

1Q24

Cleveland Industrial Market Overview

NEWMARK

Market Observations

Economy

- The Cleveland-Elyria-Mentor Metro’s economy gained back a modest number of jobs in the first quarter of 2024, as total nonfarm employment increased annually by 0.6% in February.
- The unemployment rate for the Cleveland market rose to 3.8% in both January and February 2024 after sitting at 3.7% from September to December of 2023.
- Of the three industrial-using or adjacent industries only the construction sector grew, by 2.2%. The trade/transportation/utilities sector saw no growth, while the manufacturing sector declined by 1.2%.

Prominent Transactions and Occupations

- Ark Transportation and related companies signed and occupied the long-vacant sublease at Strongsville’s 13000 Darice Parkway in the Southwest submarket.
- Kraftworth Inc. signed a 62,394 SF lease at Cornerstone Business Park’s 8796 Independence Pkwy. in Twinsburg.
- In the third quarter of 2023, logistics firm FNS signed a full-building lease at the 434,000-SF Gateway Commerce Center, 10242 State Route 43 in Streetsboro. The building stood empty for nearly two years since completion.

Leasing Market Fundamentals

- The Cleveland industrial market tallied 992,647 SF in positive absorption in the first quarter and there was no new product delivered. As a result, the vacancy rate decreased by 30 basis points to 4.3% from 4.6% in the fourth quarter of 2023. Vacancy has remained below the long-term average of 8.0% since 2014.
- In the first quarter of 2024, demand for industrial space was at its lowest since the first quarter of 2021. Total leasing activity for the quarter measured approximately 1.5 million SF, down from 2.0 million SF in the previous quarter.
- The average asking rent for the first quarter was \$6.21/SF, the highest ever for the Cleveland industrial market – up by \$0.03/SF from the previous quarter, marking 10 straight quarters of asking rates at or over \$5.00/SF and two straight quarters over \$6.00/SF.

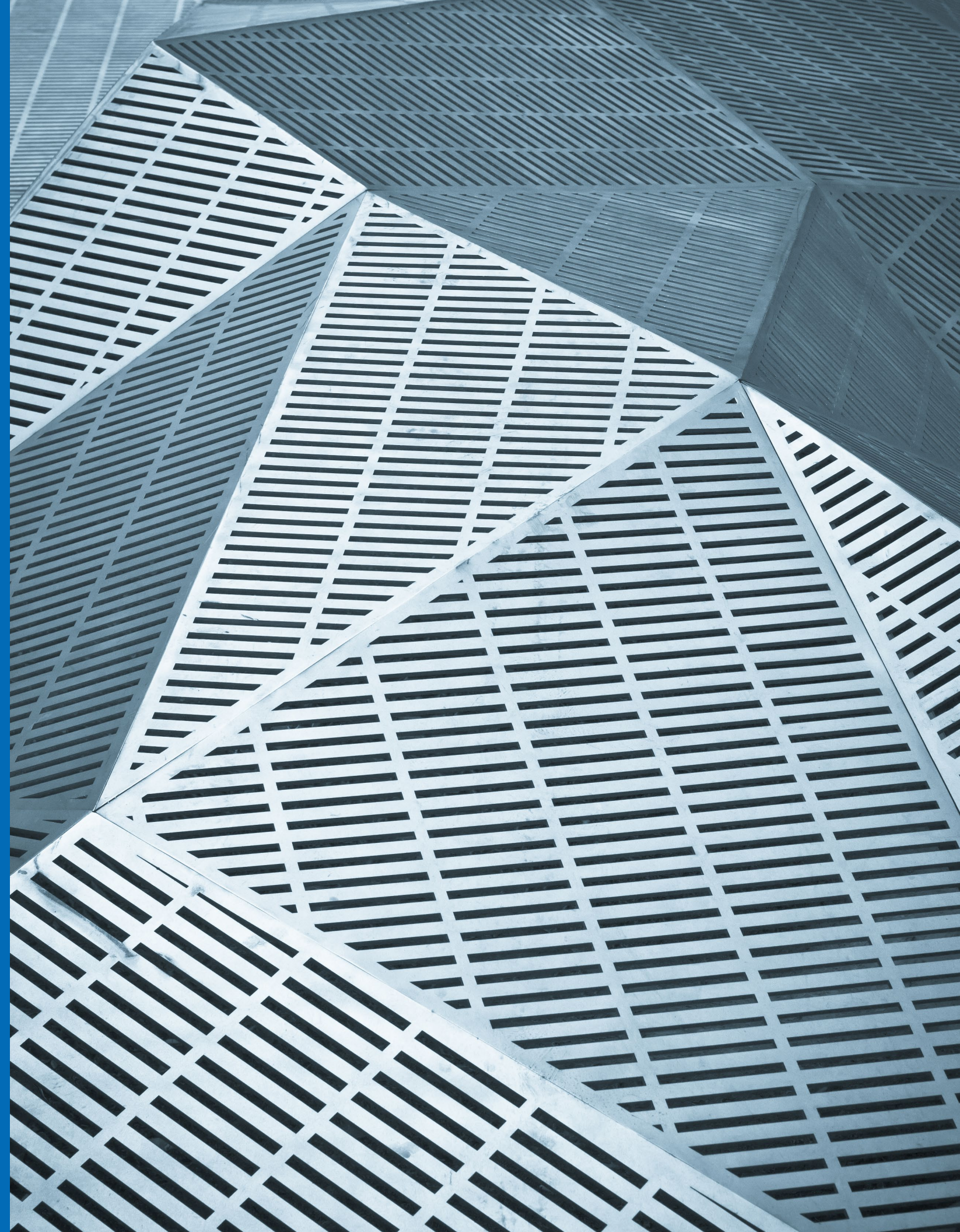
Outlook

- The Cleveland industrial market is positioned for continued growth, albeit at a moderated pace compared to previous years. The key indicators such as vacancy rates, absorption figures, leasing activity, and rental rates suggest a market that is adapting to shifting demands and economic conditions.
- While Class A leasing volumes are expected to rebound, the emphasis on manufacturing and smaller deals may redefine market strategies. Investors and occupants alike should monitor these trends closely, as they signal both challenges and opportunities ahead.
- The industrial market’s resilience, underscored by sustained rental growth and low vacancy rates, points to its fundamental strength. However, stakeholders should remain vigilant, adapting to the evolving landscape to leverage opportunities presented by the market's current dynamics.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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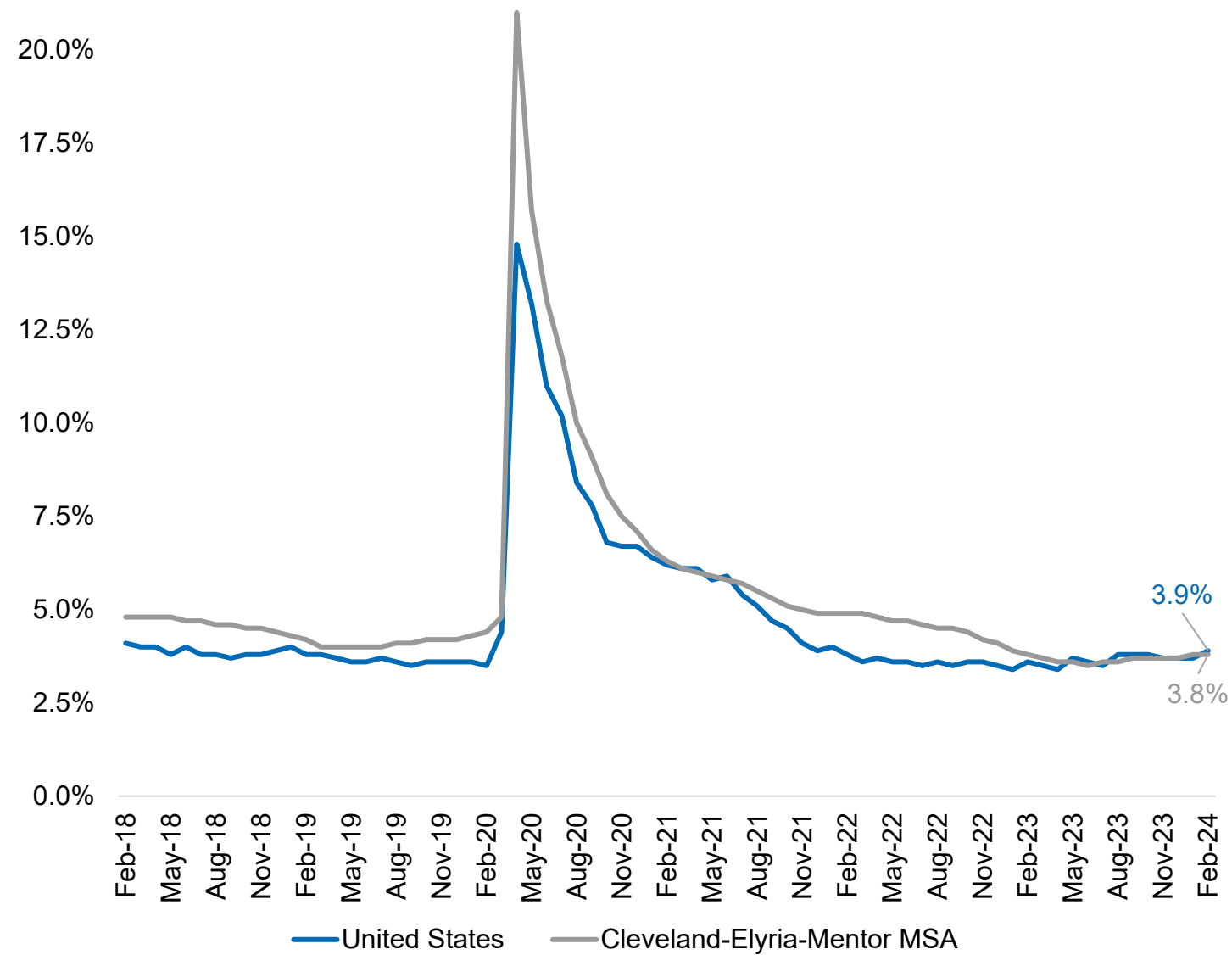
Economy



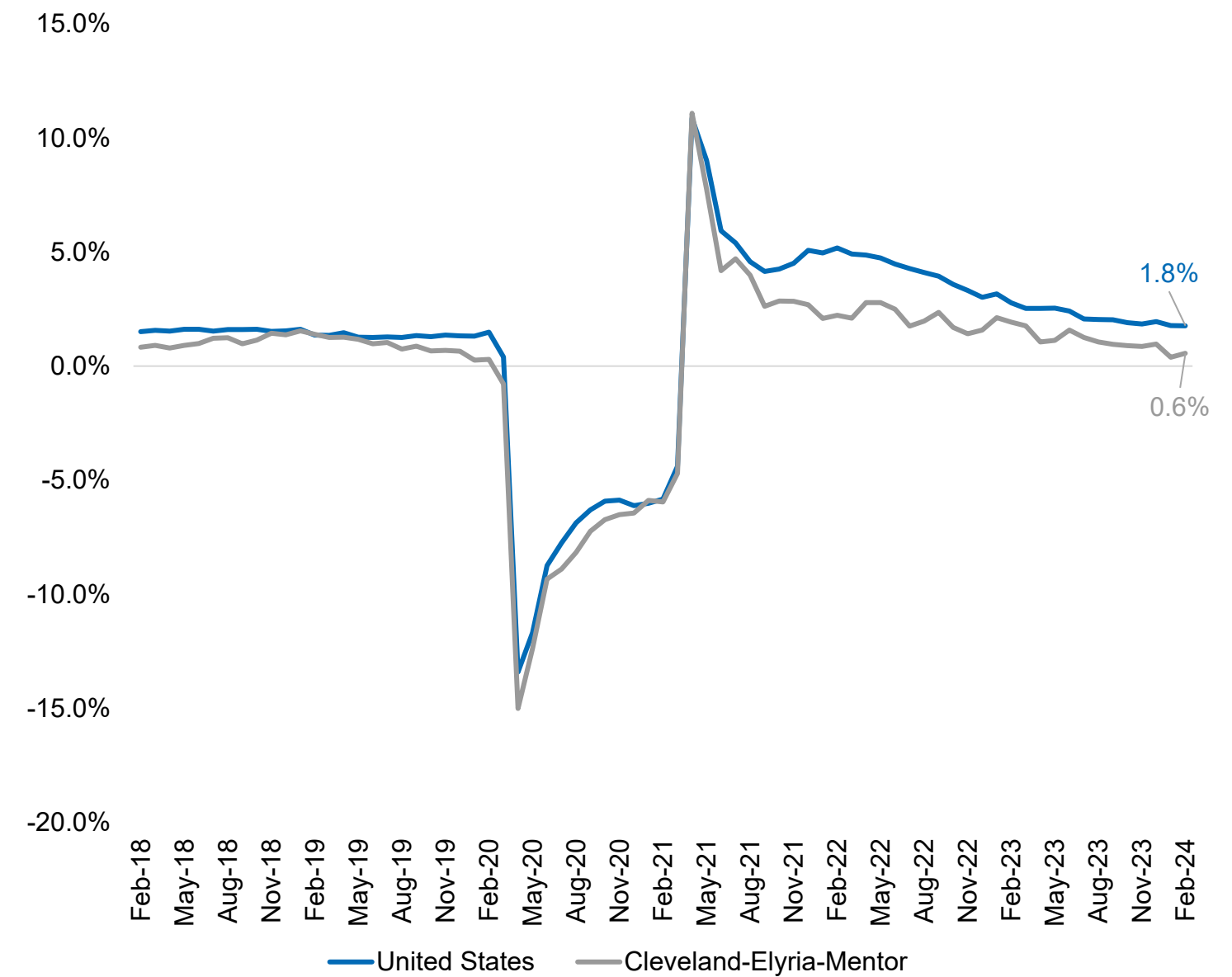
Cleveland and United States Unemployment and Employment Trends

The Cleveland-Elyria-Mentor Metro's economy gained back a modest number of jobs in the first quarter of 2024, as total nonfarm employment increased annually by 0.6% in February. By contrast, national nonfarm employment increased by 1.8%. The unemployment rate for the Cleveland-Elyria-Mentor Metro rose to 3.8% in both January and February 2024 after sitting at 3.7% from September to December of 2023. The national unemployment rate decreased to 3.9% after three consecutive months at 3.7%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

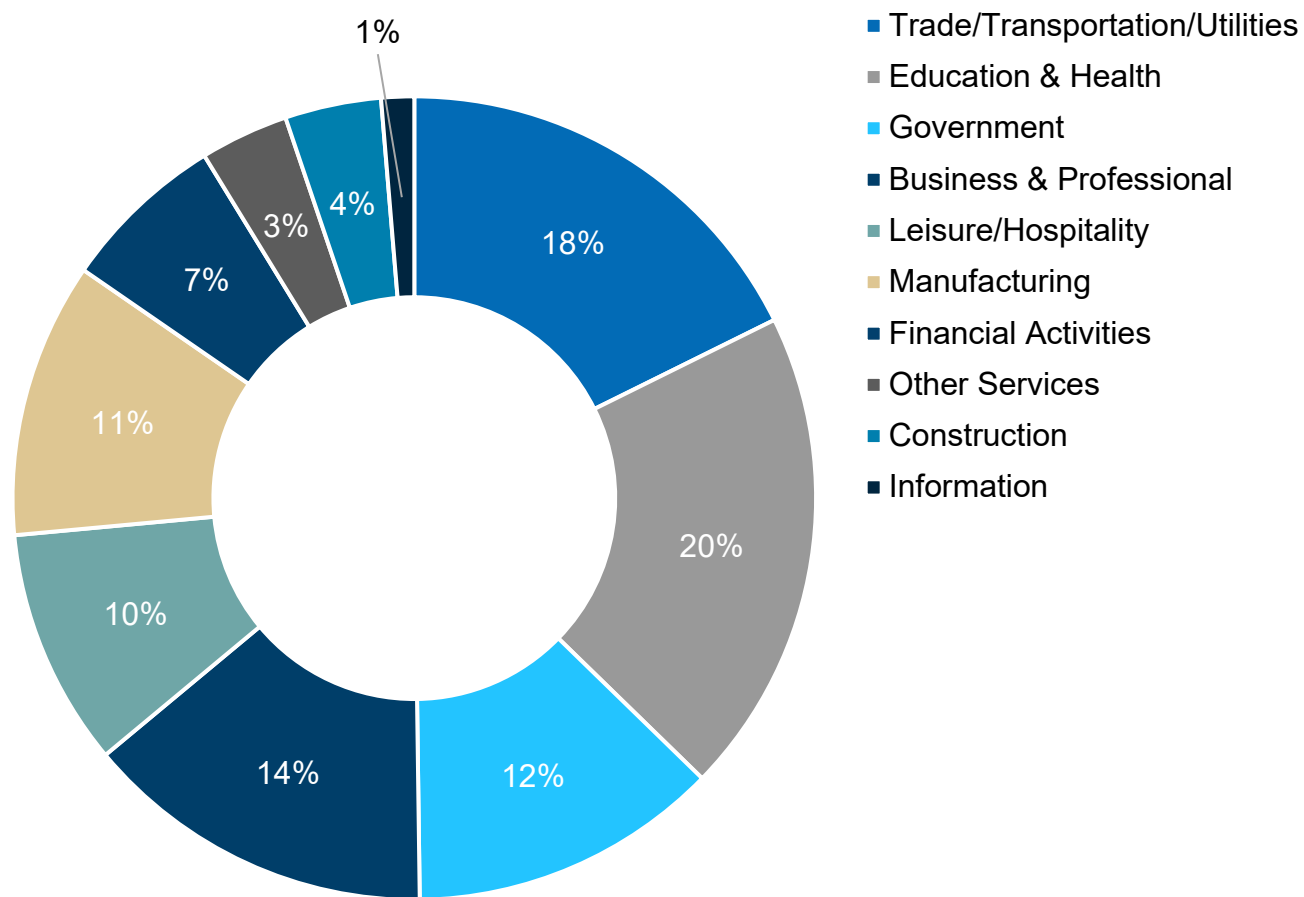


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

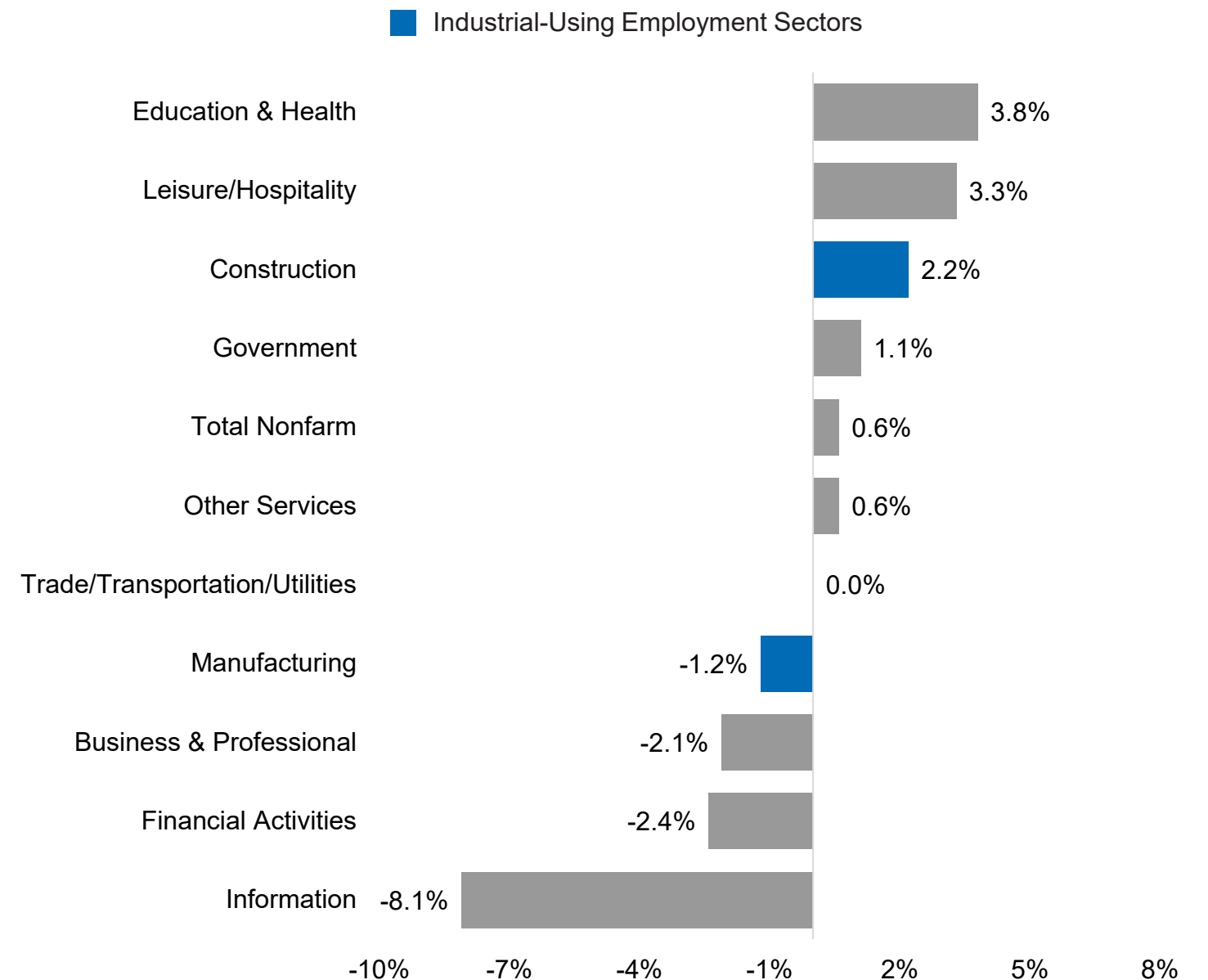
Cleveland Market Sees Job Growth in One of Three Industrial-Using Sectors

Six industry sectors in the Cleveland market saw employment gains from February 2023 to February 2024. Of the three industrial-using or adjacent industries only the construction sector grew, by 2.2%. The trade/transportation/utilities sector saw no growth, while the manufacturing sector declined by 1.2%.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

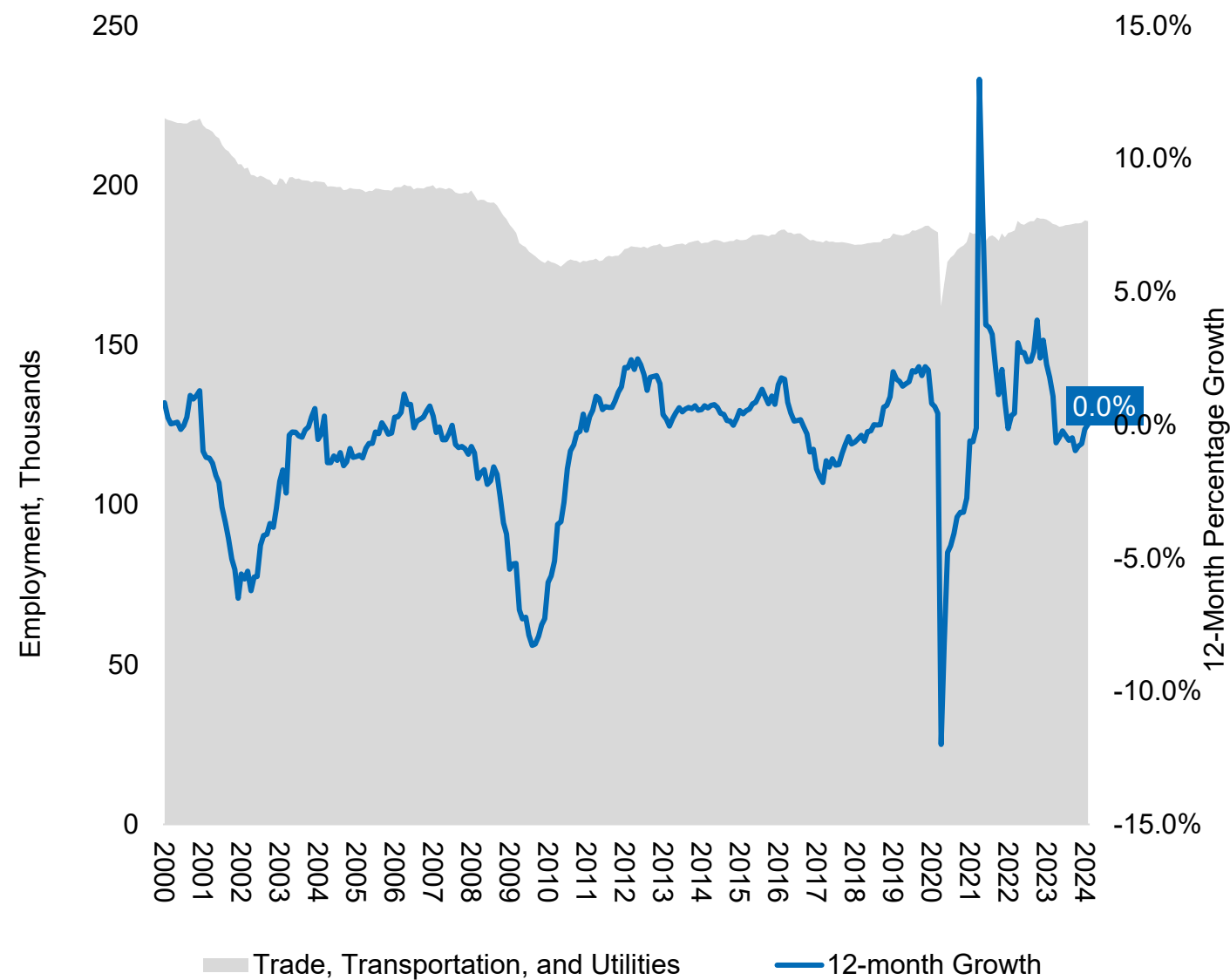


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

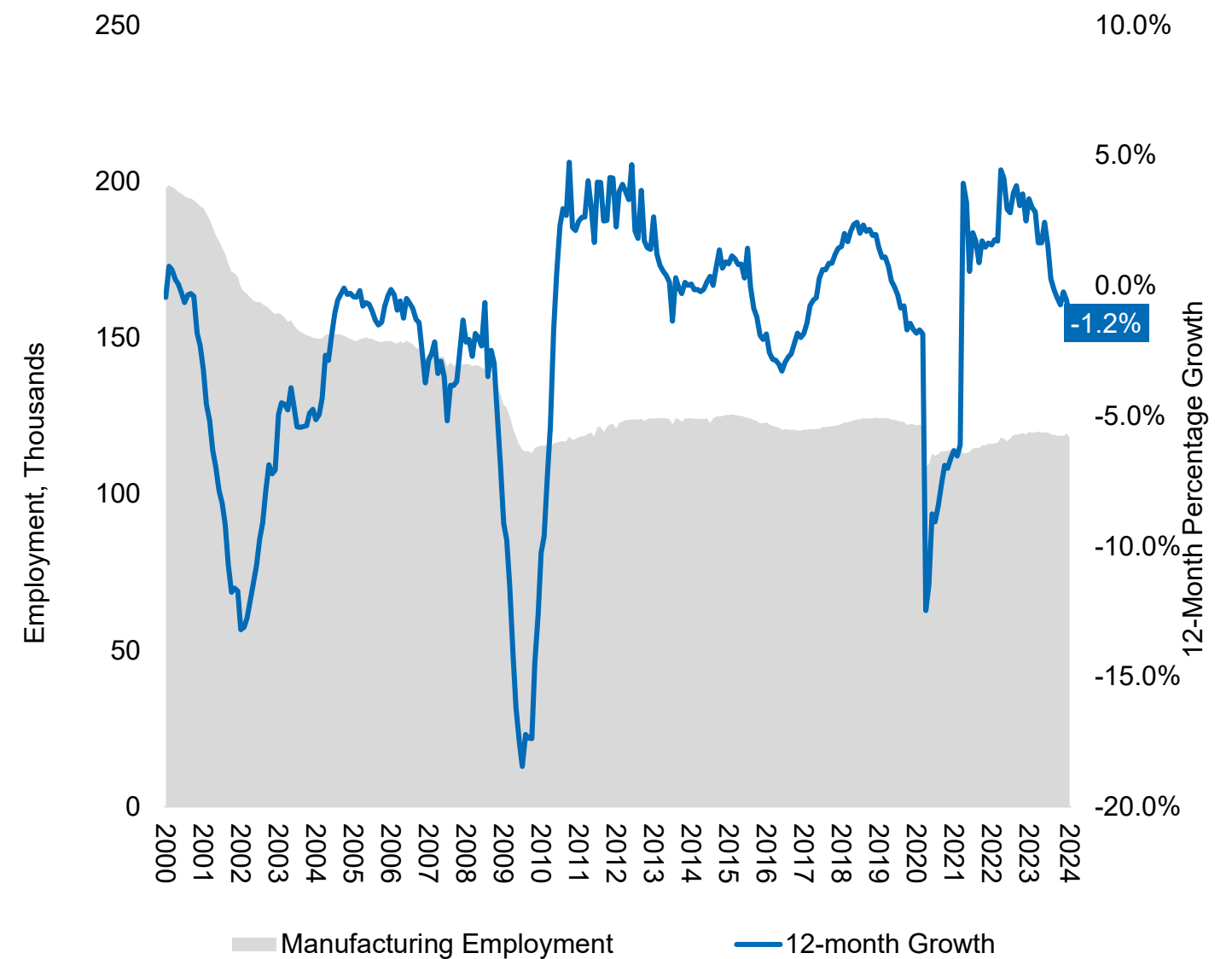
Industrial Employment Tepid

The trade/transportation/utilities sector in the Cleveland market had zero percent growth year-over-year in February, while manufacturing employment tallied negative 1.2% growth. These results continue to demonstrate ambiguity for the market going forward. Cleveland has a long history of manufacturing, resulting in a skilled and experienced workforce, supported by ongoing reshoring nationally and locally. However, unlike positive growth in early 2023, the lack of growth in 2024 raises questions about future vitality. Activity in the trade, transportation, and utilities sector is also tepid.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



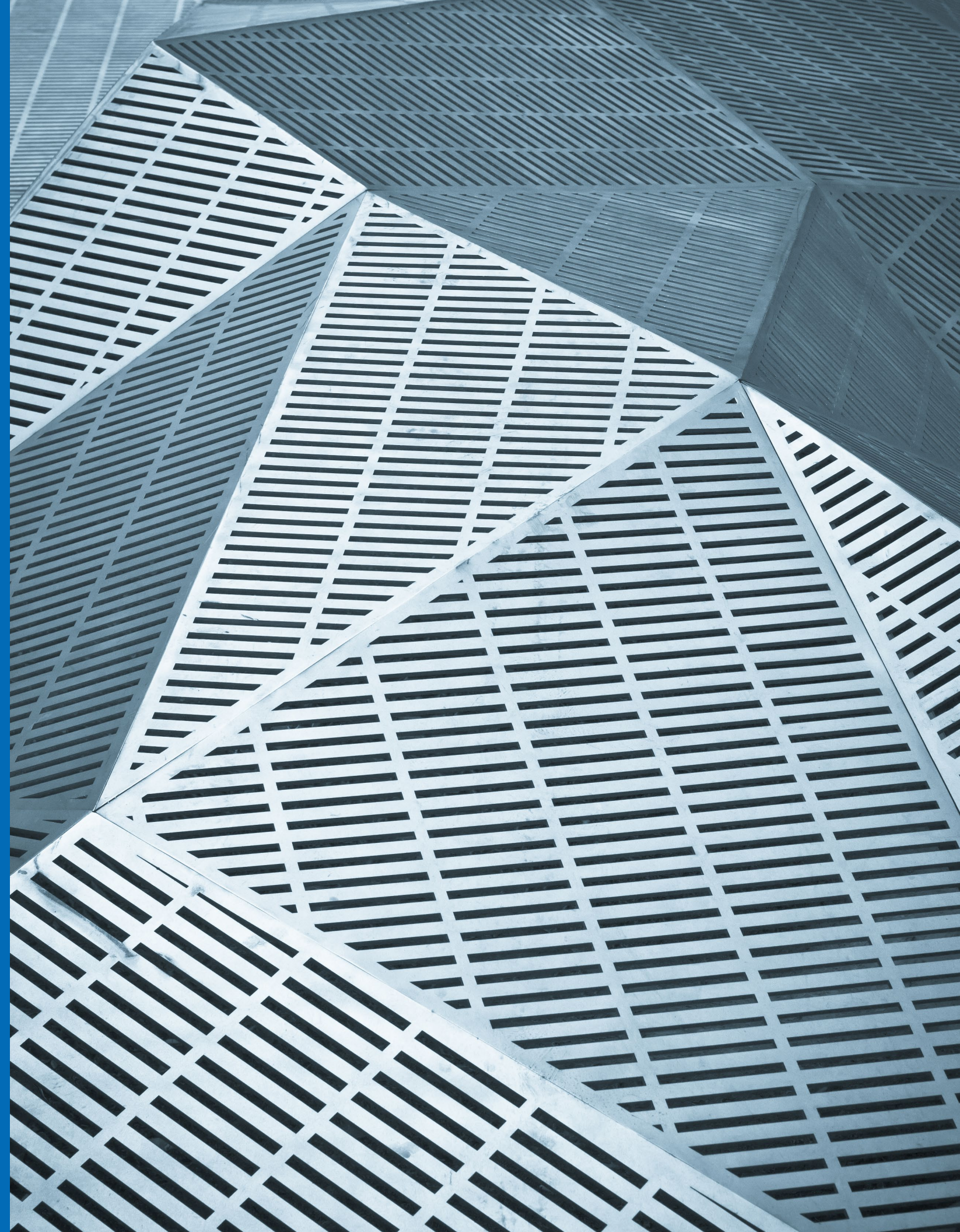
Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

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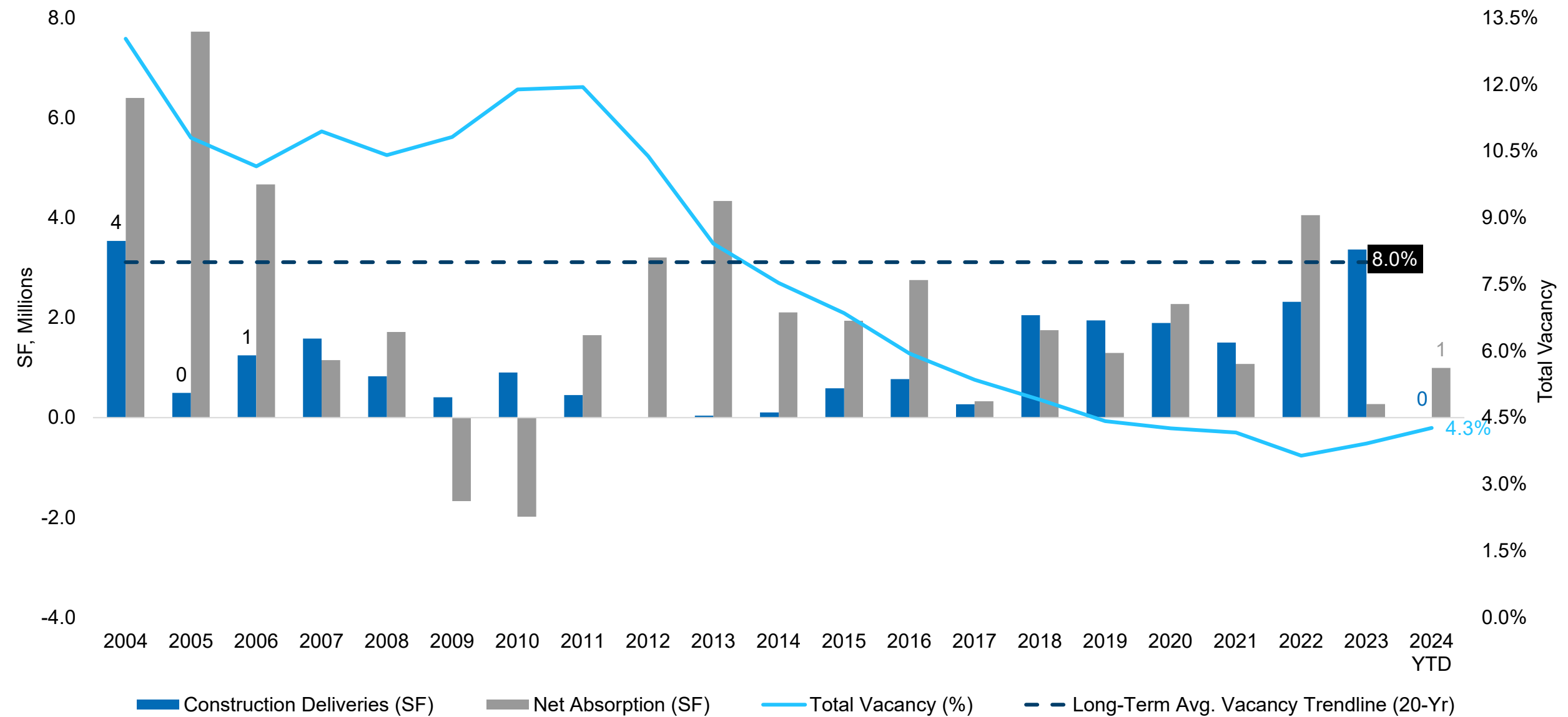
Leasing Market Fundamentals



Vacancy Down as Industrial Market Stays Steady

The Cleveland industrial market tallied 992,647 SF of positive absorption in the first quarter. As a result, vacancy decreased by 30 basis points to 4.3% from 4.6% in the fourth quarter of 2023. No new product delivered. Since 2014, vacancy has remained below the long-term average vacancy of 8.0%.

Historical Construction Deliveries, Net Absorption, and Vacancy

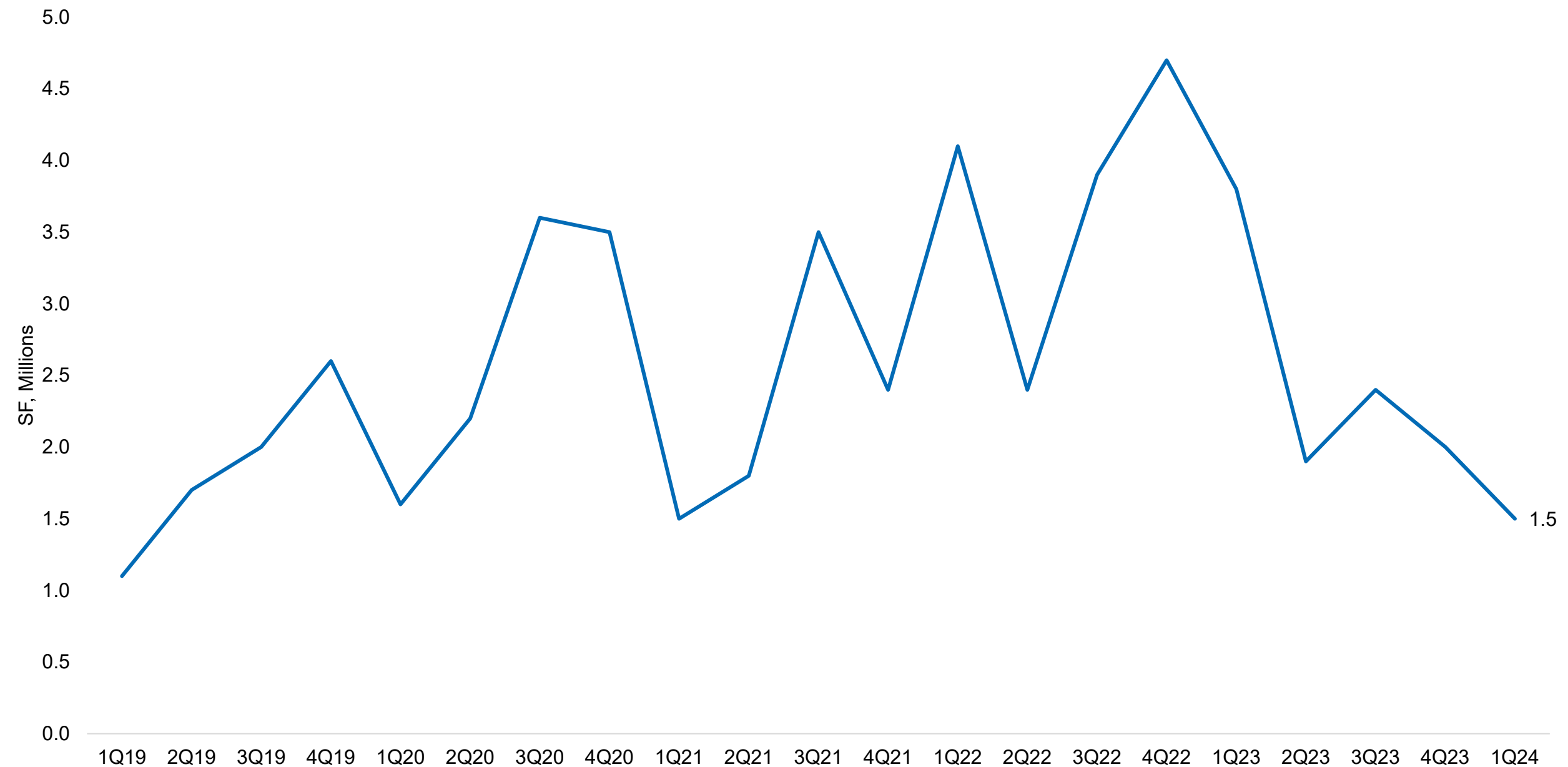


Source: Newmark Research

Industrial Leasing Activity Down

In the first quarter of 2024, demand for industrial space was at its lowest point since the first quarter of 2021. Total leasing activity for the quarter measured approximately 1.5 million SF, down from 2.0 million SF in the previous quarter. In the last five years, the high watermark was in the fourth quarter of 2022 with 4.7 million SF of leasing activity.

Total Leasing Activity (SF)

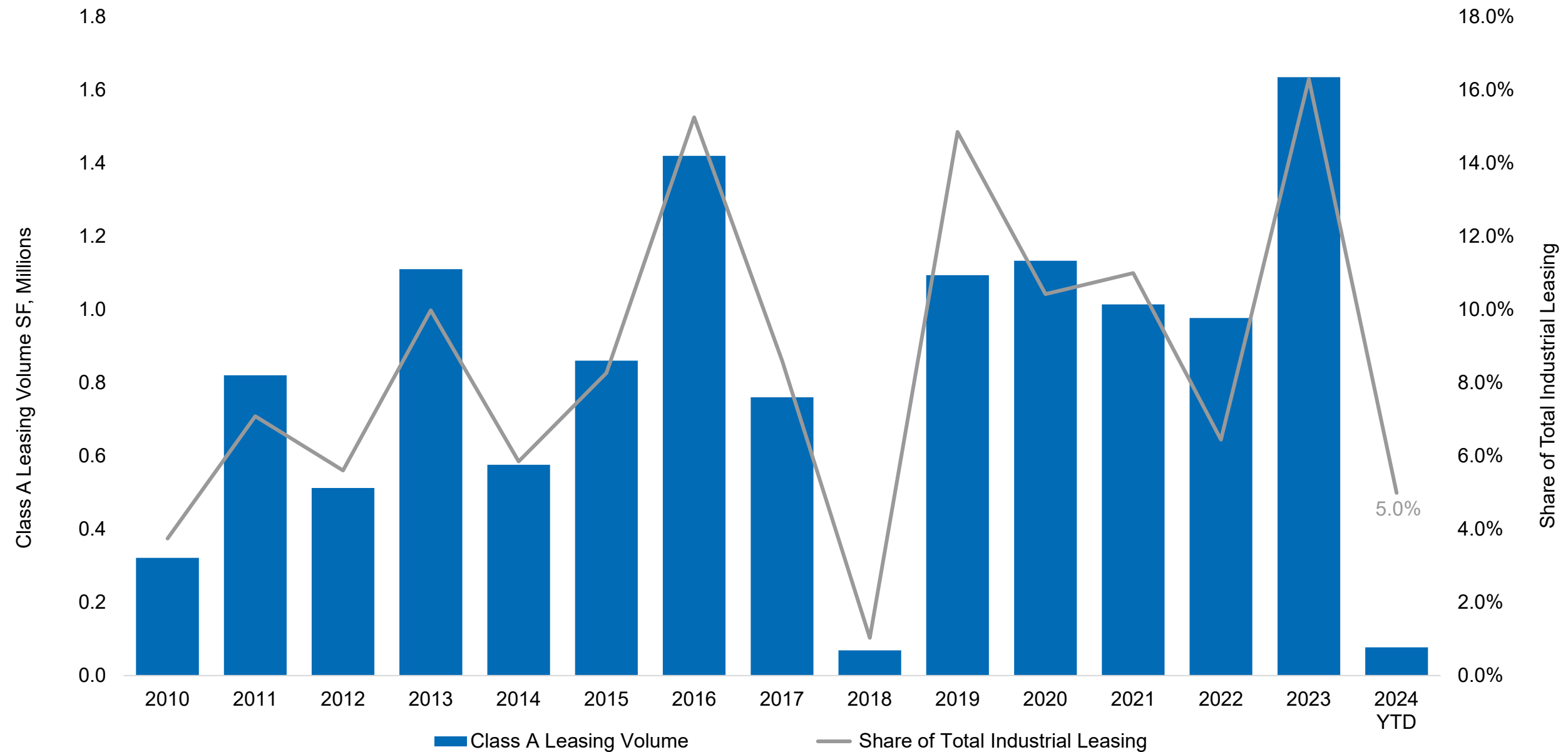


Source: Newmark Research, CoStar

Class A Warehouse Leasing Volume Down

The Class A share of industrial leasing finished the first quarter of 2024 at 5.0%, the lowest percentage since 2018, though the lion's share of leasing generally occurs during quarters two, three, and four. As a result, Class A leasing volume is expected to rise substantially, though it remains to be seen if it will approach 2023's record numbers, as manufacturing and smaller lease deals have been increasingly more prevalent.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

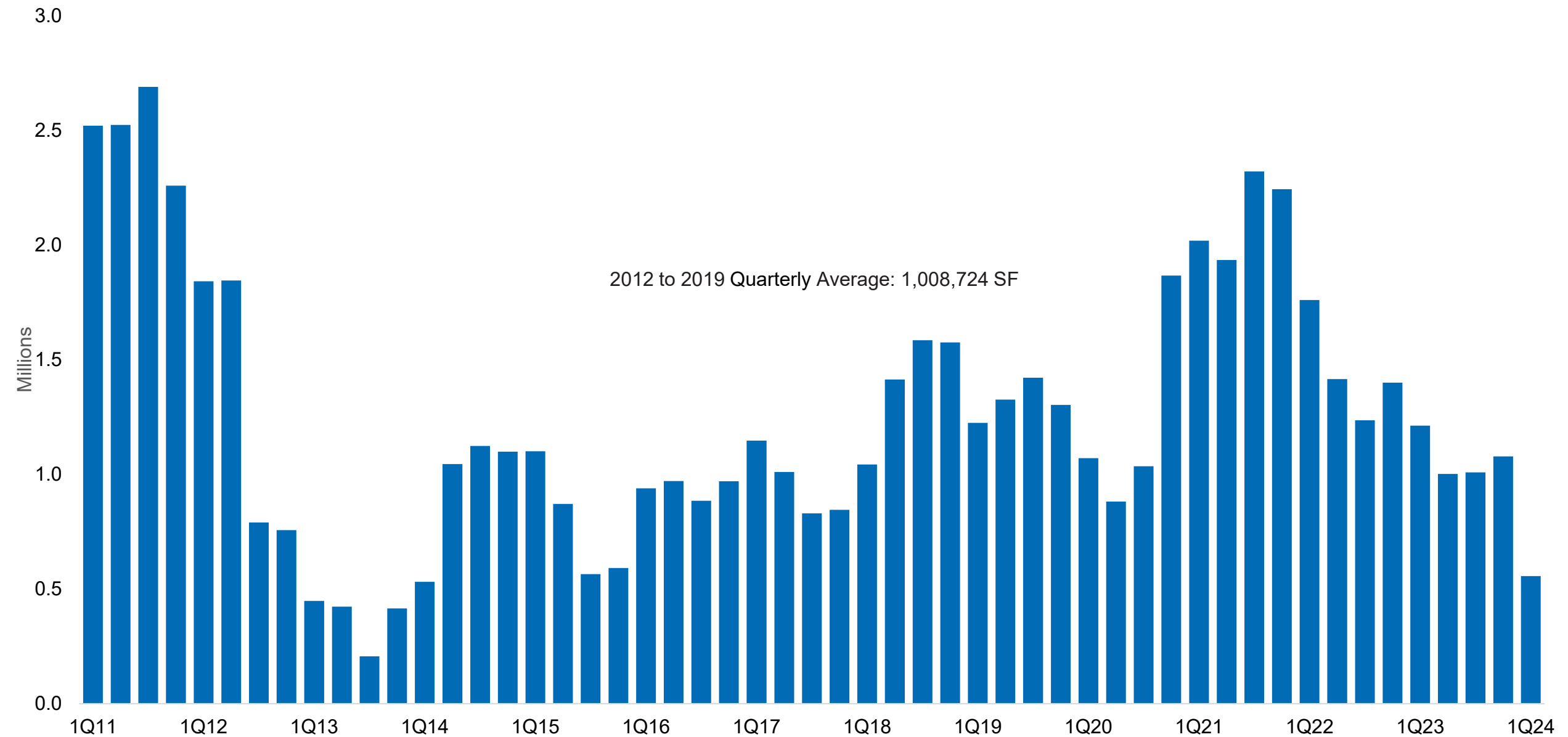


Source: Newmark Research, CoStar

Industrial Sublease Availability Drops Significantly

Sublease availability of 556,769 SF in the first quarter of 2024 was a steep drop from previous quarters, resulting from much of the space being leased or removed. One sublease was for the entire building located at 13000 Darice Pkwy. in Strongsville of over 380,000 SF.

Available Industrial Sublease Volume (msf)

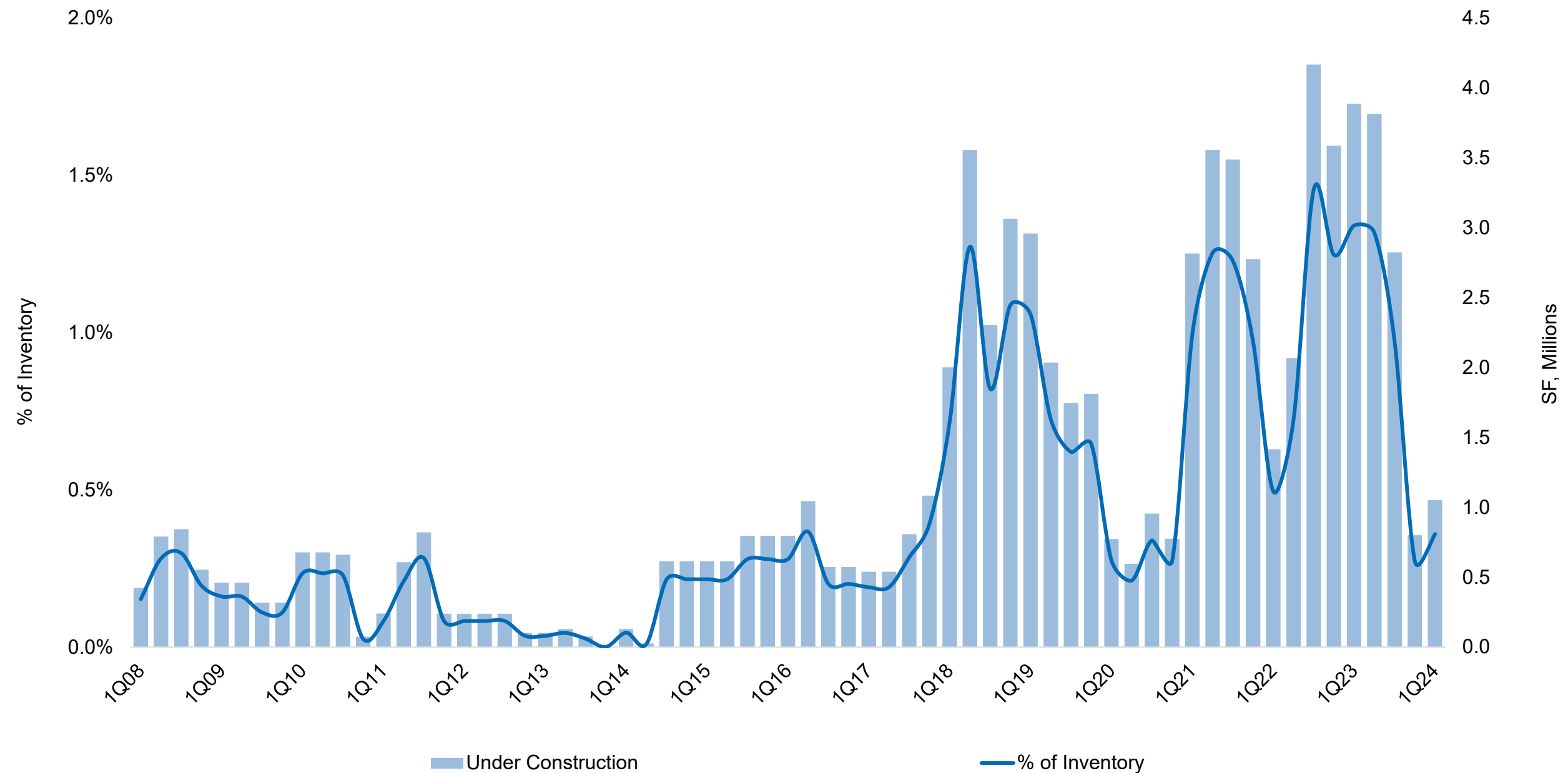


Source: Newmark Research, CoStar

Construction Starts Continue to Experience Additional Delays

The pipeline of properties under construction was strong for most of 2021 through 2023, dipped to 799,500 SF in the fourth quarter of 2023, but rose back up to over 1.0 million SF in the first quarter of 2024. Properties under construction made up 0.4% of the overall inventory, up 10 basis points from the previous quarter. Over 7.8 million SF of space is proposed, though the majority of construction starts for these projects continues to be delayed.

Industrial Under Construction and % of Inventory

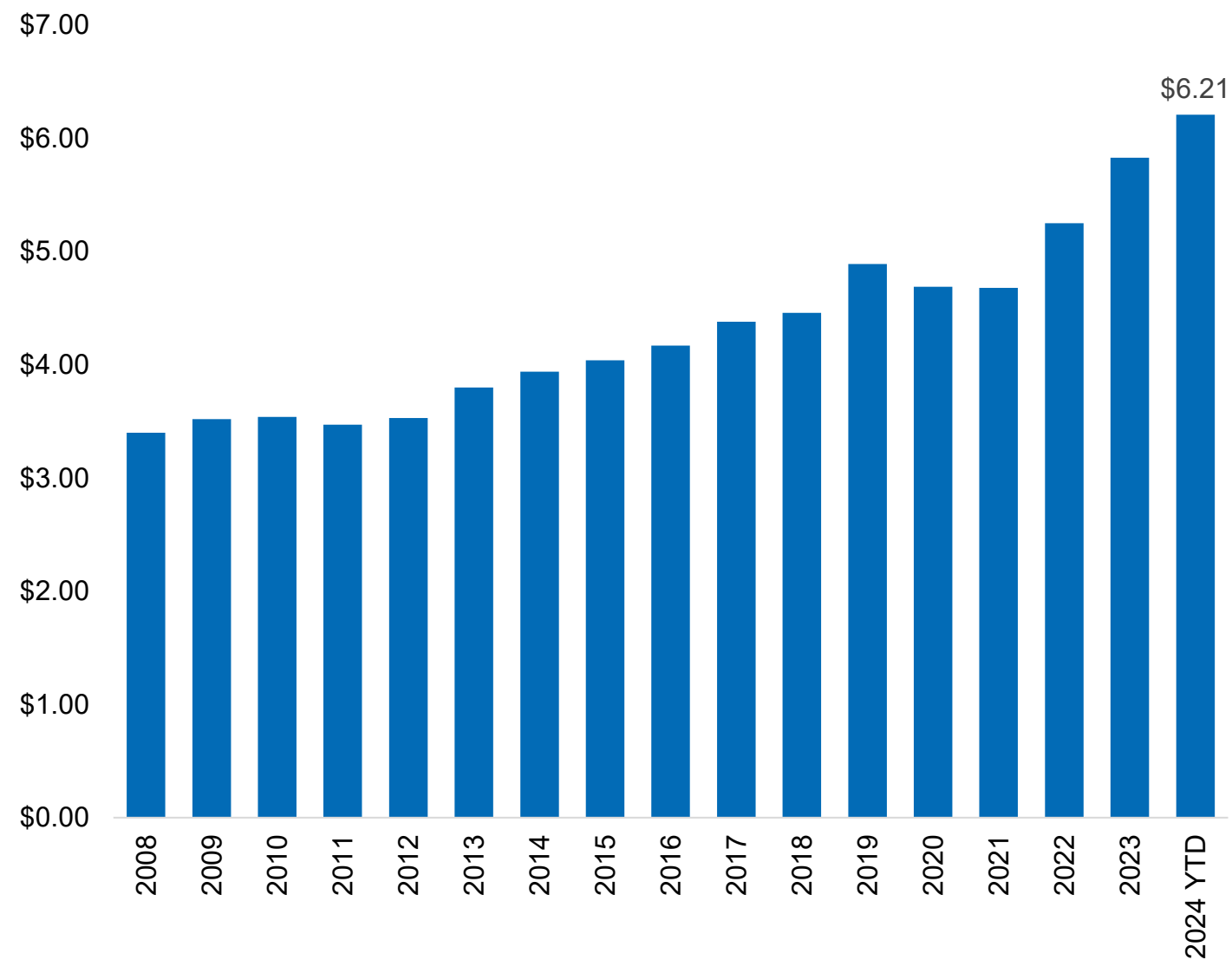


Source: Newmark Research, CoStar

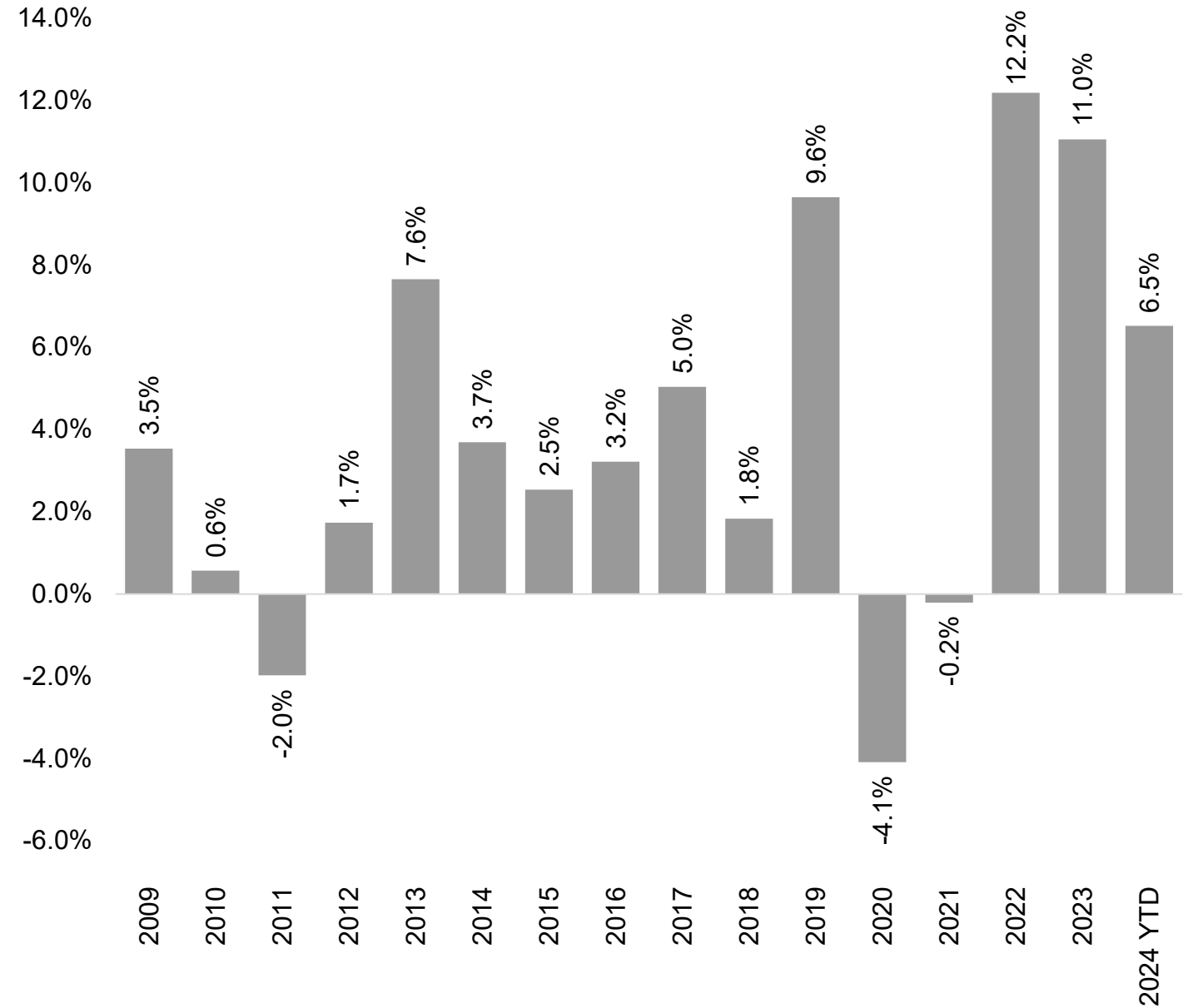
Industrial Asking Rent Growth Up in First Quarter Year Over Year

Industrial average asking rents in the first quarter of 2024 grew by 6.5% year over year, down significantly from 2022 and 2023 when rates increased by 12.2% and 11.0%, respectively. 2022's growth was the most in recent history. The average asking rent for the first quarter was \$6.21/SF, the highest ever for the Cleveland industrial market – up by \$0.03/SF from the previous quarter, marking 10 straight quarters of asking rates at or over \$5.00/SF and two straight quarters over \$6.00/SF.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

1Q24 Lease Transactions

Total leasing activity for the quarter measured approximately 1.5 million SF, down from 2.0 million SF in the previous quarter. There were a few companies that signed notable leases, though most were for spaces under 100,000 SF.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Ark Transportation/Veroot LLC/Delivered Inc. <i>Ark Transportation, a logistics and transportation company, and two other firms, Veroot LLC, a Middleburg Heights company that manages software, and Delivered Inc., which performs warehousing and packaging for end-to-end delivery, signed to occupy and fill up this property, which had a vacant sublease offering for nearly three years.</i>	13000 Darice Pkwy.	Southwest	Sublease	382,795
Kraftworth Inc. <i>This company brings its expertise in the automated production of paper cold cups, paper hot cups, PET cups, and a number of other product lines to Twinsburg's Cornerstone Business Park.</i>	8796 Independence Pkwy.	Southeast	Direct New	62,394
Pickleball Play 365 <i>This recreational facility featuring the popular athletic game will be coming to an industrial district in Mentor.</i>	8001 Moving Way	Northeast	Direct New	24,000
PartsSource, Inc. <i>This company, which offers a digital approach to the healthcare supply chain, with end-to-end solutions from ordering and delivery to maintenance and repair, will open a location at this Twinsburg facility.</i>	1755 Enterprise Pkwy.	Southeast	Direct New	21,200
Sensical, Inc. <i>This materials processing and converting company that provides prototypes, parts and logistical services to automotive companies, extended its lease at this Solon flex location.</i>	5821-5895 Harper Rd.	Southeast	Extension	13,362

Class A Warehouse Asking Rents Trend Up in Last Two Years

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Northeast Has Lowest Vacancy Percentage of Submarkets

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Northeast Tops Submarkets in Sublet Availability

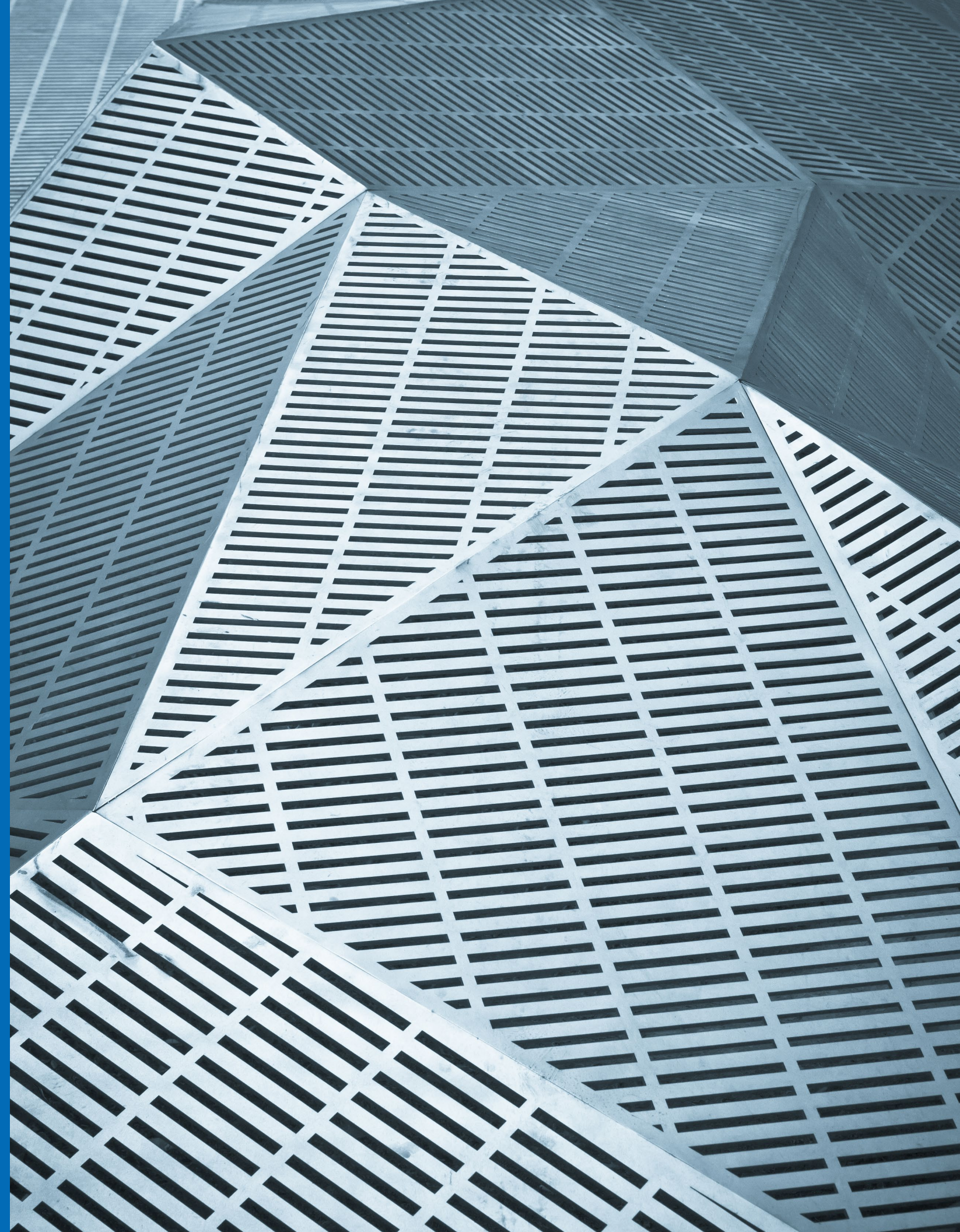
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Rent Performance Up In All But One Industrial Submarket

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Appendix / Tables



Digging Deeper Into Cleveland's Industrial Market

Average Asking Rental Rates, Vacancies, Absorption



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Submarket Overview, continued

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Industrial Submarket Map

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Additional Market Statistics

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