

Demand for Industrial Space Shows No Sign of Slowing

Key Takeaways

- › After a modest gain in occupancy during the first quarter of 2017, activity in the Northeast Ohio industrial market accelerated during the second quarter posting positive net absorption of over 1.7 million square feet.
- › The overall market vacancy rate declined an additional 20 basis points to 4.4 percent; a decrease of 1.3 percentage points over the past two-year period during which time nearly 6.9 million square feet of industrial space has been occupied throughout the market.
- › Over half of the gain in occupancy can be attributed to occupiers of warehouse-distribution space – a category that recorded a drop in vacancy from 7.9 to 5.3 percent over the same time period.
- › Increased demand for manufacturing properties in the region over the past 12 months has resulted in a sharp drop in the vacancy rate for this property type, which is currently 3.3 percent. After retreating slightly during 2016, manufacturing job growth has been on the upswing through the first half of 2017.
- › Tightening market conditions have led to an increase in construction activity, including four speculative projects totaling 710,800 square feet with 30 percent of the space pre-leased.
- › Projects totaling approximately 800,000 square feet were completed during the quarter, including Riddell’s new 347,205 square-foot headquarters in North Ridgeville, while an additional 1.5 million square feet of construction projects are currently in the pipeline.
- › Although average asking rates gave back some of the previous two years’ gains this quarter, the overall market average rental rate of \$4.50 per square foot is still 22.5 percent higher than it was in mid-2015.
- › The warehouse-distribution and light industrial sectors also witnessed declines from last quarter and asking rates currently average \$4.12 and \$4.09 per square foot, respectively. However, year-over-year, average rates have increased by 6.8 percent for warehouse space and 8.4 percent for light industrial product.
- › Investment sales during the quarter included the sale of the new Riddell facility in North Ridgeville by Indianapolis-based developer Scannell Properties to New York-based LCN Capital Partners for \$30.65 million (\$88.28/SF). Scannell also sold a recently completed 248,000-square-foot distribution center leased fully to Amazon to California-based Omega Industrial for \$20.25 million (\$81.65/SF). The property is located in Cornerstone Business Park in Twinsburg.

Market Indicators

Relative to prior period

	Q2 2017	Q3 2017*
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↑	↑
RENTAL RATE**	↓	↑

* Projected, relative to prior period

** Warehouse rents

Summary Statistics

Q2 2017 Cleveland Industrial Market

Cleveland

Vacancy Rate	4.4%
Change From Q1 2017 (basis points)	-20
Absorption (Square Feet)	1,723,417
Under Construction (Square Feet)	1,515,267
Completions (Square Feet)	801,213

Asking Rents

Per Square Foot Per Year

Overall Market	\$4.50
Warehouse/Distribution	\$4.12
Flex/R&D	\$7.33

Cleveland | Q2 2017 Industrial Submarket Data

MARKET	# OF BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	SUBLEASE AVAILABLE (SF)	QTRLY NET ABSORPTION (SF)	YTD NET ABSORPTION	AVG WTD ASKING RATES (NNN)
Downtown Cleveland	409	36,091,317	2,863,952	2,261,207	6.3%	45,000	25,183	47,561	\$3.59
Warehouse - Distribution	25	3,110,562	423,262	386,910	12.4%	0	0	0	--
Manufacturing	22	6,722,341	500,394	274,363	4.1%	0	0	0	\$3.10
Flex/R&D	11	933,043	30,000	30,000	3.2%	0	0	0	--
Light Industrial	351	25,325,371	1,910,296	1,569,934	6.2%	45,000	25,183	47,561	\$3.84
East Cleveland	121	8,652,222	586,479	434,010	5.0%	23,250	88,000	143,017	\$8.40
Warehouse - Distribution	6	812,850	62,020	47,020	5.8%	0	80,000	80,000	\$3.50
Manufacturing	2	351,920	0	0	0.0%	0	0	0	--
Flex/R&D	54	3,719,175	318,069	255,129	6.9%	23,250	8,000	54,253	\$9.07
Light Industrial	59	3,768,277	206,390	131,861	3.5%	0	0	8,764	\$8.44
Northeast Cleveland	195	23,110,376	2,174,595	1,899,034	8.2%	0	400	-92,516	\$3.35
Warehouse - Distribution	10	2,094,818	206,862	206,862	9.9%	0	0	0	\$3.25
Manufacturing	22	9,431,661	1,040,917	924,679	9.8%	0	0	0	\$2.85
Flex/R&D	6	220,811	10,635	10,635	4.8%	0	0	0	--
Light Industrial	157	11,363,086	916,181	756,858	6.7%	0	400	-92,516	\$4.07
South Cleveland	472	33,266,552	3,209,503	2,309,081	6.9%	365,280	347,941	250,386	\$4.61
Warehouse - Distribution	40	5,760,660	914,411	725,403	12.6%	275,393	74,919	-83,881	\$3.72
Manufacturing	15	5,043,966	0	0	0.0%	0	0	0	--
Flex/R&D	107	4,619,997	682,560	535,061	11.6%	7,941	-51,152	-25,240	\$6.70
Light Industrial	310	17,841,929	1,612,532	1,048,617	5.9%	81,946	324,174	359,507	\$3.82
Southeast Cleveland	646	51,918,018	3,782,353	2,339,765	4.5%	360,809	300,385	-11,168	\$5.79
Warehouse - Distribution	87	15,856,267	822,939	604,924	3.8%	105,124	62,500	-9,660	\$5.16
Manufacturing	11	1,798,733	93,967	0	0.0%	93,967	0	0	--
Flex/R&D	143	6,590,016	1,103,212	640,116	9.7%	34,233	5,561	-33,104	\$7.51
Light Industrial	405	27,673,002	1,762,235	1,094,725	4.0%	127,485	232,324	31,596	\$4.69
Southwest Cleveland	491	42,250,233	2,313,005	1,618,092	3.8%	48,410	240,865	341,271	\$5.10
Warehouse - Distribution	76	10,246,525	1,018,802	837,911	8.2%	30,960	262,640	286,461	\$5.50
Manufacturing	16	11,670,398	43,131	43,131	0.4%	0	-43,131	-43,131	--
Flex/R&D	72	3,302,479	289,134	116,163	3.5%	9,450	-2,783	39,274	\$8.04
Light Industrial	327	17,030,831	961,938	620,887	3.6%	8,000	24,139	58,667	\$3.90
West Cleveland	338	26,689,741	1,417,357	1,039,213	3.9%	112,033	380,458	437,617	\$4.06
Warehouse - Distribution	28	4,085,580	282,987	268,607	6.6%	0	-71,400	-57,020	\$3.38
Manufacturing	14	6,784,095	0	0	0.0%	0	347,205	347,205	--
Flex/R&D	43	1,731,096	230,681	95,332	5.5%	107,533	2,940	42,654	\$7.94
Light Industrial	253	14,088,970	903,689	675,274	4.8%	4,500	101,713	104,778	\$3.42
Akron	419	37,322,784	2,236,304	1,180,186	3.2%	28,750	-11,359	-238,711	\$3.75
Warehouse - Distribution	57	9,930,466	527,739	209,452	2.1%	0	-119,200	-116,836	\$3.58
Manufacturing	29	11,330,630	33,667	33,667	0.3%	0	0	0	\$3.75
Flex/R&D	26	874,105	158,442	102,000	11.7%	12,850	4,375	4,375	\$4.71
Light Industrial	307	15,187,583	1,516,456	835,067	5.5%	15,900	3,466	-126,250	\$3.90
North Akron	169	13,452,123	1,635,103	408,003	3.0%	4,410	74,065	57,280	\$4.69
Warehouse - Distribution	24	4,581,602	27,106	27,106	0.6%	0	114,188	114,188	--
Manufacturing	8	1,910,203	0	0	0.0%	0	0	0	--
Flex/R&D	24	1,598,210	834,170	97,656	6.1%	4,410	9,650	6,500	\$7.78
Light Industrial	113	5,362,108	773,827	283,241	5.3%	0	-49,773	-63,408	\$4.09
Geauga	104	7,332,231	157,813	80,212	1.1%	0	5,000	-13,700	\$3.48
Warehouse - Distribution	8	970,703	14,500	14,500	1.5%	0	0	0	--
Manufacturing	11	2,729,072	0	0	0.0%	0	0	0	--
Flex/R&D	2	54,164	0	0	0.0%	0	0	0	--
Light Industrial	83	3,578,292	143,313	65,712	1.8%	0	5,000	-13,700	\$3.48
Lake County East	80	6,190,678	245,220	33,825	0.5%	0	70,000	44,175	\$4.86
Warehouse - Distribution	6	632,154	0	0	0.0%	0	70,000	70,000	--
Manufacturing	10	2,935,917	104,753	0	0.0%	0	0	0	--
Flex/R&D	5	144,778	0	0	0.0%	0	0	0	--
Light Industrial	59	2,477,829	140,467	33,825	1.4%	0	0	-25,825	\$4.86
Lake County West	390	24,218,968	1,047,416	738,656	3.0%	2,170	53,793	130,097	\$4.75
Warehouse - Distribution	11	2,296,953	427,080	377,080	16.4%	0	0	0	\$4.50
Manufacturing	9	2,958,231	40,000	0	0.0%	0	0	8,770	--
Flex/R&D	63	3,233,941	92,182	43,812	1.4%	2,170	9,001	17,016	\$6.48
Light Industrial	307	15,729,843	488,154	317,764	2.0%	0	44,792	104,311	\$3.61
Lorain West	188	19,696,026	1,983,145	1,274,236	6.5%	0	158,038	374,382	\$3.02
Warehouse - Distribution	17	2,854,034	114,548	69,053	2.4%	0	10,000	10,000	\$3.69
Manufacturing	22	10,343,789	1,591,395	1,095,409	10.6%	0	170,986	417,836	\$2.98
Flex/R&D	12	351,739	33,752	0	0.0%	0	0	0	--
Light Industrial	137	6,146,464	243,450	109,774	1.8%	0	-22,948	-53,454	\$2.86
Medina	188	13,995,229	825,055	725,648	5.2%	0	123,514	199,585	\$5.19
Warehouse - Distribution	25	3,696,520	195,729	165,421	4.5%	0	764	764	\$4.36
Manufacturing	27	4,571,921	363,775	363,775	8.0%	0	0	100,000	--
Flex/R&D	25	905,140	65,823	57,116	6.3%	0	-11,650	-3,025	\$6.33
Light Industrial	111	4,821,648	199,728	139,336	2.9%	0	134,400	101,846	\$5.44
Portage County	114	8,791,056	72,530	44,500	0.5%	0	-40,500	-44,500	\$2.50
Warehouse - Distribution	16	3,214,995	0	0	0.0%	0	0	0	--
Manufacturing	10	1,896,989	0	0	0.0%	0	0	0	--
Flex/R&D	3	117,326	0	0	0.0%	0	0	0	\$2.50
Light Industrial	85	3,561,746	72,530	44,500	1.2%	0	-40,500	-44,500	\$5.00
Stark County	387	43,198,912	1,488,413	1,054,347	2.4%	27,198	7,634	209,482	\$3.83
Warehouse - Distribution	50	8,490,307	476,093	234,047	2.8%	0	0	255,150	\$4.07
Manufacturing	57	22,417,379	636,051	636,051	2.8%	0	0	-84,500	\$3.25
Flex/R&D	15	402,255	0	0	0.0%	0	0	0	--
Light Industrial	265	11,888,971	376,269	184,249	1.5%	27,198	7,634	38,832	\$4.09
Grand Total	4,711	396,176,466	26,038,243	17,440,015	4.4%	1,017,310	1,723,417	1,834,258	\$4.50

Summary & Outlook

Although vacancy has fallen significantly for manufacturing properties throughout the Cleveland region, this gain has not been associated with boosting job creation in the sector. There has been some modest growth in manufacturing employment over the past year. But, automation will continue to be deployed in manufacturing operations in order to produce productive gains. That's not to say that industrial real estate will experience a negative impact. Physical plants are still necessary for the manufacture and production of goods.

In fact, demand for manufacturing facilities continues to grow as evidenced by the rapid drop in vacancy over the past few years. Very few spaces are currently available and many of these buildings can be characterized as functionally obsolete. With diminishing options, companies have turned to building new. Currently, projects totaling 650,000 square feet, including additions to existing facilities, are under construction for area manufacturers. Economic growth is forecast to continue, so it is expected that demand for manufacturing and other light industrial space will remain strong.

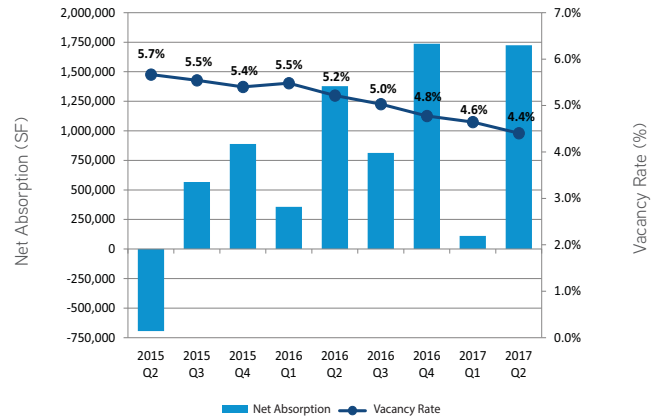
Distribution and logistics, which drives many other Midwestern industrial markets, has not been as robust in the Cleveland market. Distribution centers that have been recently constructed tend to be at the smaller end of the scale, ranging from 185,000 to 300,000 square feet in size, even when built for one of the national logistics firms such as Fed Ex or Amazon. That could change if Atlanta-based developer, Seefried Industrial Properties, follows through on a purchase of the Euclid Square Mall. Plans submitted to local authorities indicate a proposed distribution facility between 650,000 and 1,000,000 square feet in size. It is rumored that Amazon could be the end user and the e-commerce giant recently signed a short-term lease across the street for 80,000 square feet at Bluestone Business Center.

Converting failed retail properties to industrial is one of the many alternative uses developers and owners are finding successful. The former Randall Park Mall is another such example. Former retail sites offer e-commerce retailers and third party logistics firms access to developed transportation networks and labor, as well as convenient access to densely populated areas. As discussed in prior reports, the most difficult and costly piece of the delivery process is the so called "last mile" – the final leg of delivering a product directly to the customer.

One of the solutions to the "last mile" issue is locating facilities closer to the urban core and utilizing existing industrial buildings for the final leg of the delivery process. However, many existing industrial buildings near city centers do not meet the physical requirements for modern distribution and vacant land sites likely hosted manufacturing facilities, requiring environmental remediation. Former department stores, big-box retail properties or the ground on which they stand can often meet this challenge.

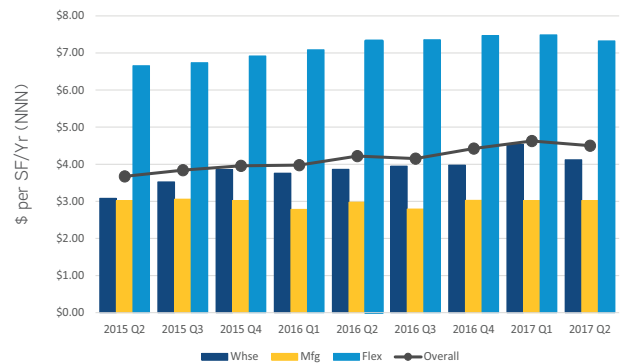
With online sales growing annually at double-digit rates, demand for warehouse and logistics space will continue to increase. The Cleveland area industrial markets should experience further growth based on the demand generated from this sector.

Industrial Vacancy/Absorption



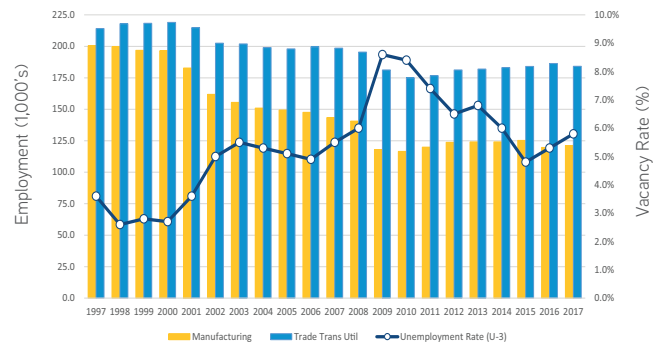
An occupancy gain of nearly 6.9 million square feet over the past two years has resulted in historically low vacancy.

Industrial Rental Rates



Although asking rates decreased slightly from last quarter, the longer term trend has been steady increases in average rates. This trend is expected to continue at a more modest pace going forward.

Industrial Employment History



Employment in the manufacturing sector has begun to grow again, while an increase in the unemployment rate indicates more job seekers re-entering the labor force.

Sources: Colliers Research, Xceligent, CoStar, Bureau Labor of Statistics

Notable Industrial Sales | Q2 2017

PROPERTY NAME/ADDRESS	SALE DATE	SALE PRICE	BLDG SIZE (SF)	BUYER	SELLER	TYPE	SUBMARKET
SB Equities Porfolio	May-17	\$40,621,617	1,467,932	Raith Capital Partners	SB Equities LLC	Whse/	Akron/Canton
Riddell Facility	Mar-17	\$30,650,000	347,205	LCN Capital Partners	Scannell Properties	Manufacturing	West
Cornerstone Business	May-17	\$20,250,000	248,000	Omega Industrial LLC	Scannell Properties	Whse/	Southeast
777 Lena D Bldg 1	Apr-17	\$6,400,000	198,060	Piping Rock Health Products	Lena Commerce LLC	Whse/	Southeast
1501 Raff Rd SW Bldg 3	Mar-17	\$3,865,000	146,000	Z Capital Group	Gerdaul Macsteel Inc	Manufacturing	Stark County
7500 Northfield Rd	May-17	\$3,700,000	138,429	Ullman Oil Company	Mason Structural Steel Inc	Manufacturing	South
3849 & 3901 Chester	Apr-17	\$3,000,000	50,762	Pubco Corporation	Chester Avenue Properties	Light Industrial	Downtown
18301 Saint Clair Ave	Apr-17	\$2,150,000	260,000	Federal Equipment Company	Manitowoc Food Service	Manufacturing	Northeast
7780 Northfield Rd	May-17	\$2,100,000	40,212	Berger Transfer & Storage Inc	Arhaus Furniture	Light Industrial	South
1441 Wolf Creek Trl	May-17	\$2,100,000	37,110	The Timken Company	EBO Group Inc	Light Industrial	Medina County

Notable Industrial Leases | Q2 2017

PROPERTY NAME/ADDRESS	LEASE DATE	LEASE SF	ASKING RATE	LEASE TYPE	TENANT	TYPE	SUBMARKET
5401 Baumhart Rd	May-17	175,924	\$2.95	Gross	Undisclosed Tenant	Manufacturing	Lorain West
Weston Crossroads Distribution	Jun-17	149,269			Enerco	Whse/Distribution	Southeast
Gallo Displays Building	Apr-17	116,554			Cotton Club Bottling	Light Industrial	South
14720 Foltz Pkwy Bldg 1	Apr-17	115,992	\$6.50	NNN	Applied Industrial	Whse/Distribution	Southwest
34000 Vokes Dr	Apr-17	77,767	\$5.00	NNN	Mold Masters	Manufacturing	Northeast
1035 W Smith Rd	May-17	75,000	\$3.36	NNN	Burlington Mattress Ohio *	Whse/Distribution	Medina County
5185 Richmond Rd	Apr-17	69,730	\$3.50	NNN	Dal-Tile	Light Industrial	Southeast
C & S Topps Warehouse	Mar-17	60,000	\$3.25	NNN	Mantua Manufacturing	Whse/Distribution	South
22720 Stefast Pkwy	May-17	50,000	\$5.95	NNN	Scholastic Books	Whse/Distribution	Southwest
8190 Roll and Hold Pkwy	May-17	49,500	\$4.95	NNN	Ta Chen International	Whse/Distribution	Southeast

* Renewal or expansion

554 offices in
66 countries on
6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **192**

EMEA: **112**

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Sources: Moody's Analytics, Xceligent, CoStar Group & Colliers Research