	\$8.32
Northeast	391,545	0.0%	0	\$5.50
Northwest	1,068,325	0.0%	3,000	\$6.75
South	4,076,641	2.7%	22,346	\$7.60
Southeast	4,792,769	3.0%	(4,486)	\$6.58
Southwest	2,637,812	4.8%	19,500	\$8.52
Total Market	19,511,995	2.9%	20,981	\$8.13

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Industrial buildings 10,000 sq. ft. or greater.

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