INVESTMENT OUTLOOK

IPA INSTITUTIONAL PROPERTY ADVISORS

Industrial

Cleveland Metro Area

MIDYEAR 2025

Tenants and Investors Favor Smaller Spaces and Core Locations Amid Uncertain Market Conditions

Small-bay demand gains traction despite broader slowdown. Leasing activity was subdued across Cleveland's industrial market in the first half of 2025, placing modest upward pressure on vacancy. Demand for large-format space has softened amid ongoing tariff uncertainty, particularly among manufacturing users. Notably, submarkets near the waterfront have experienced weaker absorption. Limited new supply, however, should help contain vacancy risk this year. Greater clarity around trade policy may also help reignite big-box leasing in the second half of 2025. Meanwhile, tenant demand for spaces under 50,000 square feet has picked up modestly, contributing to tightening vacancy in the metro's inner-ring suburbs. Centrally located areas such as Brooklyn and Bedford continue to attract smaller industrial users and last-mile distributors due to their proximity to major highways and population centers. Strengthened fundamentals in these submarkets should support firmer rent growth this year.

Buyers emphasize cash flow stability amid defensive investment climate. Trading activity has slowed in 2025 amid ongoing economic uncertainty and elevated borrowing costs. Private buyers have notably focused on acquiring warehouses in infill locations along the Interstate 480 corridor, drawn by the area's central positioning and tight supply. Small-bay vacancy across the metro remains below 3 percent, reinforcing investor interest in these properties. Meanwhile, following an uptick in institutional activity in late 2024, commitments exceeding $20 million have declined. Many large buyers are now targeting high-yielding assets with in-place cash flows rather than pursuing speculative upside. Yet a steadier economic outlook and signs of firming tenant demand could renew interest in value-add opportunities and premium assets.

2025 MARKET FORECAST

+0.7% — **EMPLOYMENT:** Improved health care and office-using hiring helps employment growth reach its fastest pace in three years. The metro will add 7,500 jobs, in-line with the 2015-2019 average.

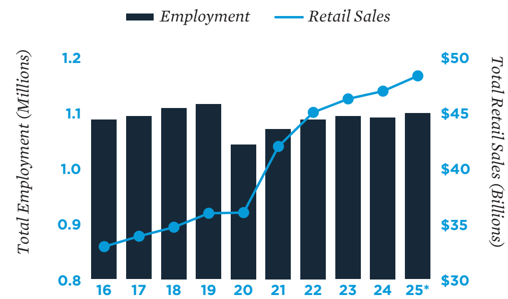
1.4 million *sq. ft.* — **CONSTRUCTION:** Deliveries will rise this year but stay under the metro's prior 10-year average of 2 million square feet. Sherwin Williams' R&D center will make up half of the new supply.

+10 bps — **VACANCY:** Metro vacancy shifts moderately during 2025 as new supply slightly outpaces demand. At 3.5 percent, the local rate is expected to hold below 4 percent for a 10th straight year.

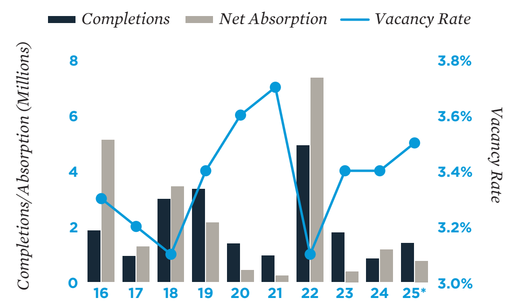
+0.7% — **RENT:** A limited vacant stock will support a modest rent increase, though this year's gain will remain well below the 2021-2023 average. Cleveland's mean asking rate reaches $5.61 per square foot.

INVESTMENT: *The metro's expanding health care sector may attract more investors targeting flex space, with a Pathogen Research Center opening in Fairfax and a Cleveland Clinic hospital planned in Brecksville.*

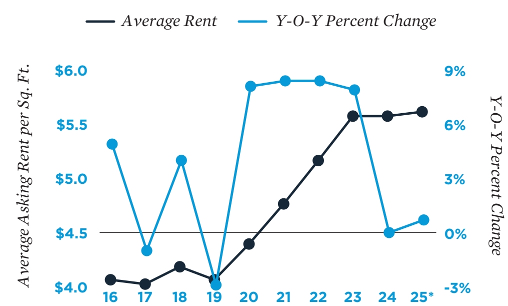
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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