

4Q24

Cleveland Industrial Market Overview

NEWMARK

Market Observations

Economy

- In the fourth quarter, the Cleveland-Elyria-Mentor metro’s economy gained back the most jobs it has seen since December 2023, as total nonfarm employment increased annually by 0.9% in November. National nonfarm employment increased by 1.4%. The unemployment rate for the Cleveland-Elyria-Mentor MSA decreased to 3.8% in November 2024.
- Six of 11 industry sectors in the Cleveland market saw employment gains from November 2023 to November 2024. Of the three industrial-using or adjacent industries, the Trade/Transportation/Utilities sector gained a small number of jobs at 0.4%, while the Construction sector contracted by negative 0.5% and the Manufacturing sector declined by 1.4%. The Education and Health sector once again had the biggest increase of all the industries for the fourth quarter at 2.8%.

Prominent Transactions and Occupations

- Sale-leasebacks headlined the Cleveland market’s transaction activity during the fourth quarter – Sysco inked a 389,966 SF lease at 4747 Grayton Rd. in the Downtown submarket after selling its building to Blue Owl Real Estate Capital LLC for \$4.3 million, or \$113.60/SF; Produce Packaging signed a 155,916 SF lease at 27853 Chardon Rd. in the Northeast submarket after MAG Capital Partners purchased the building for \$10.3 million, or \$65.74/SF; and Spartronics sold its 60,000 SF property at 22740 Lunn Rd. in the Southwest submarket to Royal Oak Realty Trust for \$5.0 million, or \$83.33/SF, and then signed a full-building lease. Candor Logistics signed a new lease for 142,038 SF at 28625 Fountain Pkwy. in the Southeast submarket.
- Beyond the aforementioned sale-leaseback deals, another key industrial sale in the fourth quarter was for the 195,716 SF warehouse located at 8745 Chamberlin Rd. in Twinsburg in the Southeast submarket. Prominent investor North Haven Net REIT (Morgan Stanley Investment Management) purchased the property for \$21.7 million, or \$110.87/SF.

Leasing Market Fundamentals

- The Cleveland industrial market tallied negative 164,185 SF of absorption in the fourth quarter, bringing the year-end total to a positive 1.5 million SF. The industrial vacancy rate held steady at 4.1% in the fourth quarter from the third quarter of 2024. For the year 2024, the market stood at 4.1% vacancy, up from the overall 3.9% in 2023 but well below the long-term average vacancy trendline of 7.8%.
- For the fourth quarter of 2024, quarterly demand for industrial space was at its lowest point since the first quarter of 2019’s 1.1 million SF. Total leasing activity for the quarter measured approximately 1.4 million SF, down from 2.2 million SF in the third quarter. For all of 2024, industrial leasing activity’s up and down roller coaster measured 7.8 million SF.
- Industrial average asking rents grew in 2024 by 5.5% over 2023’s combined average. The average asking rent for the year 2024 was \$6.15/SF; the fourth quarter saw an average asking rent of \$6.02/SF, which was down by \$0.13/SF from the previous quarter, and subsequently brought down the yearly total by \$0.04/SF from the previous quarter.

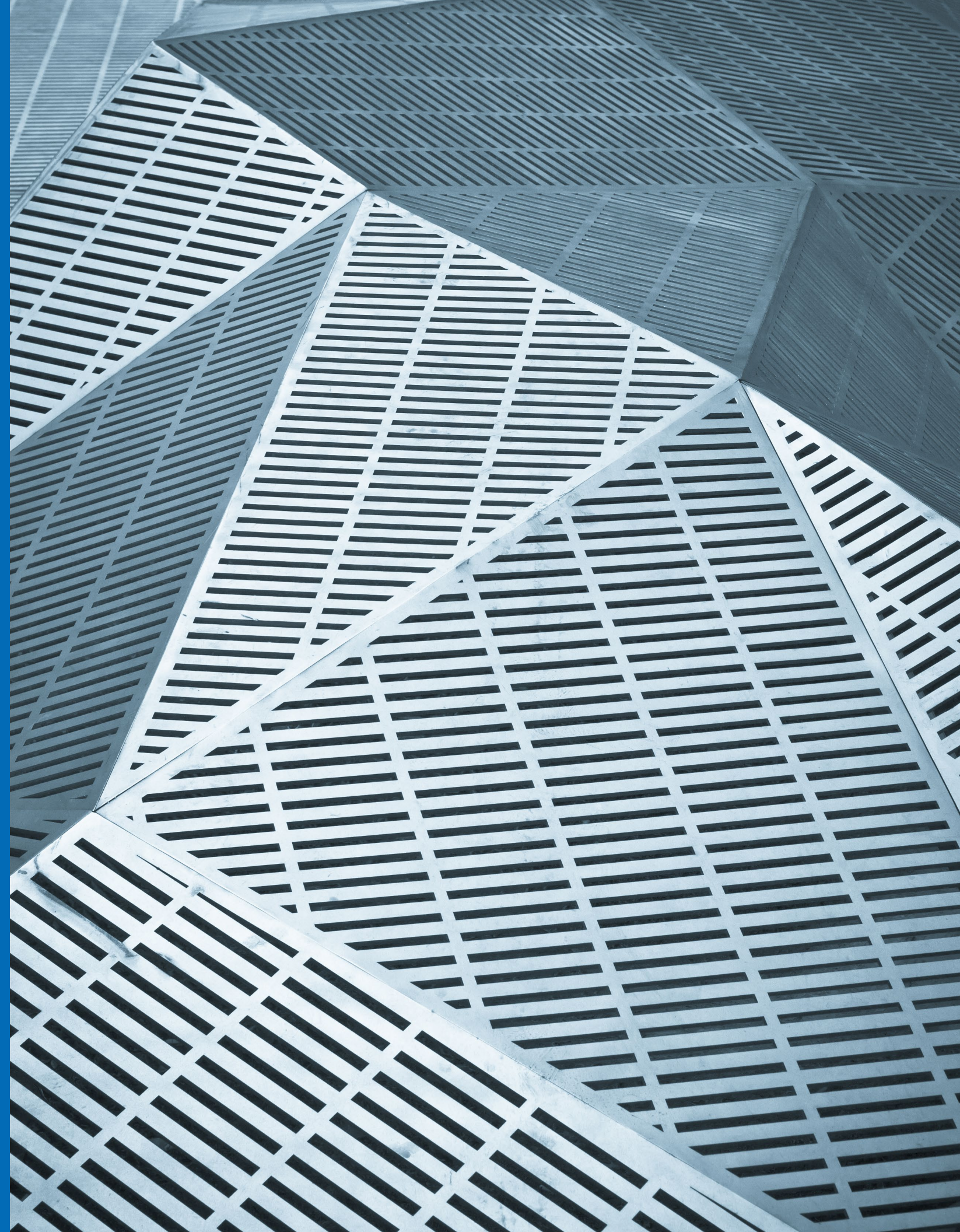
Outlook

- The pipeline of properties under construction rose to approximately 2.5 million SF in the fourth quarter of 2024, comprising 0.9% of the overall inventory, up 40 basis points from the previous quarter. The majority of construction starts for proposed projects continued to be delayed. Market equilibrium is still at least another year away after periods of inflated inventory expansion and demand in the years prior to and post-pandemic. Restraint remains from developers as the market weathers socioeconomic headwinds and material price increases. In fact, prices for oil and copper increased as 2024 came to a close, prompting apprehension about material price hikes in 2025, especially if steep tariffs are enacted.
- Additional issues facing the industrial market, both locally and nationally, include overall higher-priced material costs, workforce gaps/labor shortages, supply chain pressures, and resources being allocated for data center construction.

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

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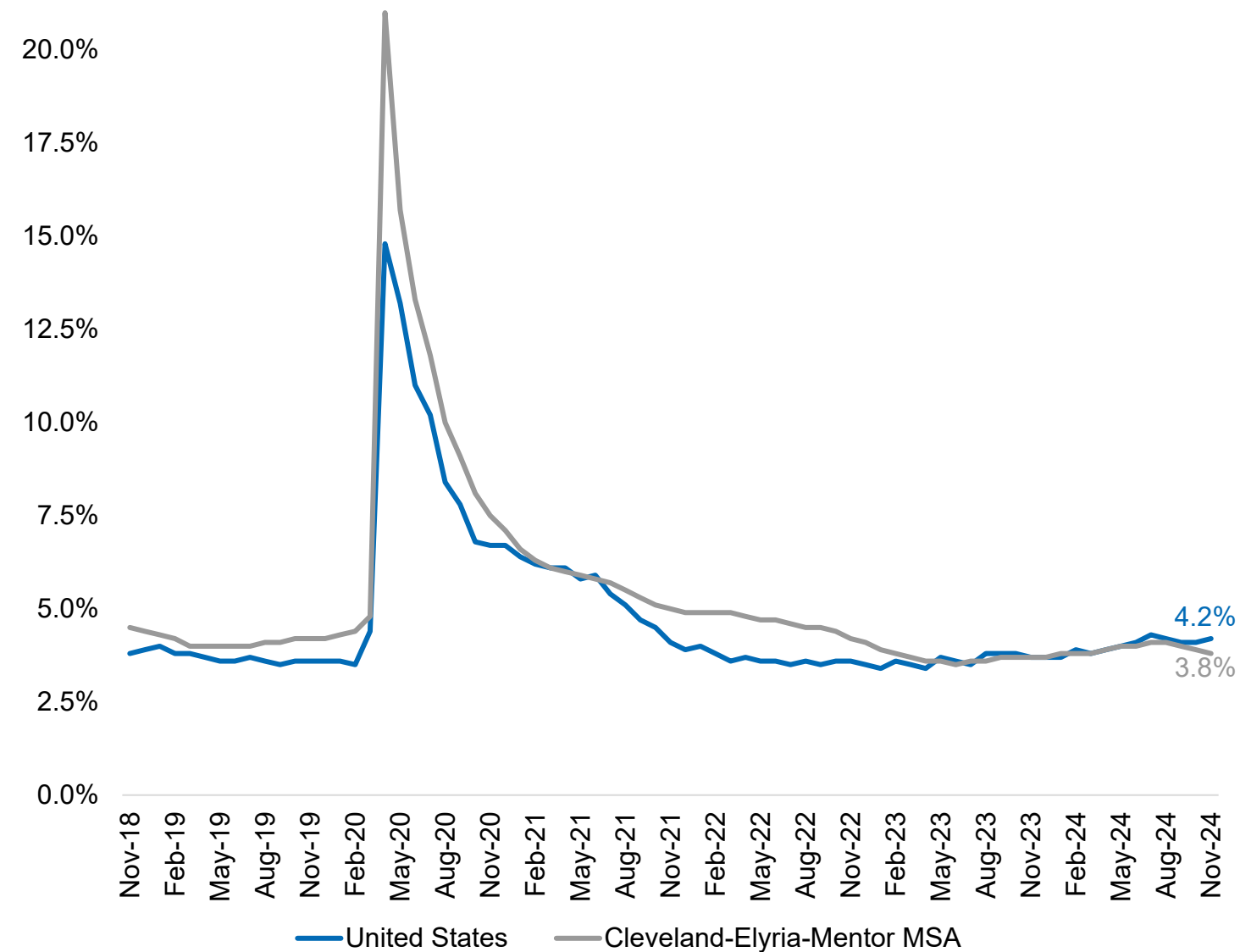
Economy



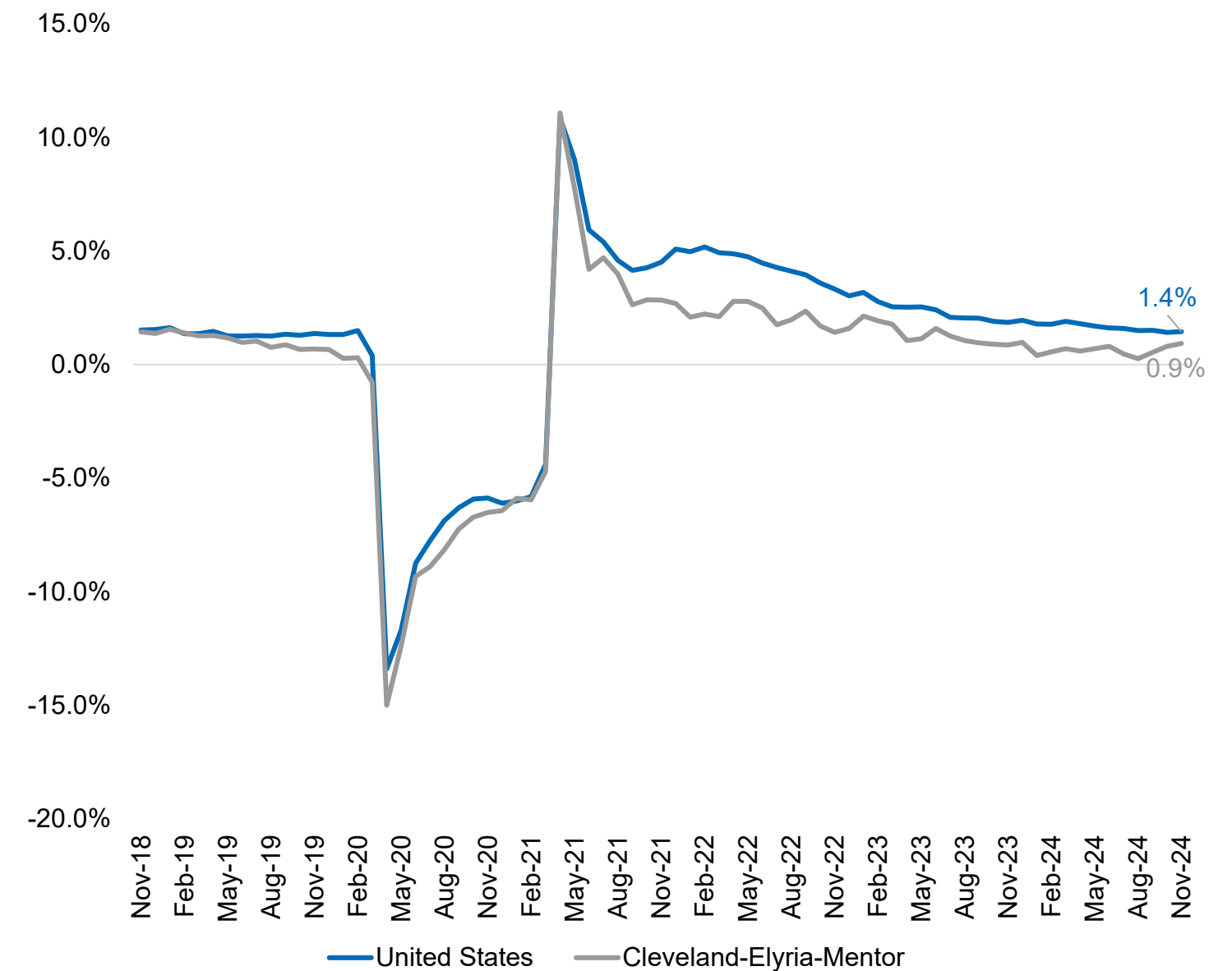
Cleveland and United States Unemployment and Employment Trends

In the fourth quarter, the Cleveland-Elyria-Mentor metro area experienced its largest job recovery since December 2023, with total nonfarm employment rising by 0.9% year-over-year in November. Nationally, nonfarm employment increased by 1.4%. The unemployment rate in the Cleveland-Elyria-Mentor Metropolitan Statistical Area (MSA) dropped to 3.8% in November 2024, matching the rate at the start of the year. This decline follows a gradual increase that peaked at 4.1% in July and August, before decreasing again. Cleveland's most recent low in unemployment occurred in June 2023, at 3.5%. In contrast, the national unemployment rate rose to 4.2% in November, surpassing Cleveland's rate, and has been equal to or above Cleveland's rate since February 2024.

Unemployment Rate, Seasonally Adjusted



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

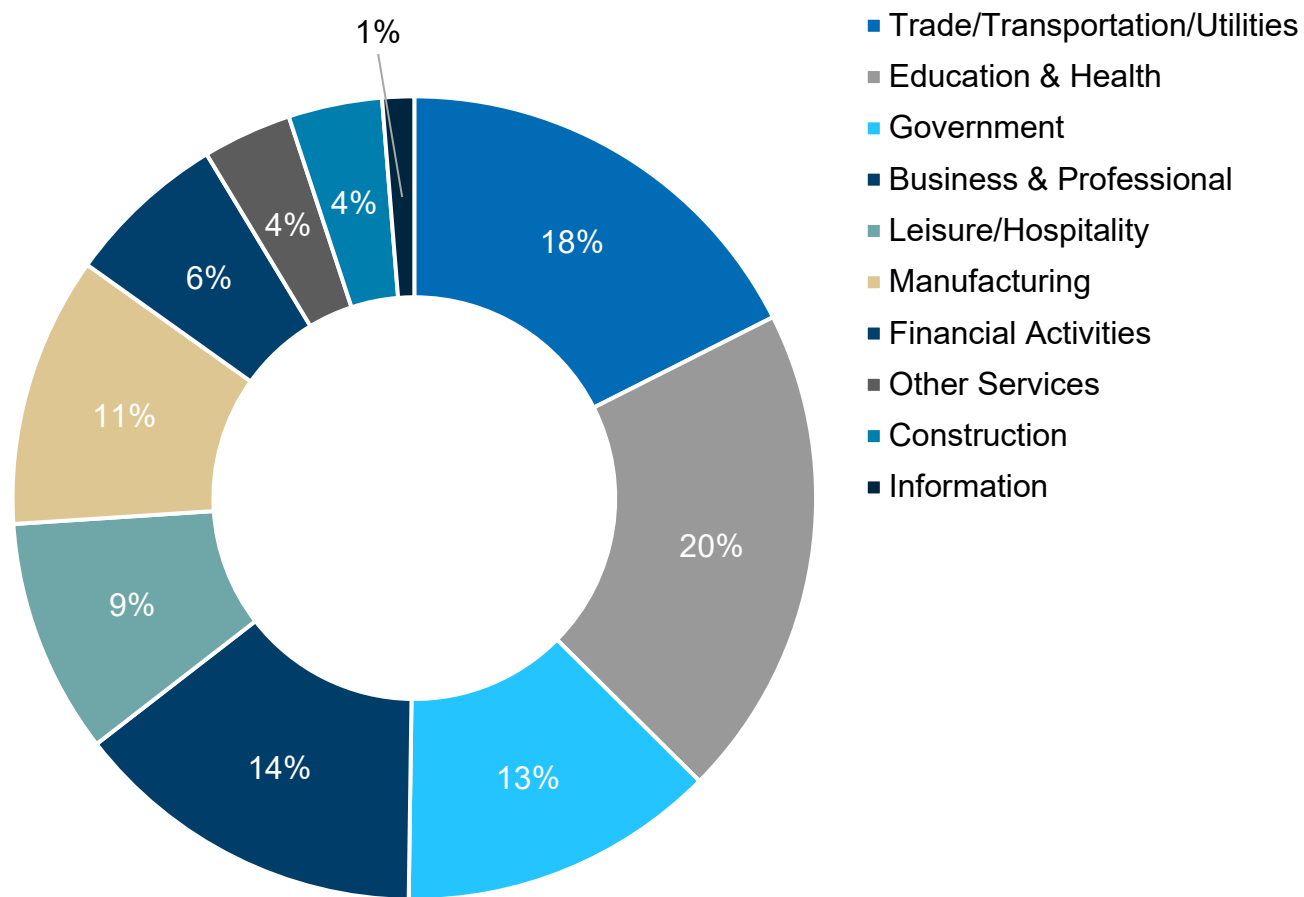


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

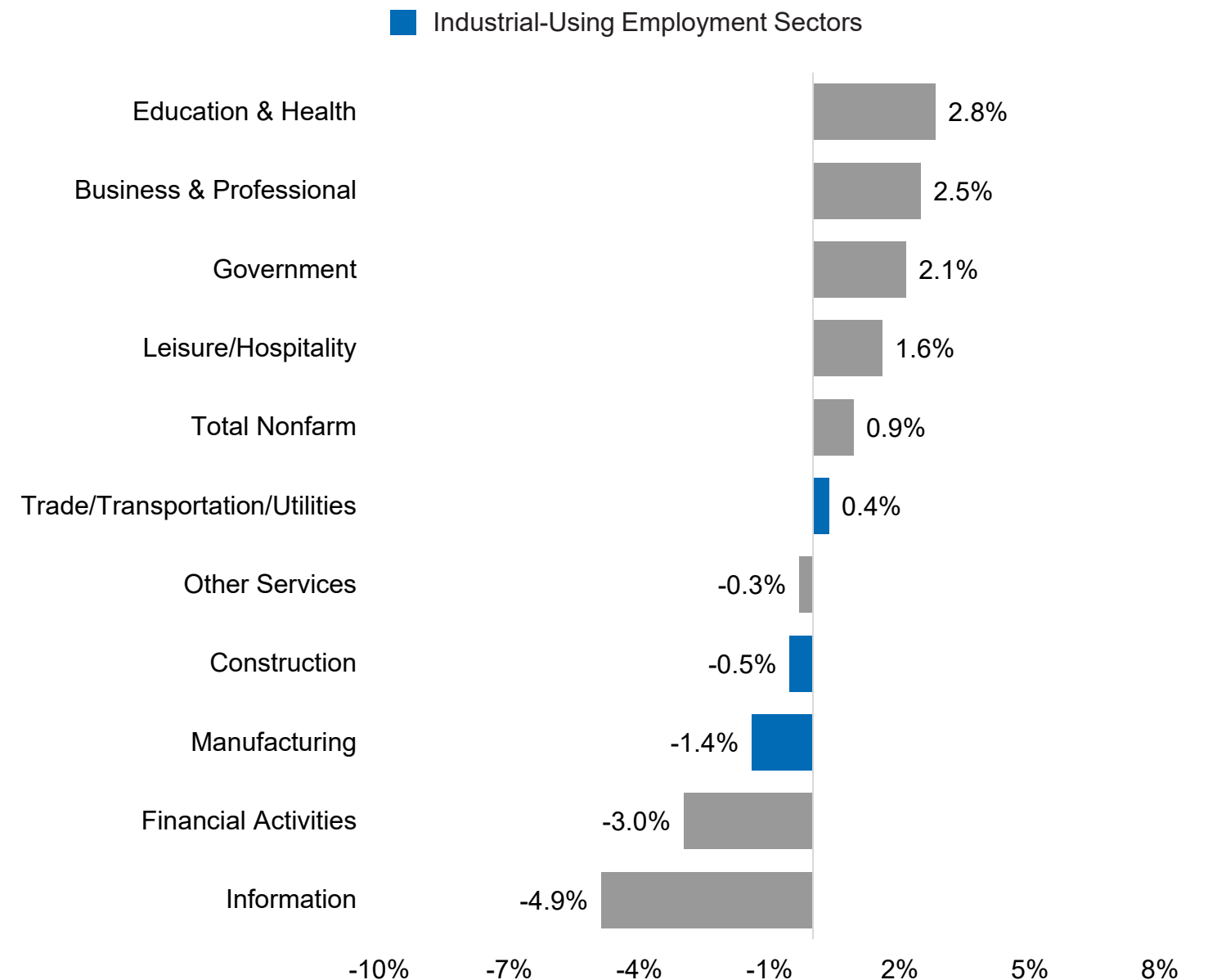
Cleveland Market Sees Job Losses in Two of Three Industrial-Using Sectors

Six of 11 industry sectors in the Cleveland market saw employment gains from November 2023 to November 2024. Of the three industrial-using or adjacent industries, the Trade/Transportation/Utilities sector gained a small number of jobs at 0.4%, while the Construction sector contracted by negative 0.5% and the Manufacturing sector declined by 1.4%. The Education and Health sector once again had the biggest increase of all the industries for the fourth quarter at 2.8%.

Employment by Industry, November 2024



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

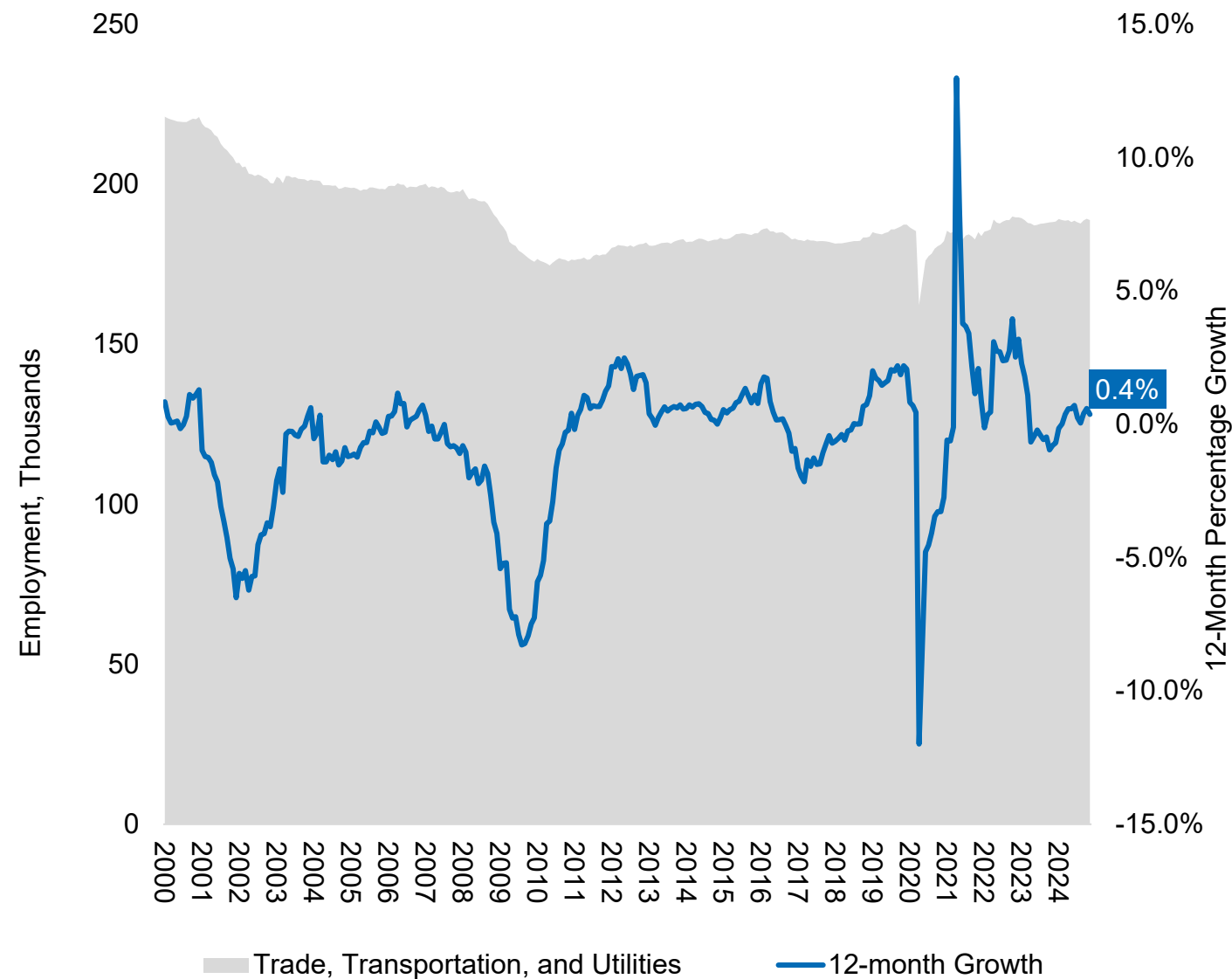


Source: U.S. Bureau of Labor Statistics, Cleveland-Elyria-Mentor MSA

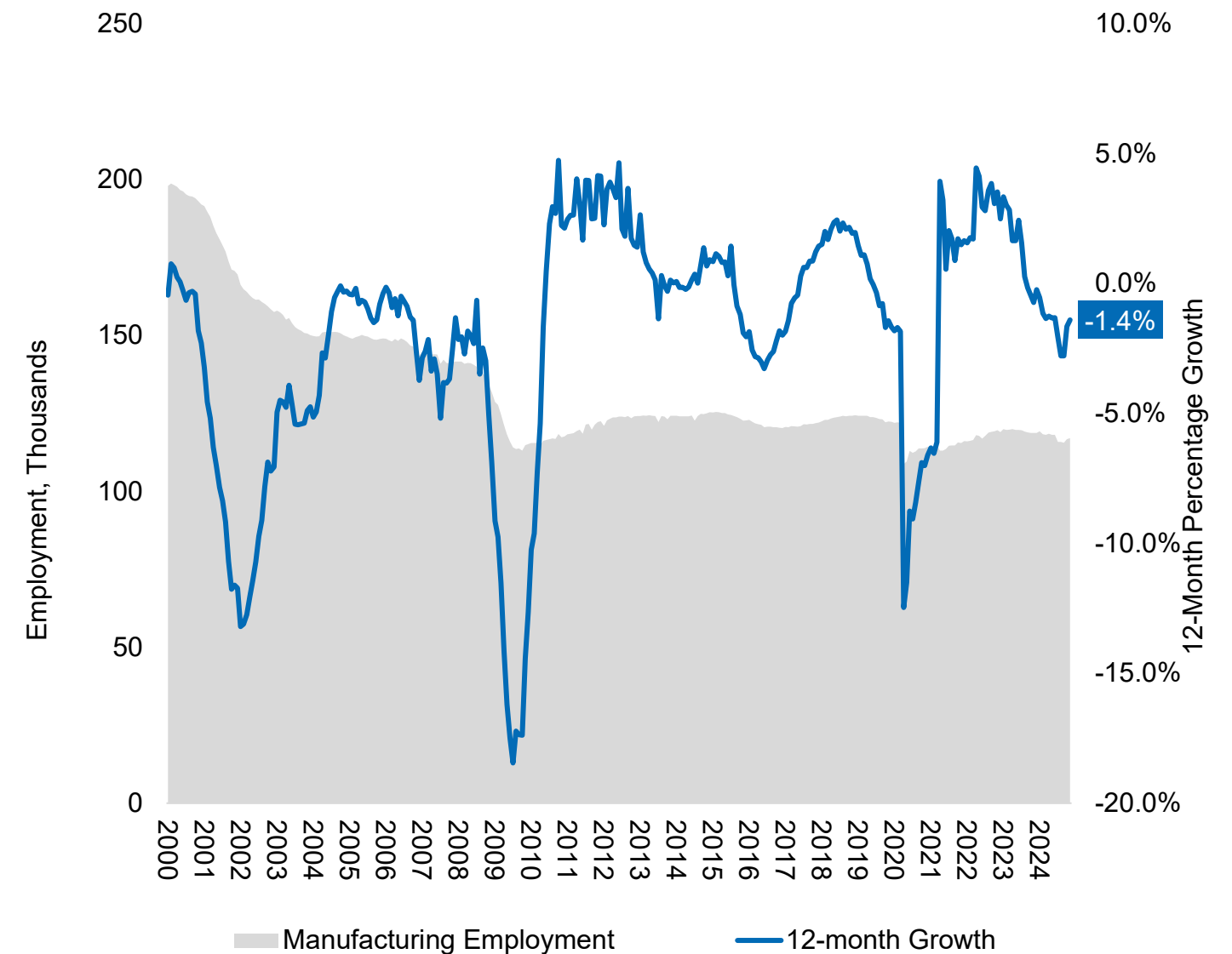
One of Two Significant Industrial Using Employment Sectors Sees Annual Job Loss

In the Cleveland market, industrial sectors experienced year-over-year declines due to reduced demand for goods and services, which significantly affected the manufacturing industry. This sector is especially vulnerable to ongoing supply chain disruptions and economic slowdowns. Over the past year, the manufacturing sector saw a 1.4% decrease in jobs, while the Trade, Transportation, and Utilities sectors experienced a slight job growth of 0.4%. Assessing the future performance of sectors like manufacturing in Cleveland requires considering various factors such as current economic trends, policy changes, technological advancements, and global market conditions. As the economy recovers from past disruptions and onshoring potentially increases due to the new administration's expected tariff policies, demand for manufactured goods and trade, transportation, and utilities services may rise, potentially spurring growth in these sectors.

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



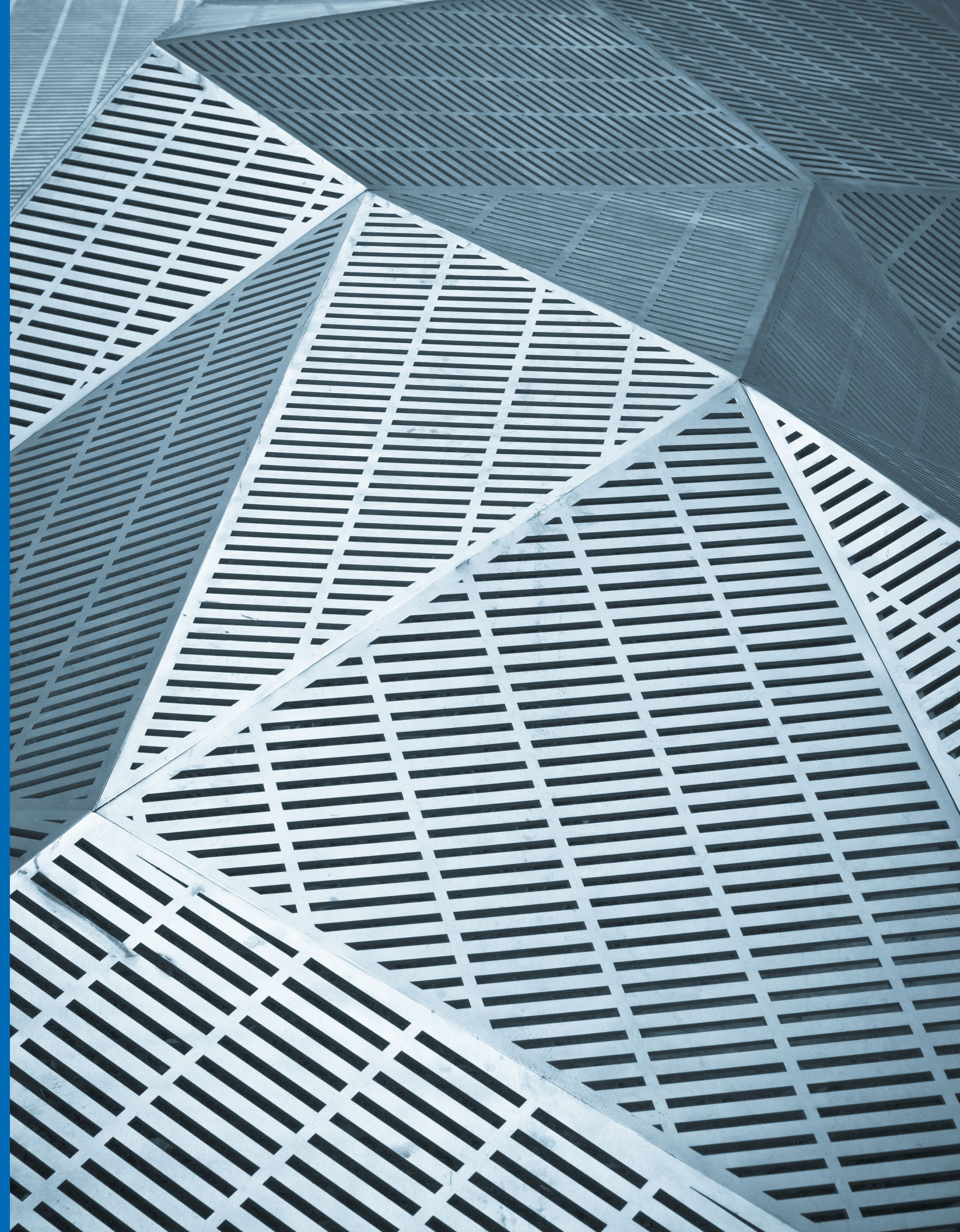
Total Employment and 12-Month Growth Rate, Manufacturing



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

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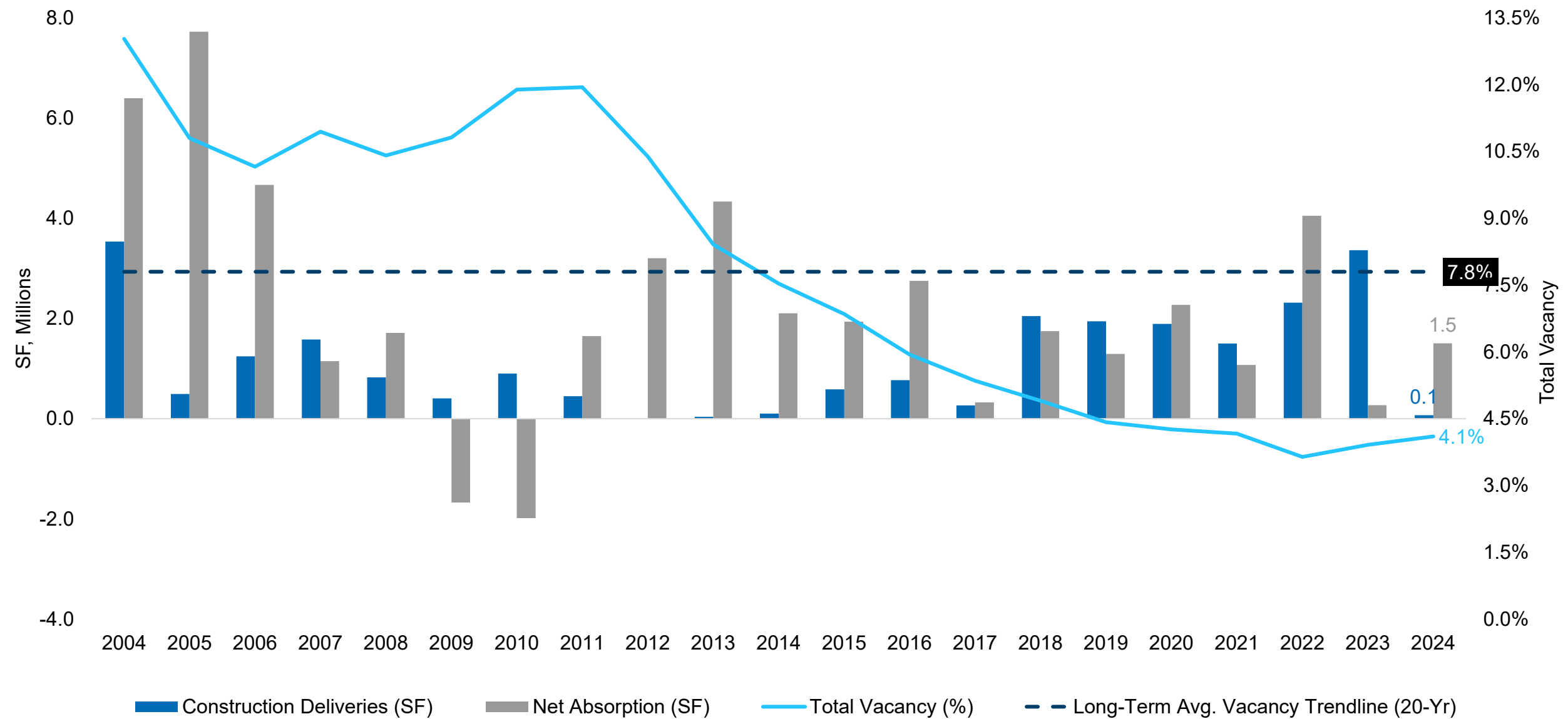
Leasing Market Fundamentals



Industrial Market Stable, Nets Positive Absorption for 2024

The Cleveland industrial market tallied negative 164,185 SF of absorption in the fourth quarter, bringing the year-end total to a positive 1.5 million SF. The industrial vacancy rate held steady at 4.1% in the fourth quarter from the third quarter of 2024. For the year 2024, the market stood at 4.1% vacancy, up from the overall 3.9% in 2023 but well below the long-term average vacancy trendline of 7.8%. No new product delivered in either the third or fourth quarter, and the yearly delivery total was 72,000 SF. For the year, the property types of general industrial/manufacturing, R&D/flex, and warehouse/distribution all netted positive absorption – and the general industrial/manufacturing category finished the fourth quarter of 2024 with a vacancy rate of 2.5%. Warehouse/distribution buildings ended the year at 6.1% vacancy and R&D/flex was the highest with a 6.4% vacancy rate.

Historical Construction Deliveries, Net Absorption, and Vacancy

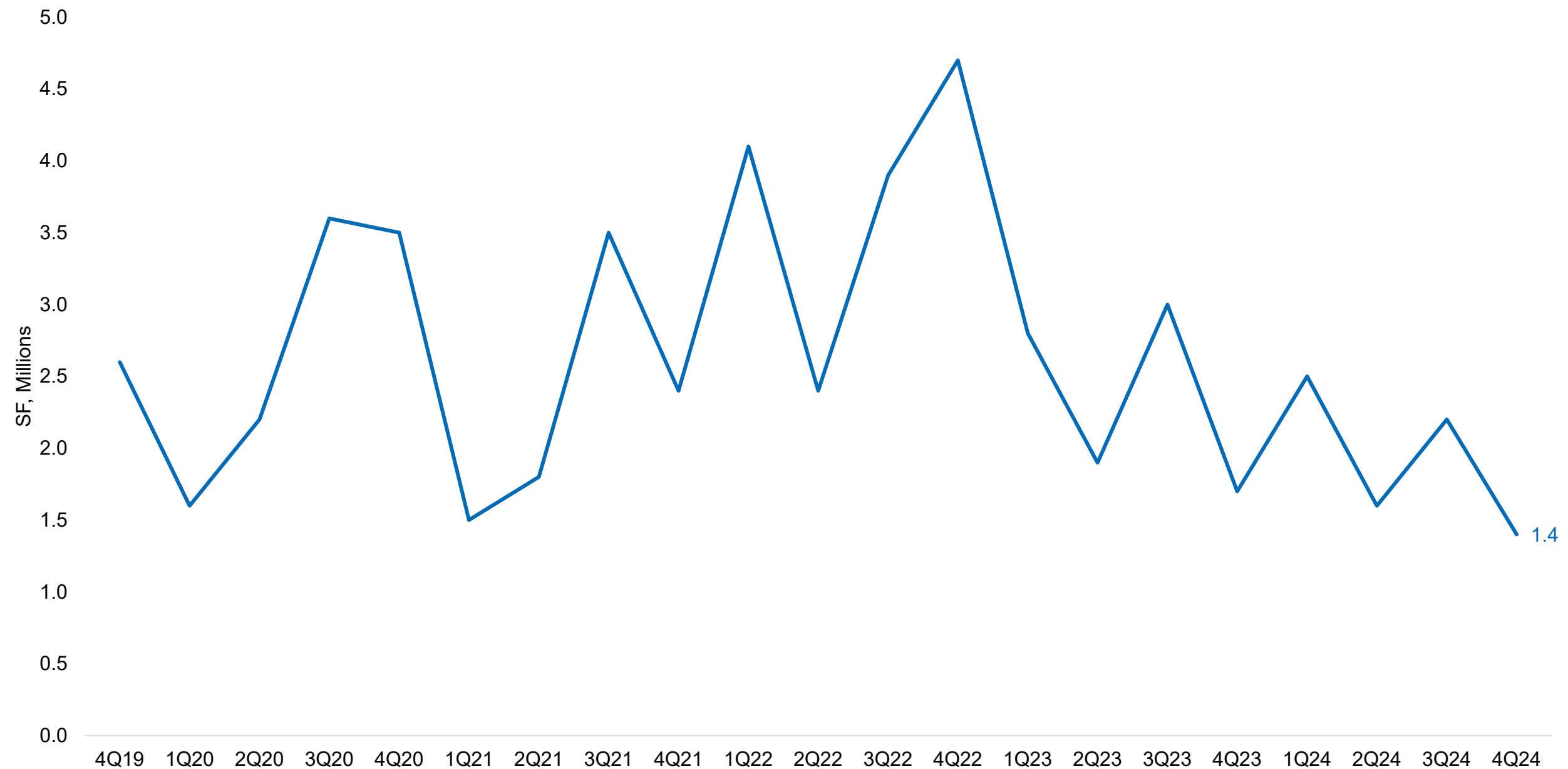


Source: Newmark Research

Industrial Leasing Activity Down in Fourth Quarter

In the fourth quarter of 2024, the quarterly demand for industrial space reached its lowest level since the first quarter of 2019, which was 1.1 million SF. Total leasing activity for the quarter was approximately 1.4 million SF, a decrease from 2.2 million SF in the third quarter. This decline in fourth-quarter leasing activity contributed to the market's subdued performance, resulting in negative absorption. For all of 2024, industrial leasing activity's up and down roller coaster measured 7.8 million SF. By comparison, the year 2023 netted 9.4 million SF, and 2022 saw total leasing activity of 15.1 million SF. In fact, 2024's leasing activity for the year was the lowest since 2019's 7.3 million SF.

Total Leasing Activity (SF)

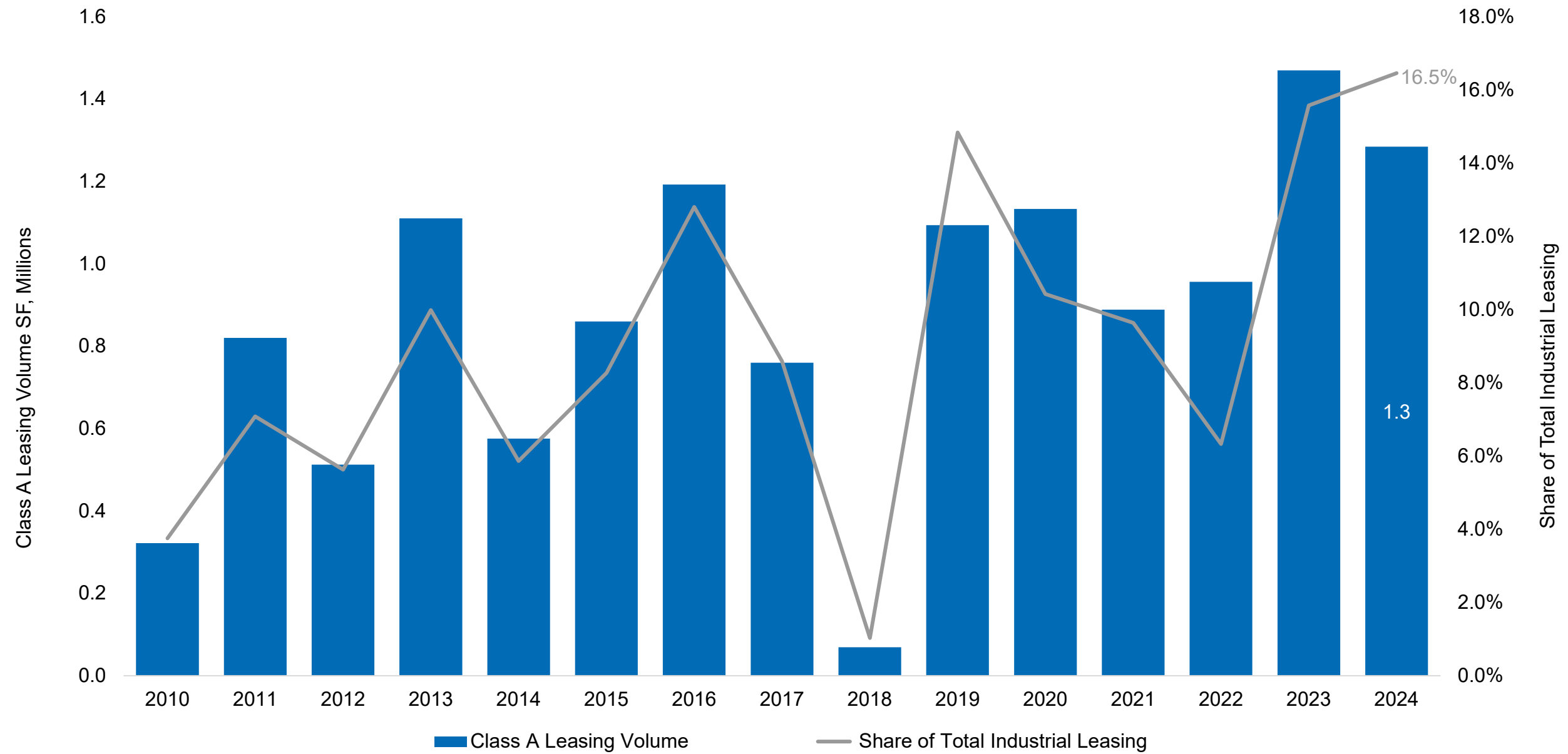


Source: Newmark Research, CoStar

Class A Warehouse Leasing Volume Solid

The Class A share of industrial leasing finished 2024 at 16.5% for the year, the highest percentage in recent history after generating 1.3 million SF. Manufacturing and smaller lease deals continue to be increasingly more prevalent, yet Class A warehouse space remained to be popular despite an overall low market vacancy rate.

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

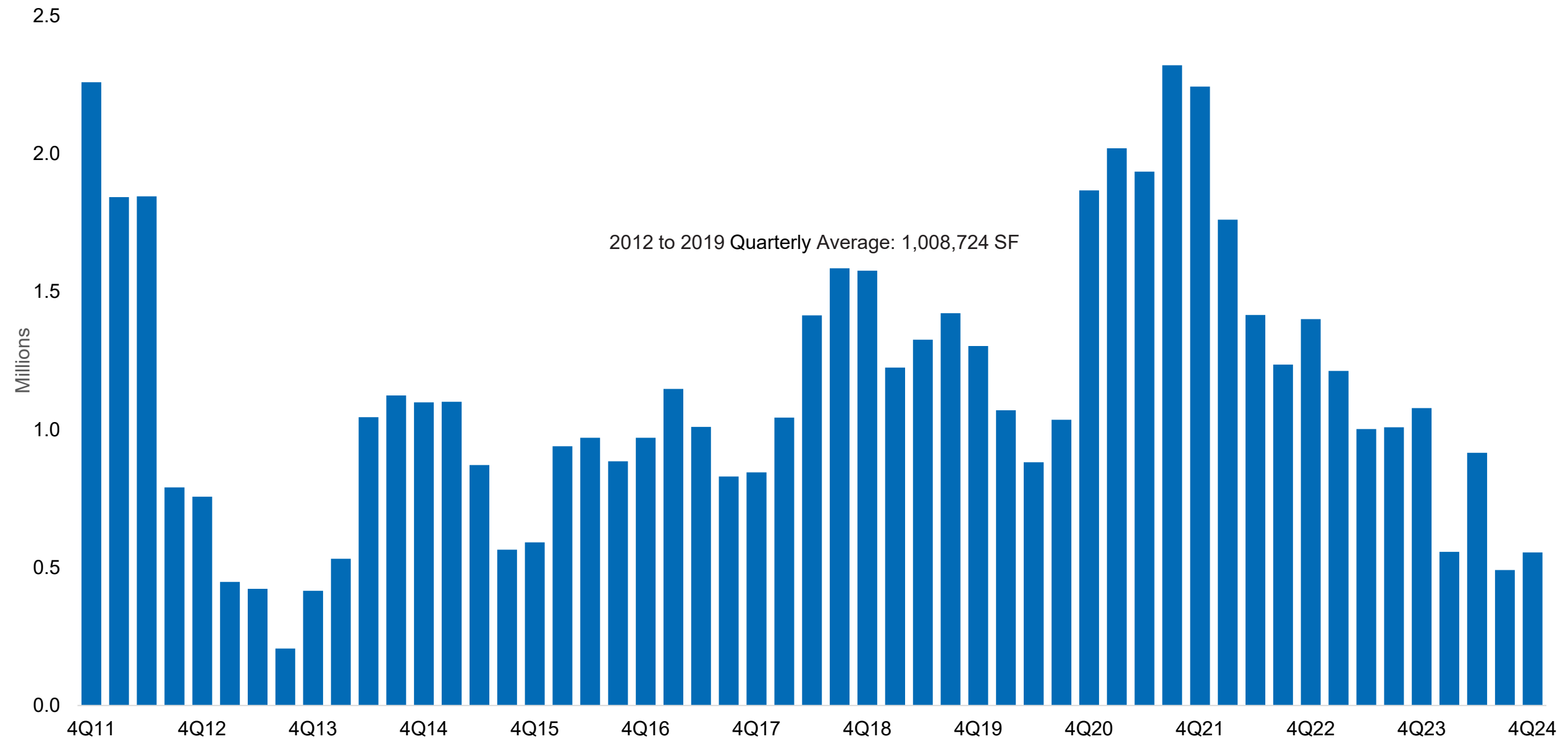


Source: Newmark Research, CoStar

Industrial Sublease Availability Up Slightly in 4Q

Sublease availability of 555,025 SF in the fourth quarter of 2024 was an increase by just under 64,000 SF from the previous quarter and remained comfortably below the 2012 to 2019 pre-pandemic quarterly average. Quarterly sublet totals in all the 2024 quarters remained below that average.

Available Industrial Sublease Volume (msf)

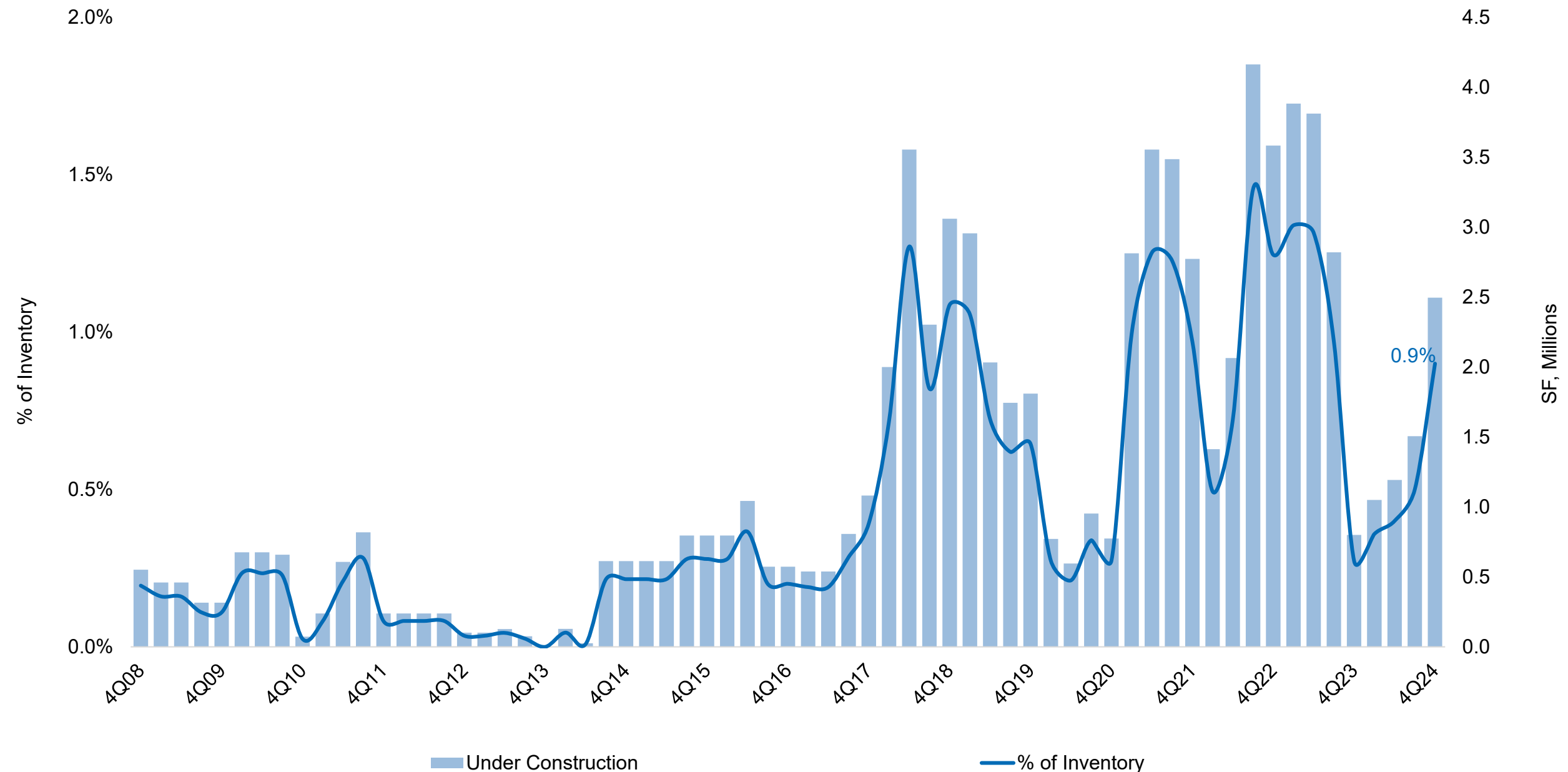


Source: Newmark Research, CoStar

Market Continues Toward Equilibrium, New Construction Starts Delayed Further

The pipeline of properties under construction rose to approximately 2.5 million SF in the fourth quarter of 2024, comprising 0.9% of the overall inventory, up 40 basis points from the previous quarter. The majority of construction starts for proposed projects continued to be delayed. Market equilibrium is still at least another year away after periods of inflated inventory expansion and demand in the years prior to and post-pandemic. Restraint remains from developers as the market weathers socioeconomic headwinds and material price increases. In fact, prices for oil and copper increased as 2024 came to a close, prompting apprehension about material price hikes in 2025, especially if steep tariffs are enacted.

Industrial Under Construction and % of Inventory

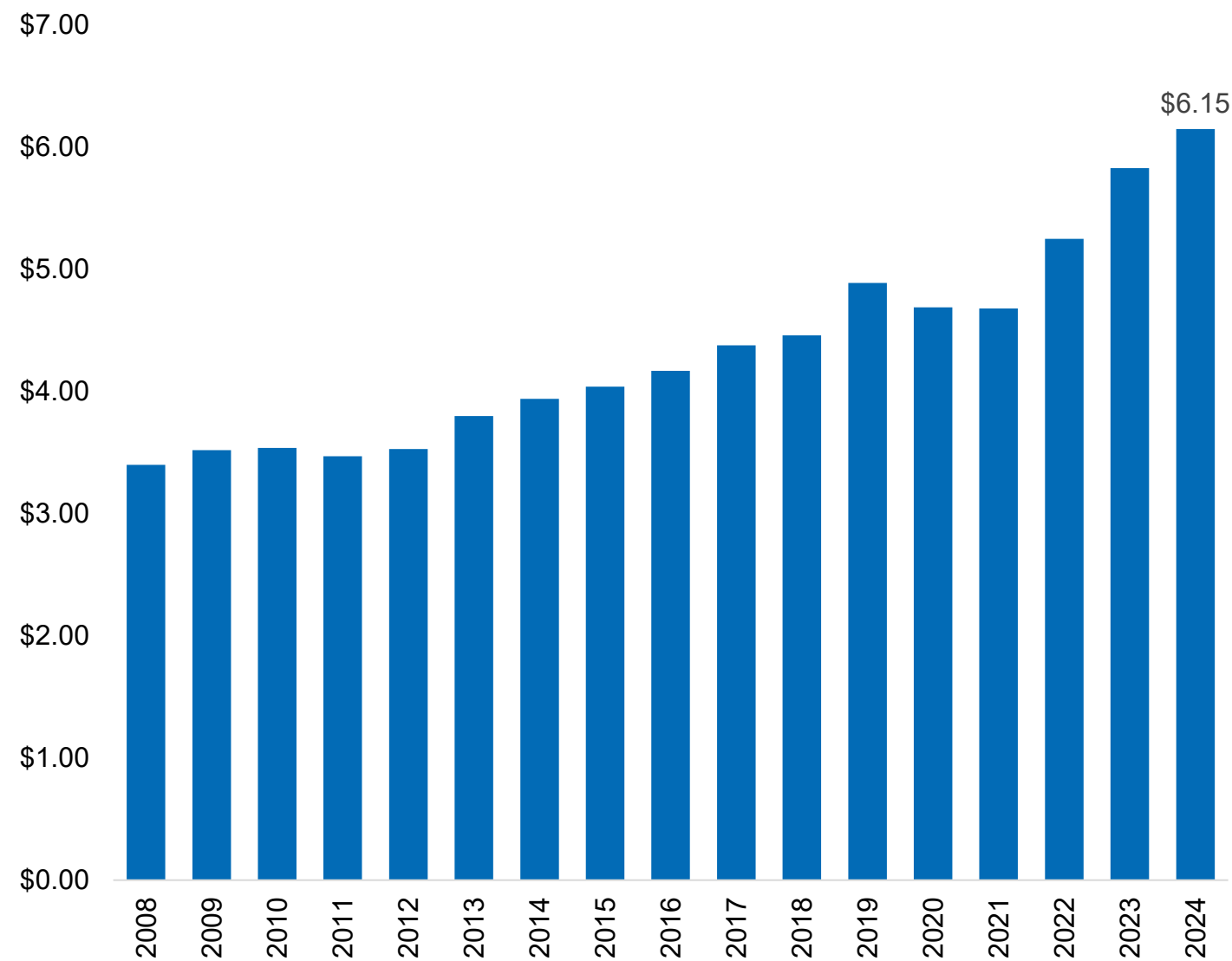


Source: Newmark Research, CoStar

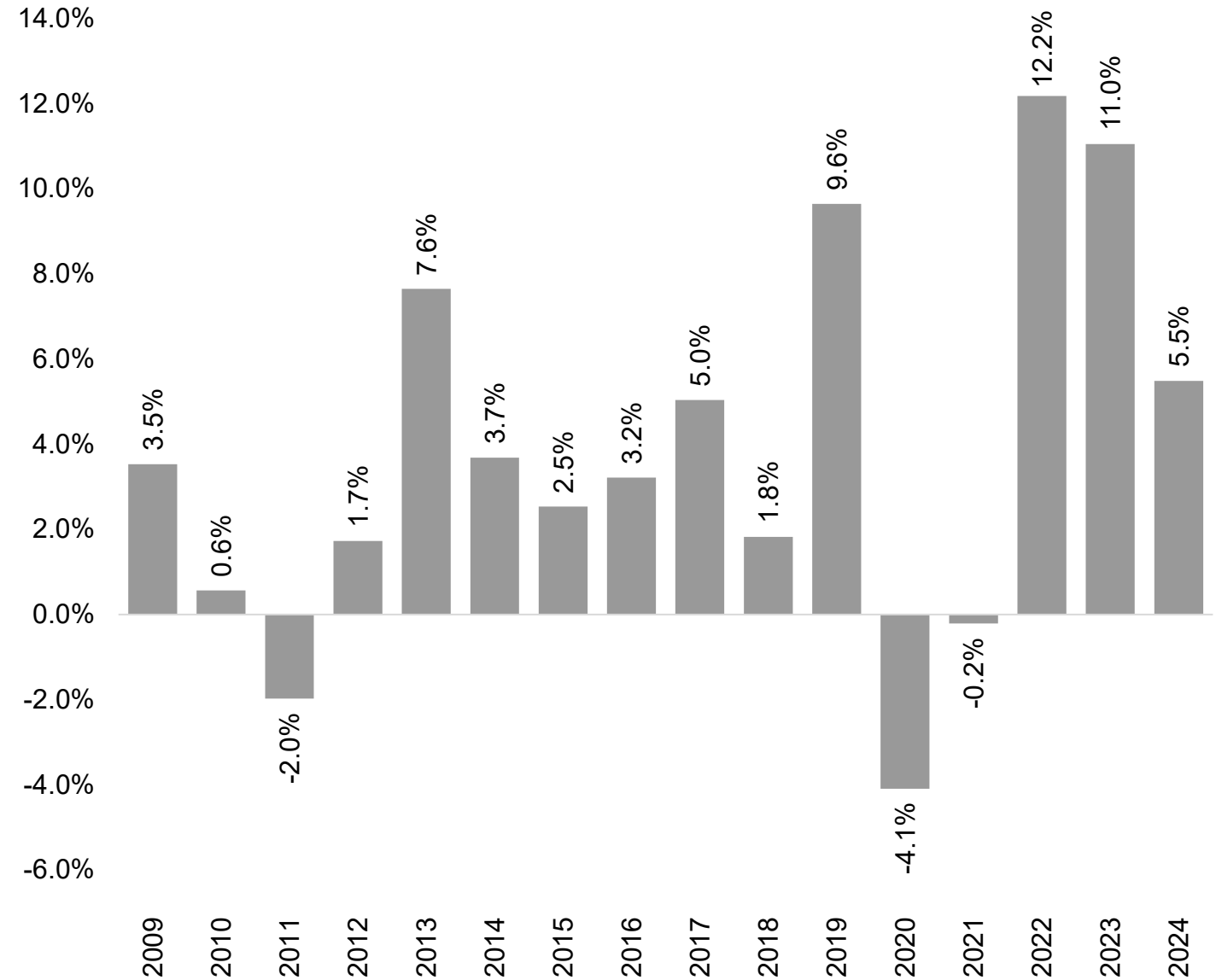
Industrial Asking Rent Growth Down Slightly With Addition of Fourth Quarter Data

Industrial average asking rents grew in 2024 by 5.5% over 2023's combined average. The average asking rent for the year 2024 was \$6.15/SF; the fourth quarter saw an average asking rent of \$6.02/SF, which was down by \$0.13/SF from the previous quarter, and subsequently brought down the yearly total by \$0.04/SF from the previous quarter. Quarterly rents have seen a downward trend since the second quarter of 2024, after rising steadily from the fourth quarter of 2022 to the first quarter of 2024.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Lease and Sale Transactions in 4Q24

Select 4Q24 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Sysco	4747 Grayton Rd.	Downtown	Direct	389,966
Produce Packaging	27853 Chardon Rd.	Northeast	Direct	155,916
Candor Logistics	28625 Fountain Pkwy.	Southeast	Direct	142,038
Sunless, Inc.	8909 Freeway Dr.	Southeast	Renewal	64,149
Spartronics	22740 Lunn Rd.	Southwest	Direct	60,000
Automation Plastics	1333-1373 S Chillicothe Rd	Southeast	Direct	45,600
Ohio Aluminum	9797 Midwest Ave	South Central	Direct	22,375

Select 4Q24 Sale Transactions

Buyer	Building	Submarket	Sale Price	Square Feet	Price Per SF
Blue Owl Real Estate Capital LLC (SYCLOH001 LLC)	4747 Grayton Rd.	Downtown	\$44,300,000	389,966	\$113.60
North Haven Net REIT (Morgan Stanley Investment Management)	8745 Chamberlin Rd.	Southeast	\$21,700,000	195,716	\$110.87
Sealy & Company	21705 (21487) Royalton Rd.	Southwest	\$31,400,000	366,458	\$85.69
DRW Data Center LLC	28850 Aurora Rd.	Southeast	\$9,000,000	105,352	\$85.43
Royal Oak Realty Trust	22740 Lunn Rd.	Southwest	\$5,000,000	60,000	\$83.33
AREIT Ohio LC LLC	545 Mondial Pkwy	Southeast	\$7,500,000	95,000	\$78.95
Jody Richards & Siddhartha Srivastava, Trustees	6680 Beta Dr.	Northeast	\$5,300,000	75,389	\$70.30
MAG Capital Partners (Chardonay Willoughby Hills Industrial LLC)	27853 Chardon Rd	Northeast	\$10,250,000	155,916	\$65.74
Robertson Realty Company	6065 Towpath Dr.	South Central	\$3,135,000	48,000	\$65.31
Formtek, Inc.	9280 Dutton Dr.	Southeast	\$7,350,000	117,588	\$62.51
Lightstone Group	21160 Drake Rd.	Southwest	\$12,600,000	214,803	\$58.66

Source: Newmark Research, CoStar

Class A Warehouse Asking Rents Slowly Trend Up

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Northeast Has Lowest Vacancy Percentage of Submarkets

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Southeast Tops Submarkets in Sublet Availability

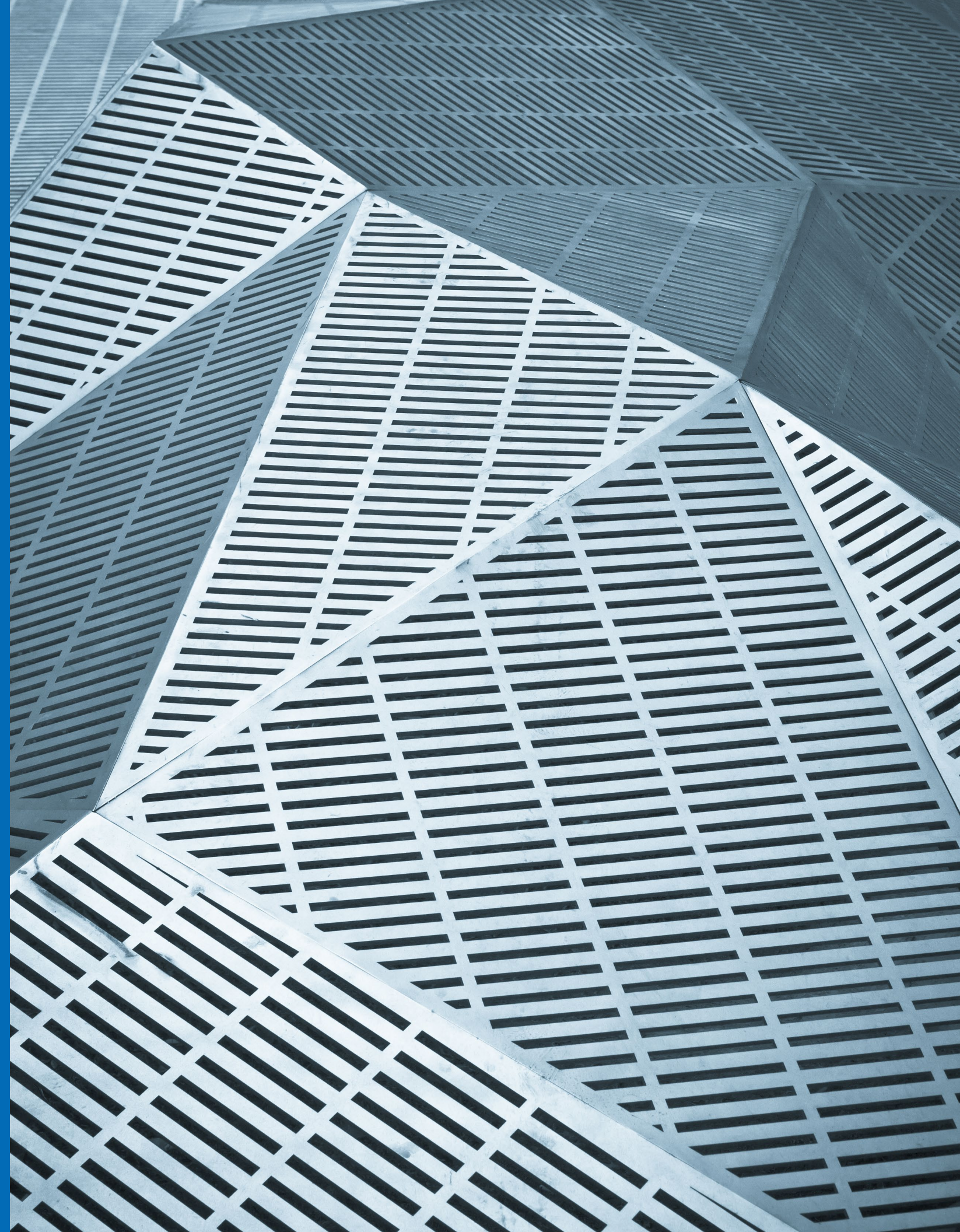
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Year-Over-Year Rent Performance Up In Four of Six Industrial Submarkets

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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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