

Cleveland Industrial Market Overview

Market Observations

Economy

- In the third quarter, the Cleveland-Elyria-Mentor metro’s economy gained back the fewest number of jobs it has seen since January 2024, as total nonfarm employment increased annually by 0.4% in August. National nonfarm employment increased by 1.6%. The unemployment rate for the Cleveland-Elyria-Mentor was 4.1% in August 2024.
- Five industry sectors in the Cleveland market saw employment gains from August 2023 to August 2024. Of the three industrial-using or adjacent industries, the Trade/Transportation/Utilities sector remained flat, while the Construction sector contracted by negative 0.6% and the Manufacturing sector declined by 2.8%. The Education and Health sector saw the biggest increase of all the industries for the third quarter at 3.5%.

Prominent Transactions and Occupations

- Several notable new leases of 100,000 SF or larger were signed in the Cleveland market during the third quarter: B'laster Products inked a 308,966-square-foot lease at Westfield Commerce Center, located at 8989 Lake Rd. in the Southwest submarket; a confidential tenant leased 247,000-square-feet, with an occupation date of 1Q25, at the 2023-built Forward Innovation Center East Building 1 in the South Central submarket; Bob’s Discount Furniture took 200,928 SF at 7800 Cochran in the Southeast, and should occupy sometime in 1Q25; and Millennium Control Systems inked a lease for 115,000 SF at 23550 Commerce Park in the Northeast submarket, with an expected occupation in 1Q25.
- Perhaps the most prominent industrial sale in the third quarter was for the 434,000-square-foot 10242 State Route 43 distribution center located in Streetsboro in the Southeast submarket. Prominent logistics/industrial, residential, and office/life science operator EQT Exeter purchased the 2022-built property for \$40.3 million, or \$92.74/SF. Also in Streetsboro, the 78,083-square-foot 10295 Philipp Pkwy. traded for \$6.9 million, or \$88.50/SF to Omega Industrial Real Estate.

Leasing Market Fundamentals

- The Cleveland industrial market gave back 168,558 SF of space in the third quarter. As a result of the small amount of negative absorption, vacancy increased by just 10 basis points to 4.1% from 4.0% in the previous quarter. Year-to-date vacancy for the first three quarters combined at 4.1% continued to remain well below the long-term average vacancy of 8.0%.
- Demand for industrial space rebounded in the third quarter of 2024. After the second quarter was under 1.0 million SF for the first time in the last 10 years, third quarter leasing activity ended at 1.7 million SF, up from 880,633 SF in the previous quarter.
- Industrial average asking rents for the first three quarters of 2024 grew by a combined 6.2% year-over-year, down 50 basis points from the first and second quarter of 2024’s growth rate. The average asking rent for the third quarter was \$6.15/SF, down by \$0.06/SF from the previous quarter, but still marked four straight quarters over \$6.00/SF, and the fourth-highest asking rate in at least 20 years.

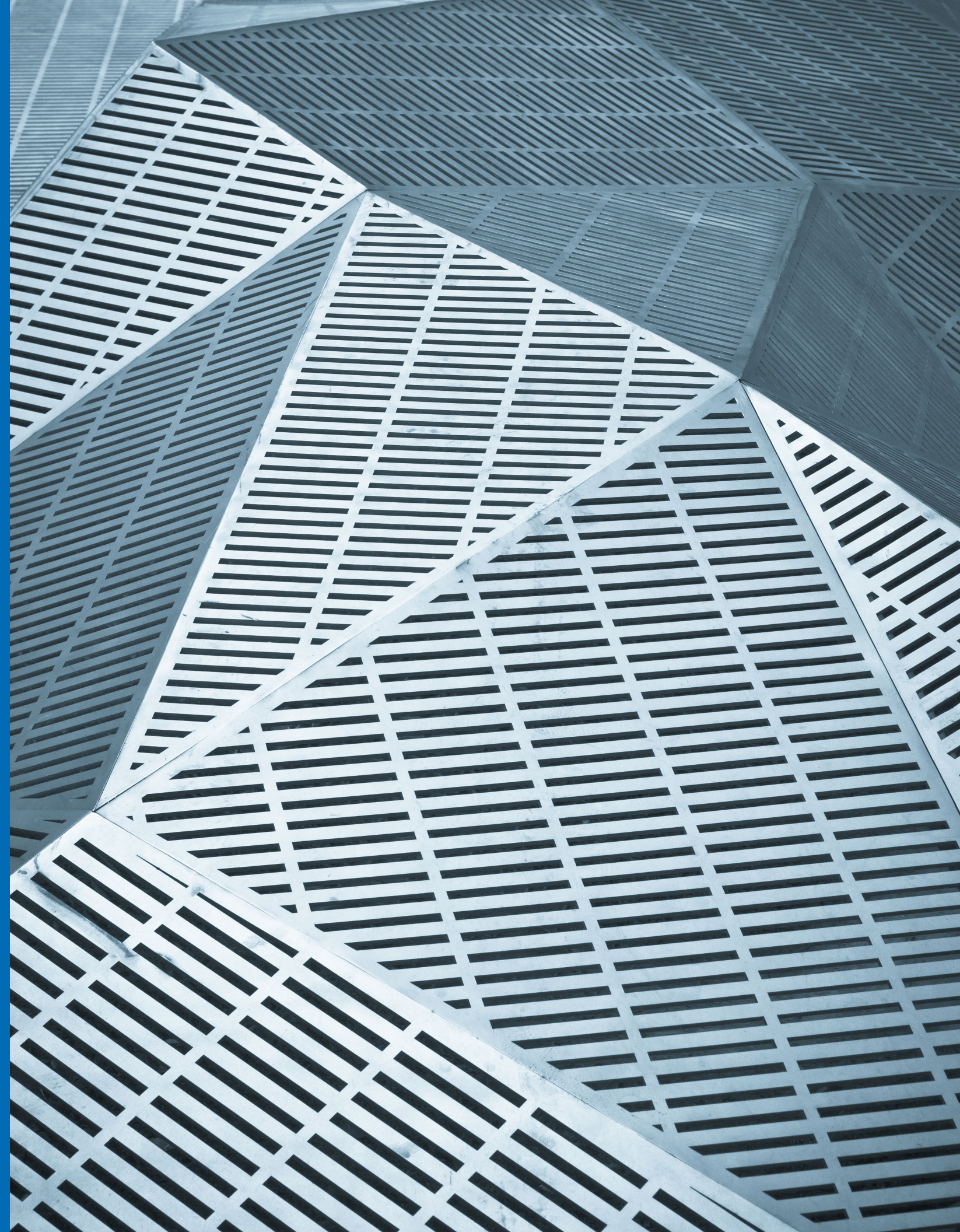
Outlook

- The majority of construction starts for proposed projects continues to be delayed. Much less new inventory is expected to deliver in the forthcoming quarters than was the case in 2022 and 2023. Resulting from economic and political uncertainty over the past year, market equilibrium is still at least another year away after periods of inflated inventory expansion and surging demand in the years prior to and post-pandemic.
- Sublease availability of 491,036 SF in the third quarter of 2024 was a decrease by nearly half from the previous quarter, and remained well below the 2012 to 2019 pre-pandemic quarterly average. This development was a move in the right direction as the market rightsizes itself. In fact, the past quarter’s sublease availability was at its lowest mark in over 10 years – not since the fourth quarter of 2013 posted 415,632 SF of sublet availability.

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2. Leasing Market Fundamentals
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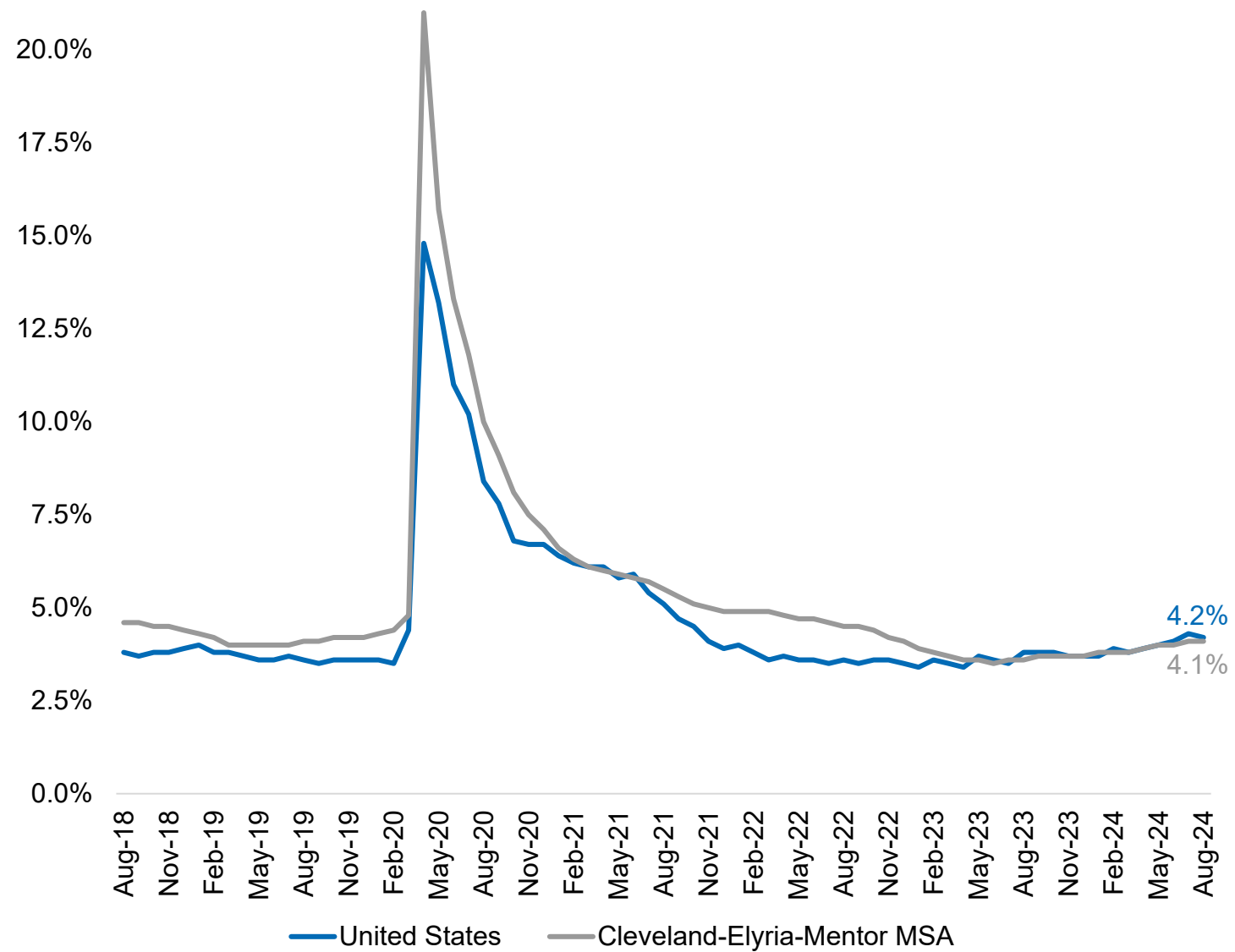
Economy



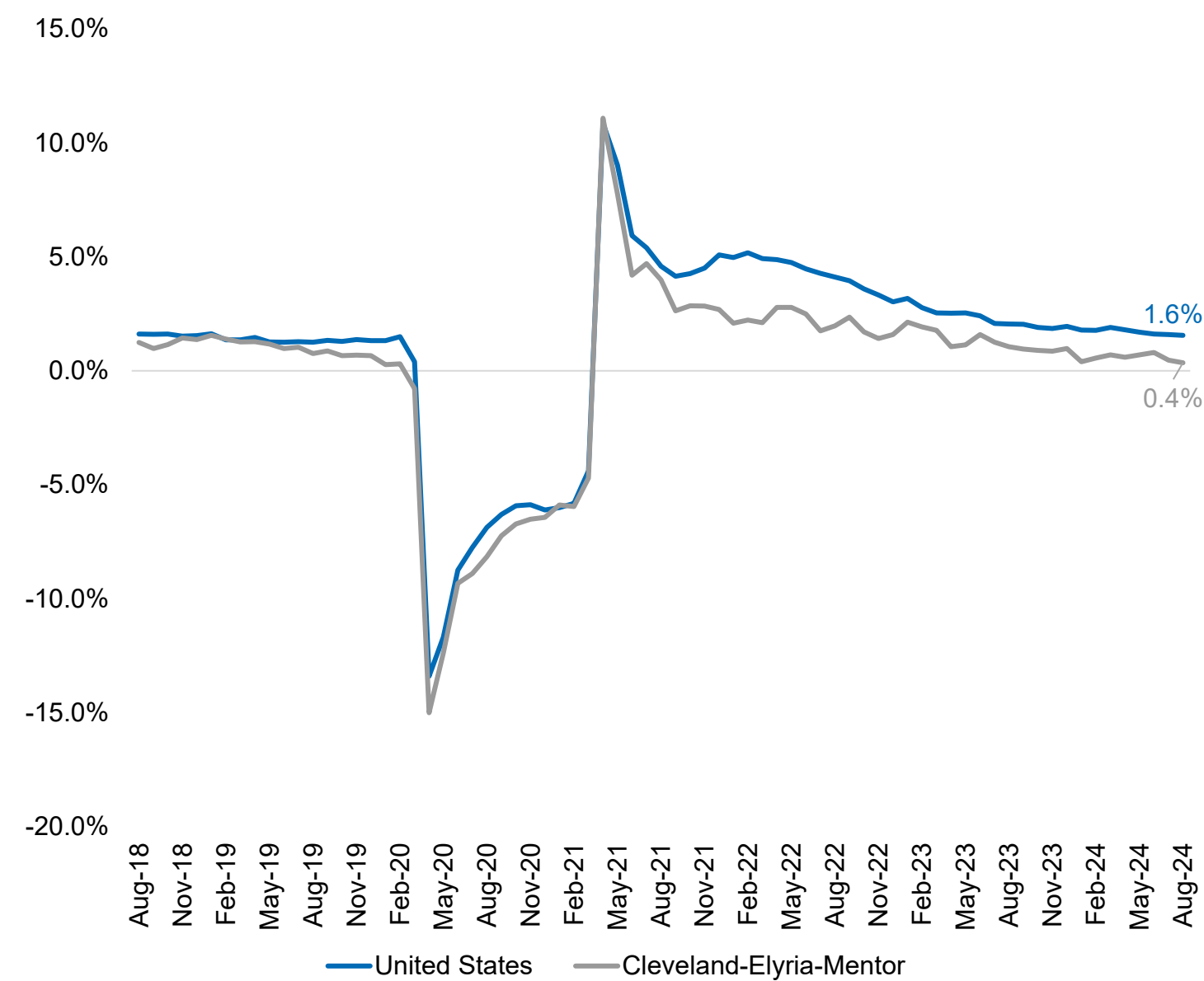
Cleveland and United States Unemployment and Employment Trends

In the third quarter, the Cleveland-Elyria-Mentor metro's economy gained back the fewest number of jobs it has seen since January 2024, as total nonfarm employment increased annually by 0.4% in August. National nonfarm employment increased by 1.6%. The unemployment rate for the Cleveland-Elyria-Mentor was 4.1% in August 2024 after starting the year at 3.8% from January to March and increasing to 3.9% in April. May and June unemployment in Cleveland was 4.0%, then it rose to 4.1% in July and remained there in August. Though the national unemployment rate followed the same path as Cleveland from March to May, it rose higher than Cleveland in August, to 4.2%.

Unemployment Rate, Seasonally Adjusted



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

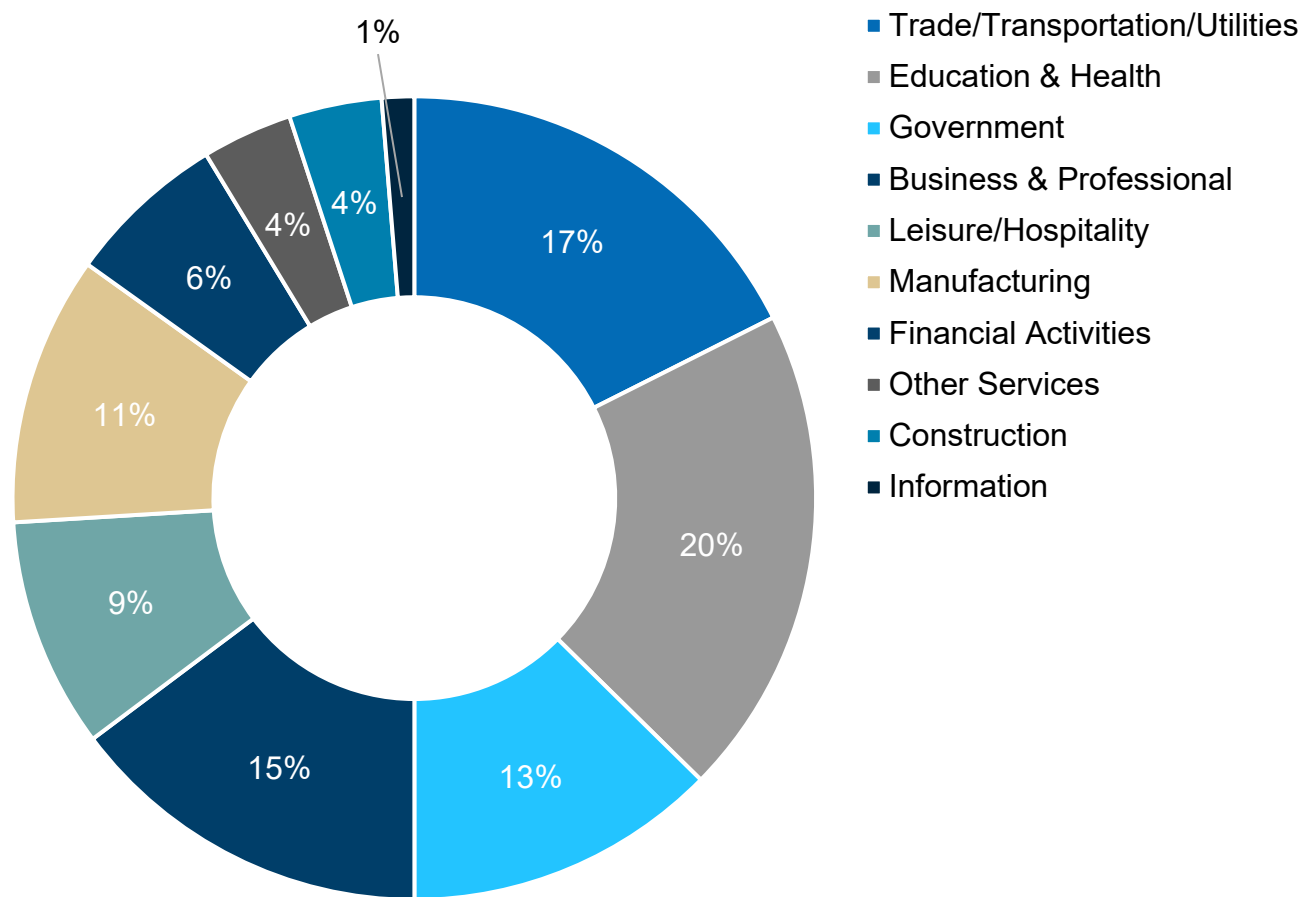


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

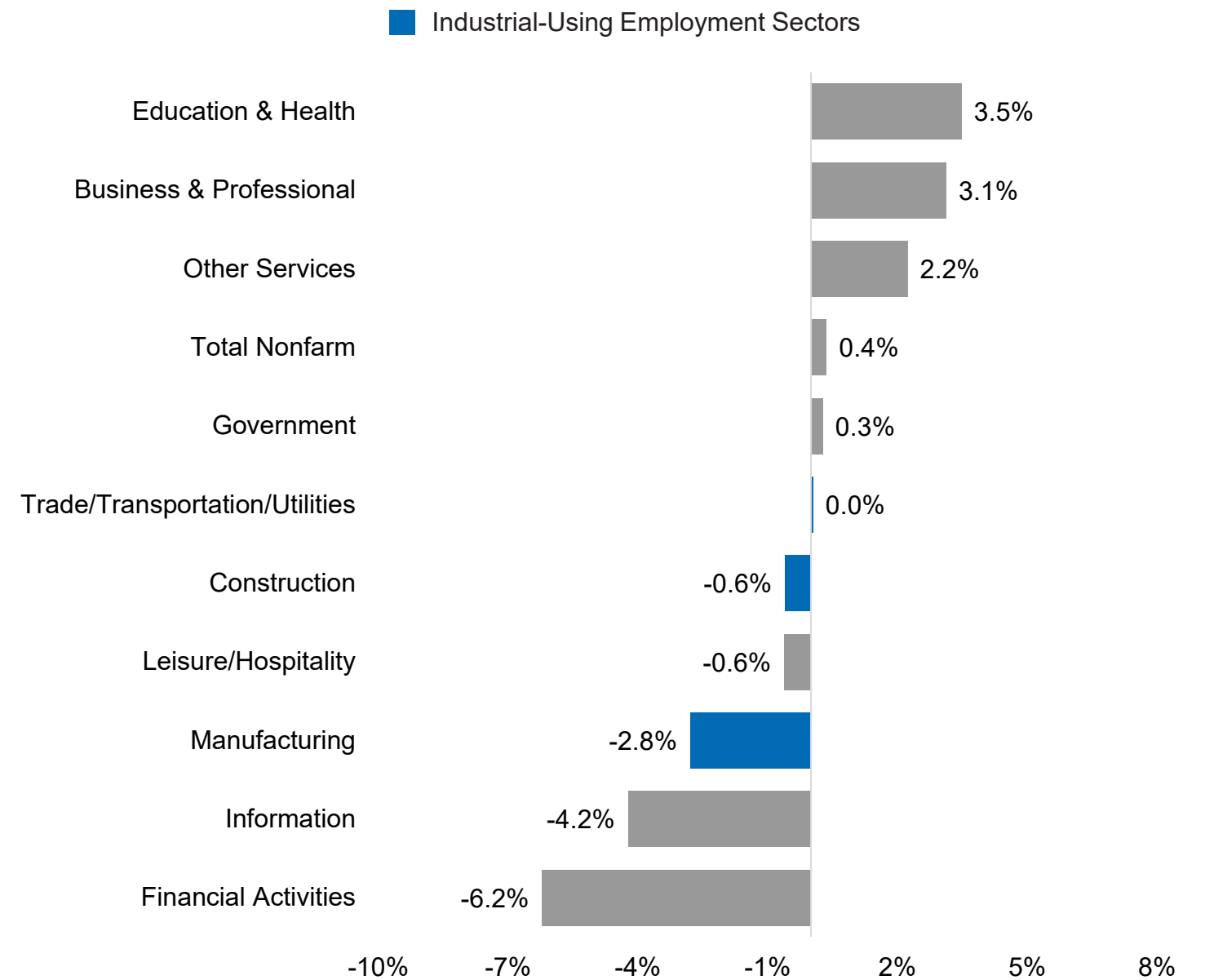
Cleveland Market Sees Job Losses in Two of Three Industrial-Using Sectors

Five industry sectors in the Cleveland market saw employment gains from August 2023 to August 2024. Of the three industrial-using or adjacent industries, the Trade/Transportation/Utilities sector remained flat, while the Construction sector contracted by negative 0.6% and the Manufacturing sector declined by 2.8%. The Education and Health sector saw the biggest increase of all the industries for the third quarter at 3.5%.

Employment by Industry, August 2024



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

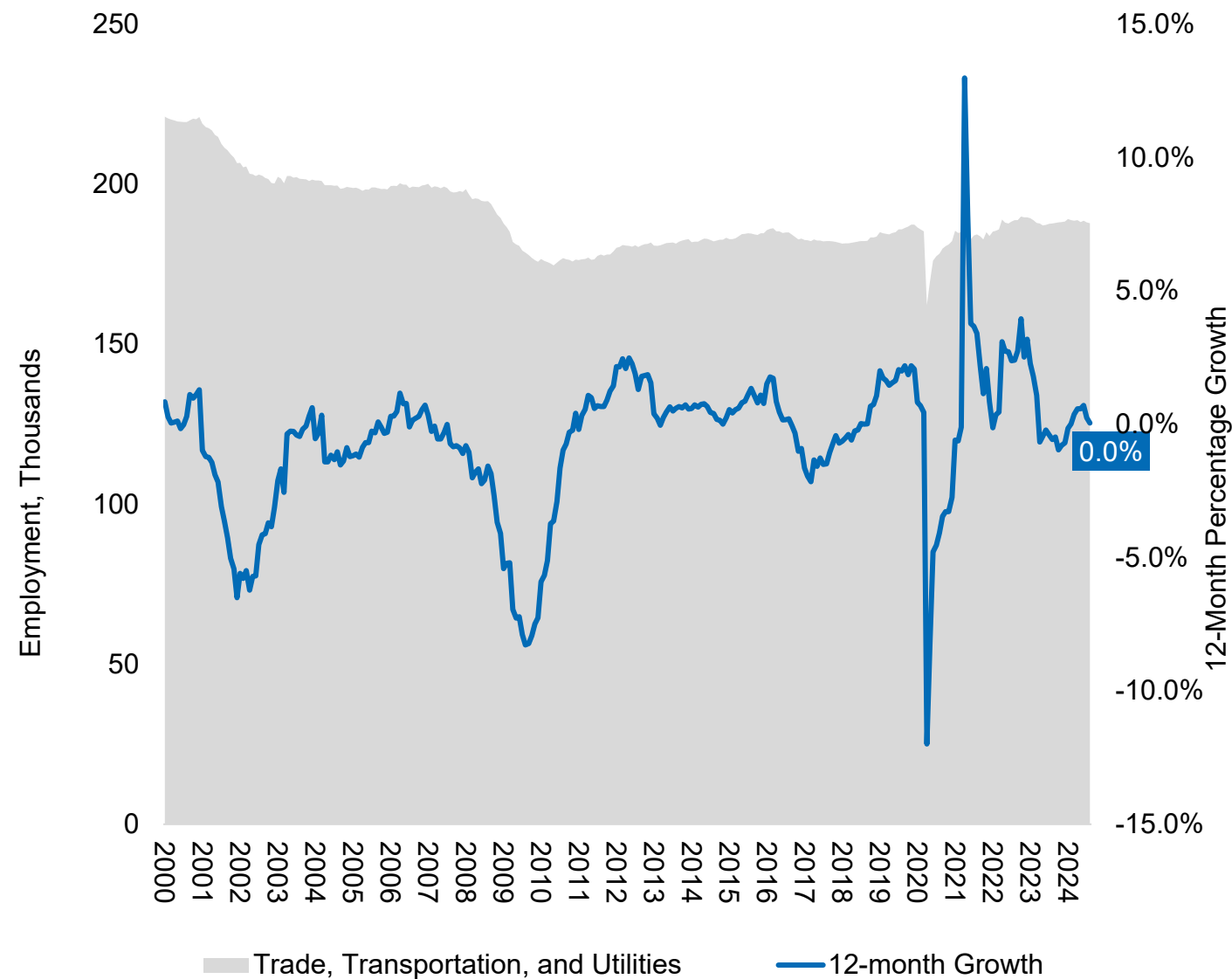


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

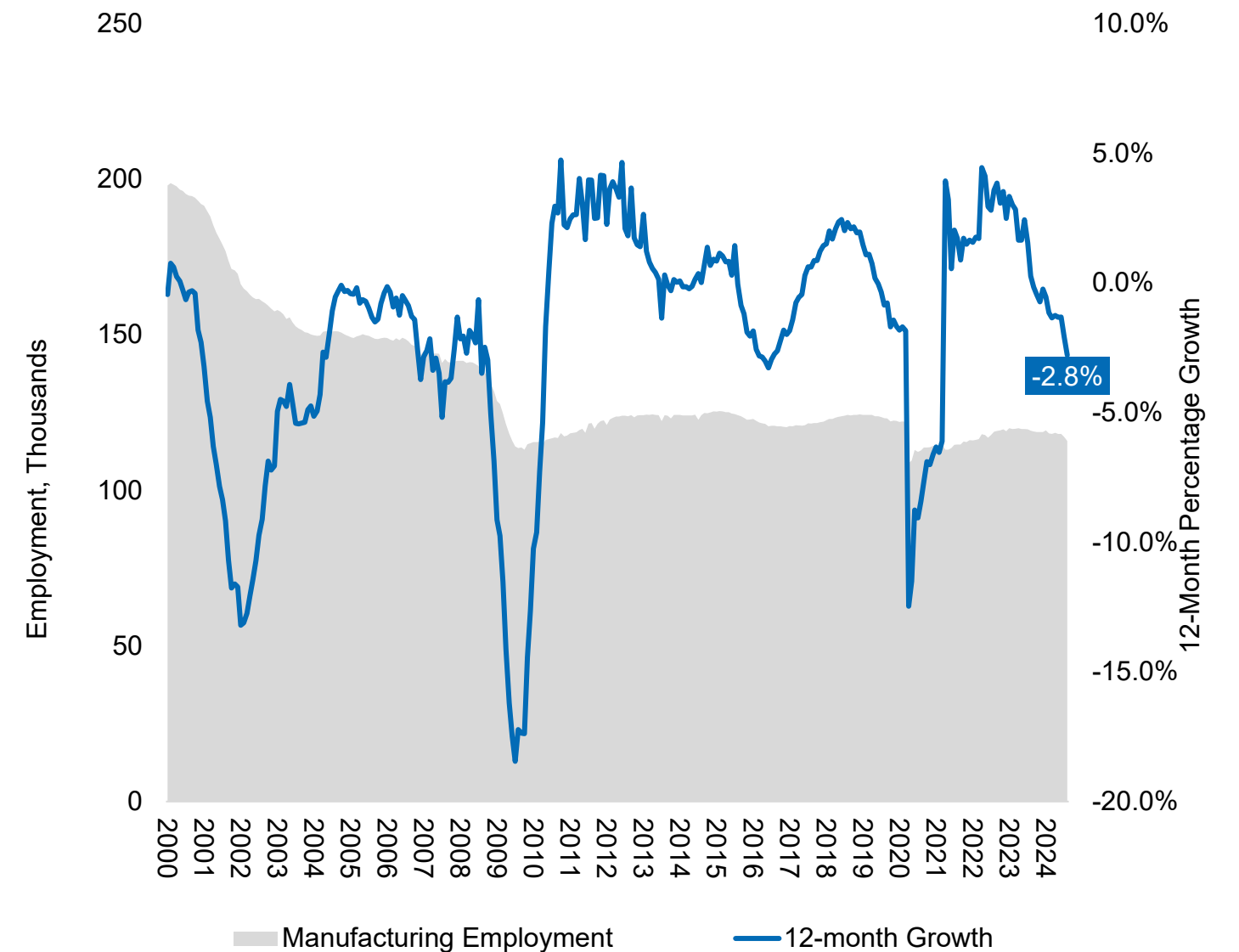
Lackluster Year-Over-Year Industrial Employment Growth

In the Cleveland market, the trade/transportation/utilities sector stayed flat year-over-year as of August, whereas the manufacturing sector saw a decrease in employment by 2.8%. As of August, the manufacturing sector, with approximately 115,830 jobs, was having difficulty getting back pre-pandemic figures, which averaged around 122,000 jobs. In fact, the August figure was the sector's lowest since November 2021, and its negative growth figure was the lowest since March of 2021's negative 6.1%. The trade/transportation/utilities sector's employment was 187,760 jobs in August 2024, the lowest total for this sector since September 2023. Insufficient investment in manufacturing innovation and workforce retraining has hindered job growth. Policies that do not fully support revitalizing the sector may exacerbate employment issues. Addressing these challenges will require coordinated efforts involving policy adjustments, workforce development, and investments in advanced manufacturing sectors.

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



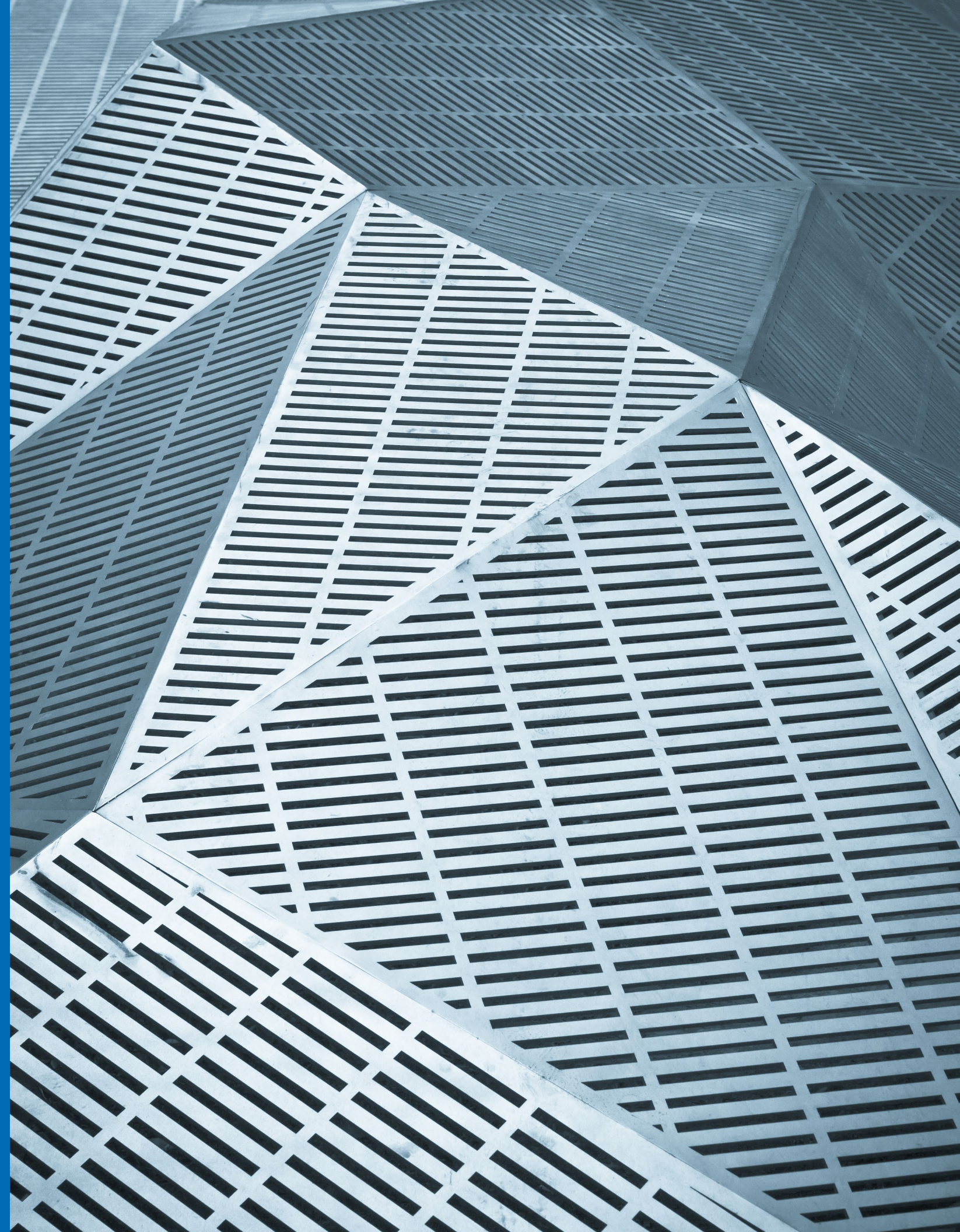
Total Employment and 12-Month Growth Rate, Manufacturing



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

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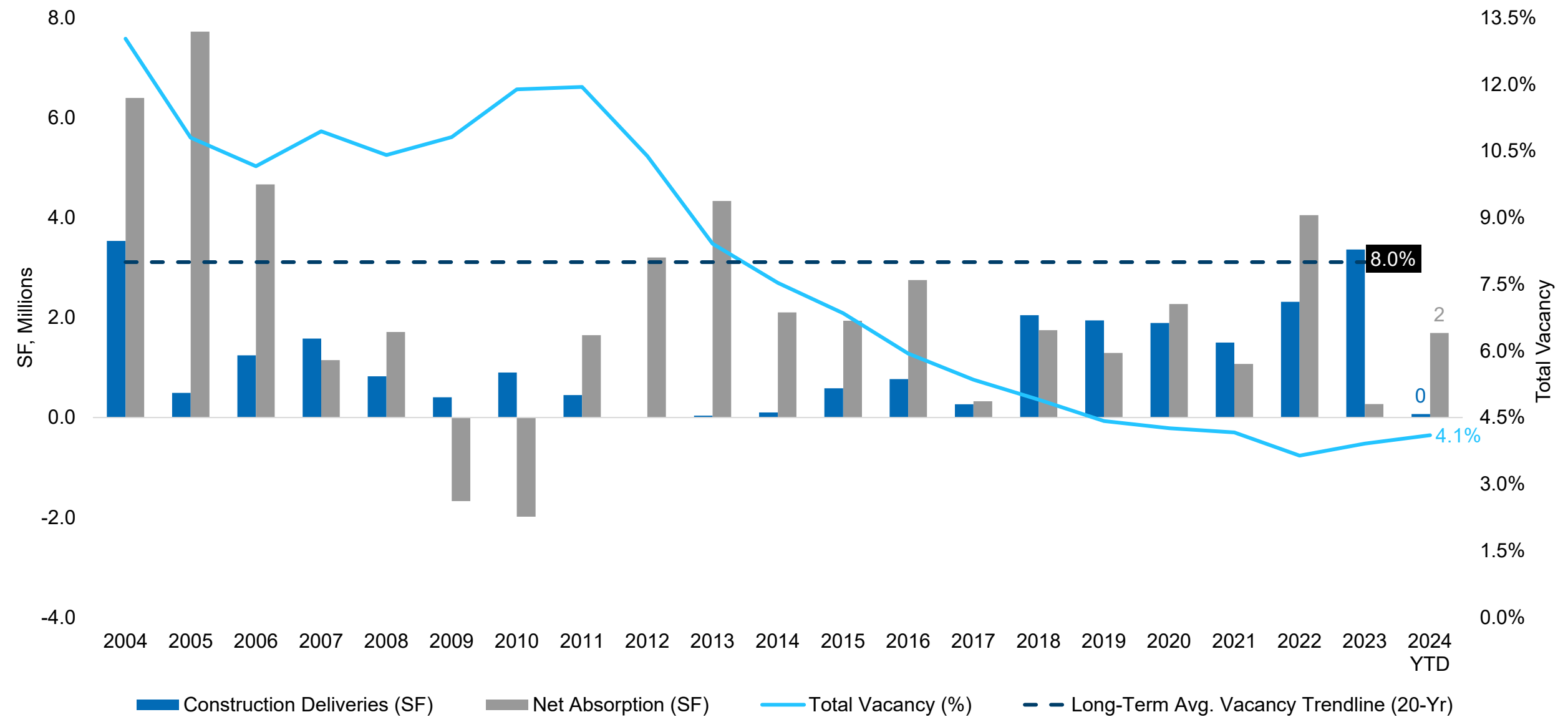
Leasing Market Fundamentals



Industrial Market Stable, Despite Some Negative Absorption

The Cleveland industrial market gave back 168,558 SF of space in the third quarter. As a result of this small amount of negative absorption, vacancy increased by 10 basis points to 4.1% from 4.0% in the previous quarter, maintaining a stable market. No new product delivered and cumulative net absorption went down slightly but still remained solidly in the positive at 1.7 million SF. Third quarter's negative absorption was paced by several large vacant spaces coming online in the Southeast submarket, traditionally one of the strongest submarkets in terms of activity. Year-to-date vacancy for the first three quarters combined at 4.1% continued to remain well below the long-term average vacancy of 8.0%.

Historical Construction Deliveries, Net Absorption, and Vacancy

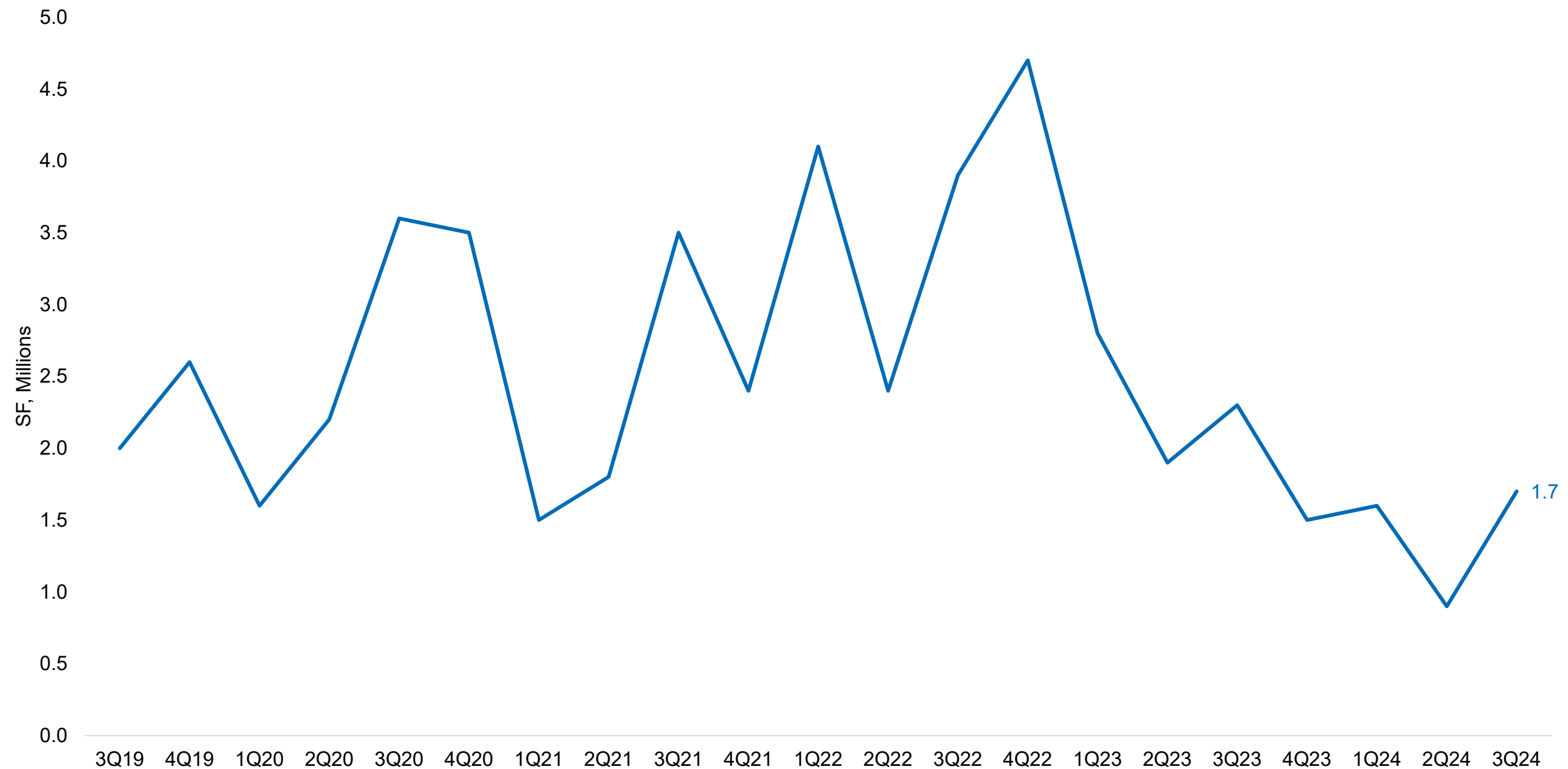


Source: Newmark Research

Industrial Leasing Activity Rebounded in Third Quarter

Demand for industrial space rebounded in the third quarter of 2024. After the second quarter was under 1.0 million SF for the first time in the last 10 years, third quarter leasing activity ended at 1.7 million SF, up from 880,633 SF in the previous quarter. Despite the third quarter's small amount of negative absorption, this rise in leasing activity is promising for the fourth quarter, as there will be some leases that were signed in the third quarter that should occupy in the fourth quarter.

Total Leasing Activity (SF)

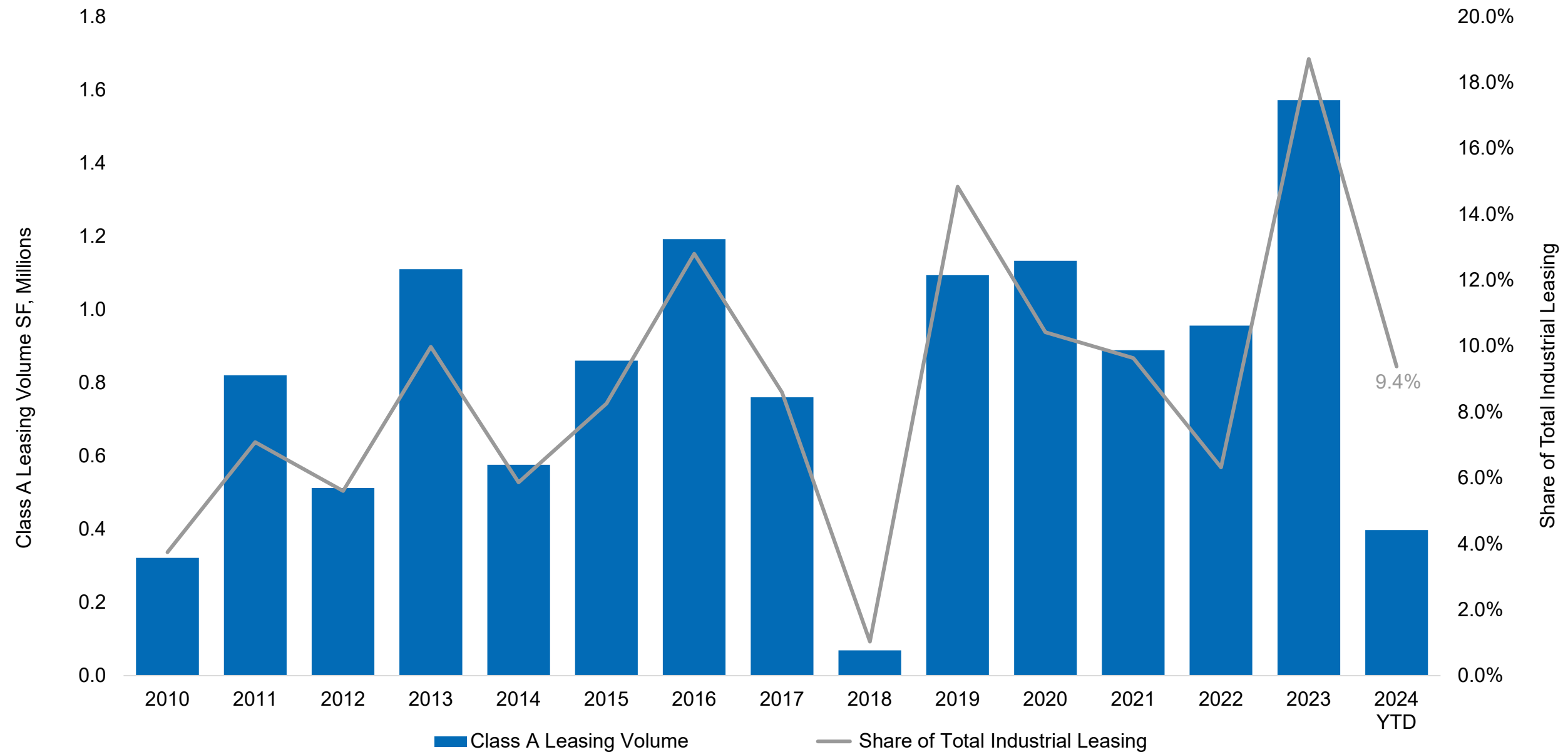


Source: Newmark Research, CoStar

Class A Warehouse Leasing Volume Underwhelming

The Class A share of industrial leasing finished the third quarter of 2024 at 9.4% for the year thus far, amongst the lowest percentage in recent history. Manufacturing and smaller lease deals continue to be increasingly more prevalent.

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

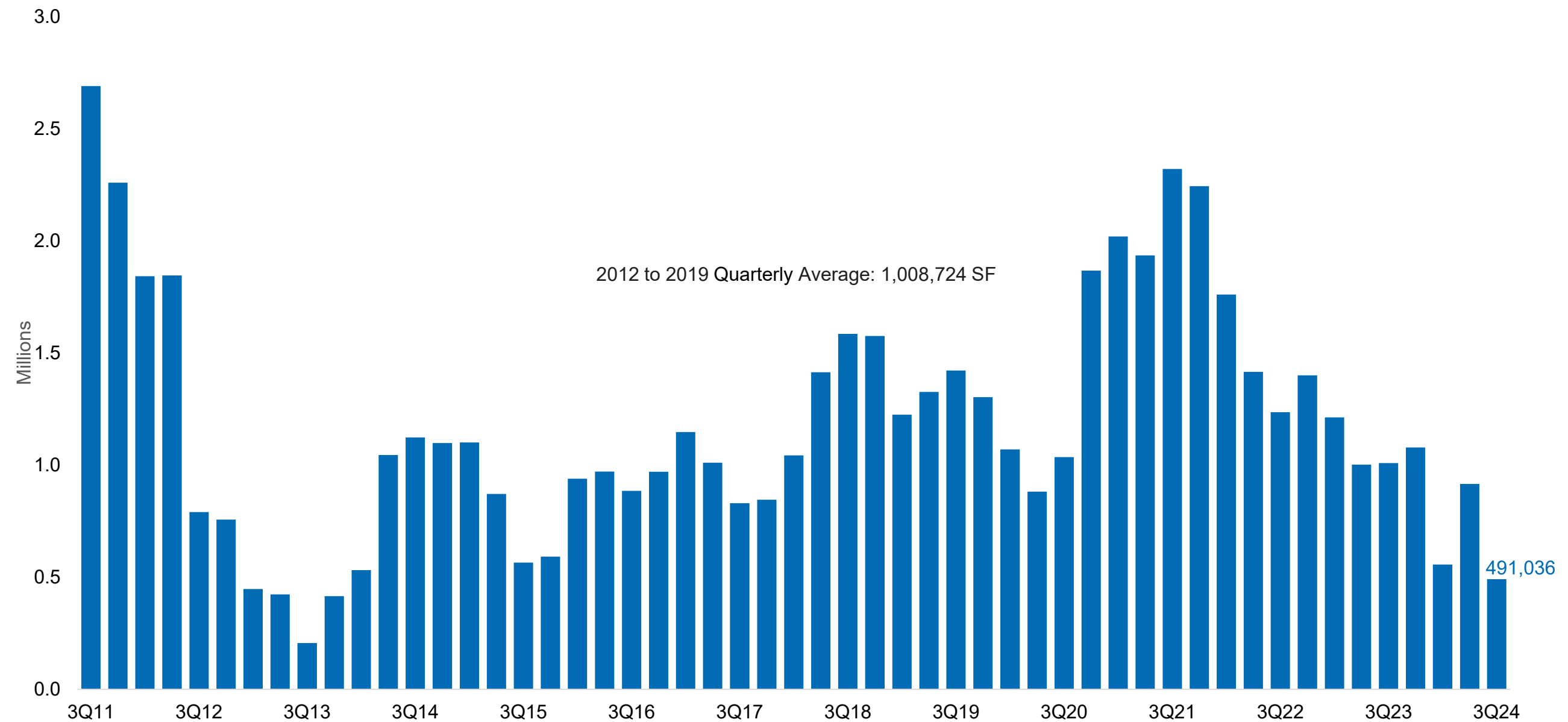


Source: Newmark Research, CoStar

Industrial Sublease Availability Decreases in 3Q, at Lowest Mark in 10-Plus Years

Sublease availability of 491,036 SF in the third quarter of 2024 was a decrease by nearly half from the previous quarter, and remained well below the 2012 to 2019 pre-pandemic quarterly average. This development was a move in the right direction as the market rightsizes itself. In fact, the past quarter's sublease availability was at its lowest mark in over 10 years – not since the fourth quarter of 2013 posted 415,632 SF of sublet availability.

Available Industrial Sublease Volume (msf)

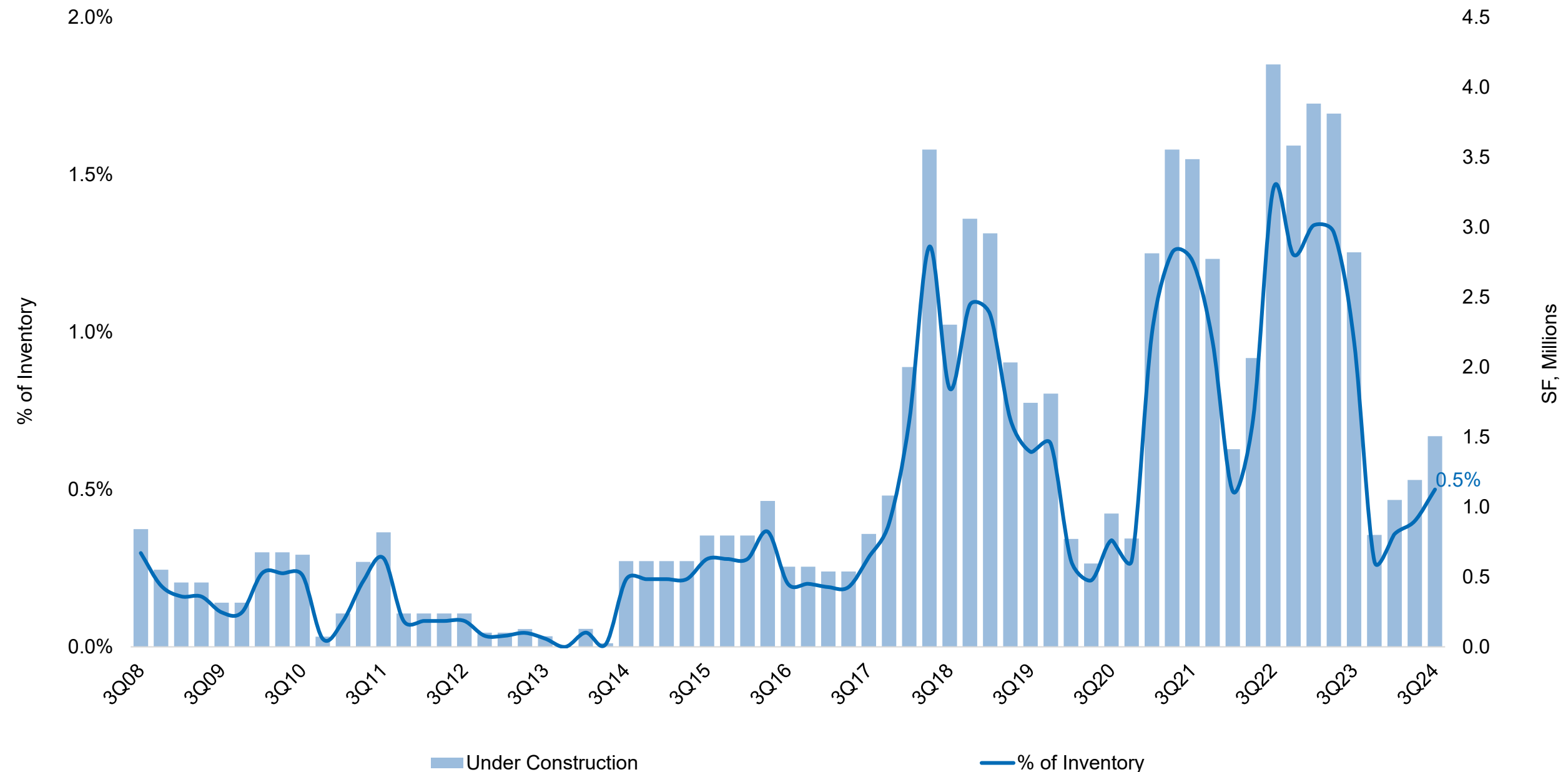


Source: Newmark Research, CoStar

Construction Starts Still Largely Delayed as Market Continues to Rightsize

The pipeline of properties under construction rose slightly to approximately 1.5 million SF in the third quarter of 2024. Buildings under construction made up 0.5% of the overall inventory, up 10 basis points from the previous quarter. The majority of construction starts for proposed projects continues to be delayed. Much less new inventory is expected to deliver in the forthcoming quarters than was the case in 2022 and 2023. Resulting from economic and political uncertainty over the past year, market equilibrium is still at least another year away after periods of inflated inventory expansion and surging demand in the years prior to and post-pandemic.

Industrial Under Construction and % of Inventory

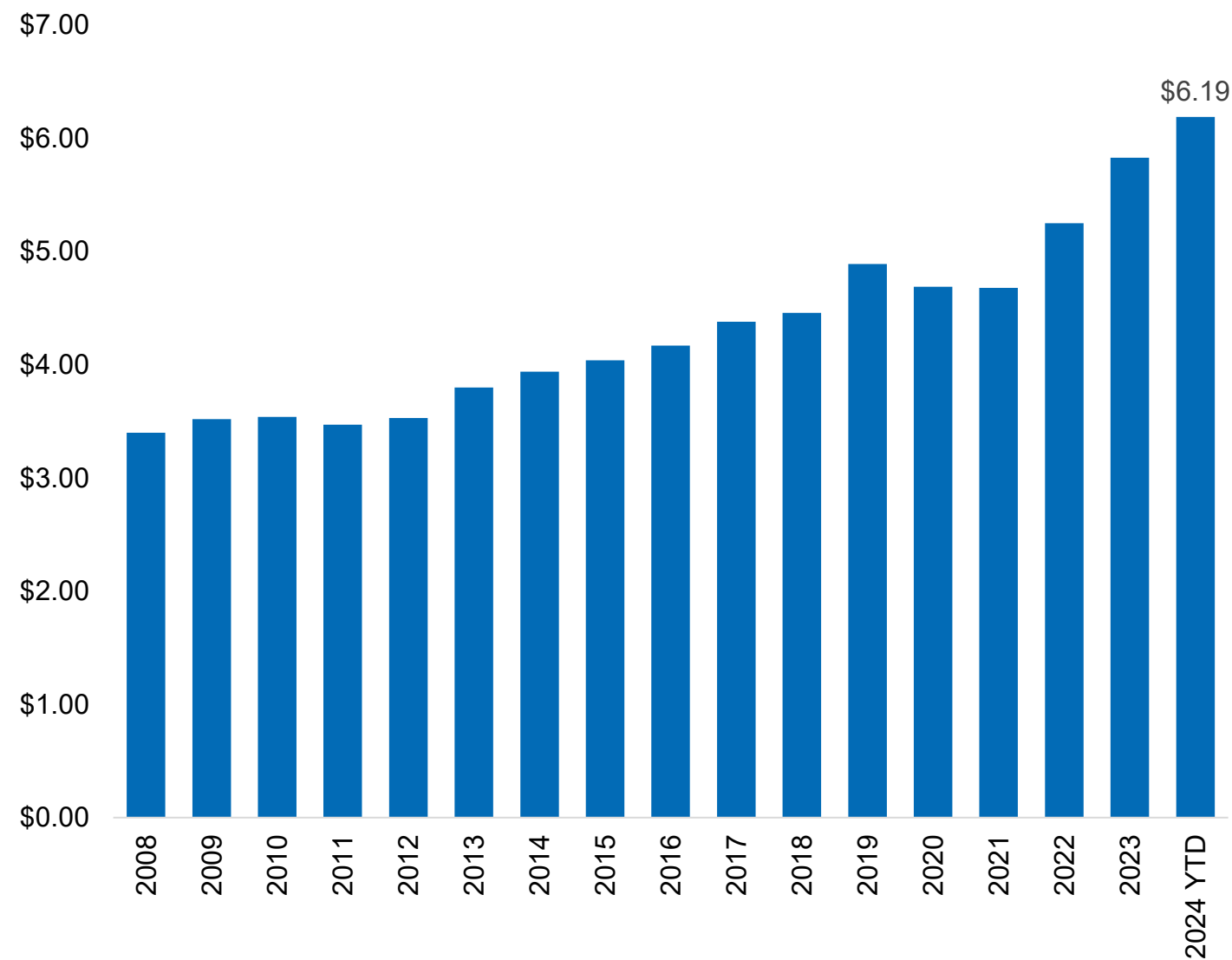


Source: Newmark Research, CoStar

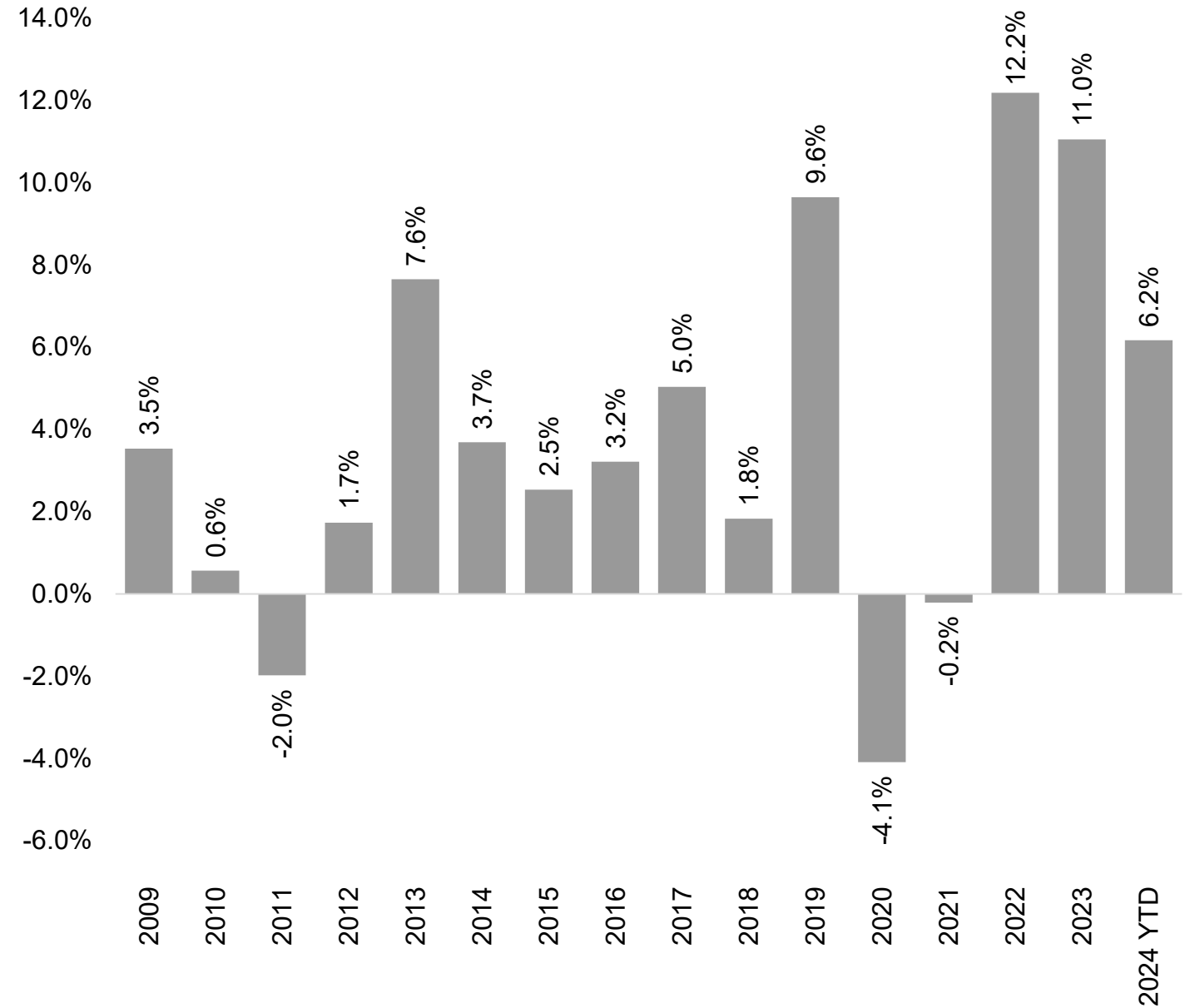
Industrial Asking Rents for Q1-Q3 Down Slightly, Still Higher Than One Year Ago

Industrial average asking rents for the first three quarters of 2024 grew by a combined 6.2% year-over-year, down 50 basis points from the first and second quarter of 2024's growth rate. The average asking rent for the third quarter was \$6.15/SF, down by \$0.06/SF from the previous quarter, but still marking four straight quarters over \$6.00/SF, and the fourth-highest asking rate in at least 20 years. The year-to-date combined industrial asking average rate for the first three quarters was \$6.19/SF, down by \$0.03/SF from the first and second quarter's combined average.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Lease and Sale Transactions in 3Q24

Select 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
B'laster Products	Westfield Commerce Park/8989 Lake Rd.	Southwest	Direct	308,966
Confidential	7845 Northfield Rd.	South Central	Direct	247,000
Bob's Discount Furniture	7800 Cochran Rd.	Southeast	Direct	200,928
Millennium Control Systems	23550 Commerce Park	Northeast	Direct	115,000
Winston Products	28625 Fountain Pkwy.	Southeast	Direct	98,564
EGLO	30725 Solon Industrial Pkwy.	Southeast	Direct	77,801
The East Ohio Gas Company	6101 W. Snowville Rd.	South Central	Direct	46,383

Select 3Q24 Sale Transactions

Buyer	Building	Submarket	Sale Price	Square Feet	Price Per SF
Fortress Investment Group	1610 Highland Rd.	Southeast	\$1,818,000	15,514	\$117.18
EQT Exeter	10242 State Route 43	Southeast	\$40,250,000	434,000	\$92.74
Omega Industrial Real Estate	10295 Philipp Pkwy.	Southeast	\$6,910,000	78,083	\$88.50
AIC Industrial	24500 Detroit Rd.	Northwest	\$3,445,000	47,694	\$72.23
FNL R Steel Rolling LLC	141 W. Walnut Ave.	Northeast	\$6,290,000	87,243	\$72.10
Brunswick TG LLC	2988 Nationwide Pkwy.	Southwest	\$1,272,000	18,000	\$70.67
Best Supply Properties LLC	4900 Campbell Rd.	Northeast	\$2,100,000	31,080	\$67.57
Carson Industries II LTD	5667 Schaaf Rd.	South Central	\$1,350,000	20,520	\$65.79
4700 Spring LLC	4700 Spring Rd.	South Central	\$3,500,000	55,062	\$63.56
OPLTD Glenwillow LLC/Polestar Technologies	7005 Cochran Rd.	Southeast	\$28,600,000	458,000	\$62.45
Trident Industrial Management	26840 Fargo Ave.	Southeast	\$6,055,910	145,964	\$41.49

Source: Newmark Research, CoStar

Class A Warehouse Asking Rents Still Trend Up Despite Dip In YTD 2024

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Northeast Has Lowest Vacancy Percentage of Submarkets

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Southeast Tops Submarkets in Sublet Availability

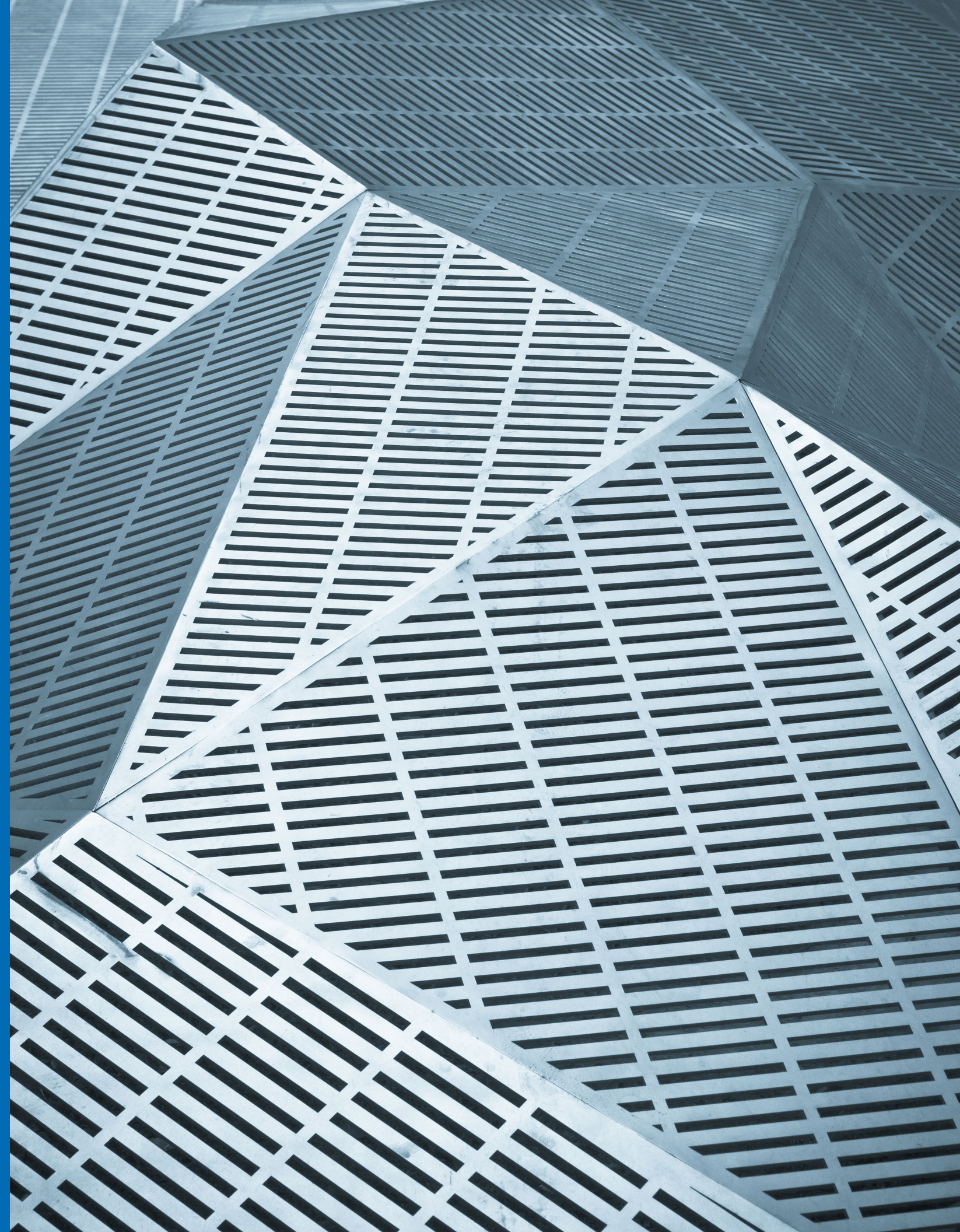
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Year-Over-Year Rent Performance Up In Four of Six Industrial Submarkets

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Appendix / Tables



Digging Deeper Into Cleveland's Industrial Market

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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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