

INVESTMENT FORECAST

INDUSTRIAL
Cleveland Metro Area

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2019

Improving Economy Fosters More Spending; Private Investors Find Plenty of Options in Cleveland

Development maintains strong clip as builders focus on southeastern part of the metro.

Surging job creation continues to boost economic growth in Cleveland, which in turn is increasing consumption. As a result, industrial development will remain elevated in Northeast Ohio this year as more than 1 million square feet of space is finalized for the fourth time in the past five years. The I-480 corridor between Oakwood and Twinsburg will receive much of the new space, potentially threatening the area's already-heightened vacancy rate. Since 2014, this section has logged more than 3.5 million square feet of development, keeping rents well below the market average as supply outpaced demand. Conversely, several areas around the metro hold significantly low vacancy rates including neighborhoods around Buckeye-Shaker and University Circle. Here, elevated demand has propelled rents far above most other communities in the market as tenants vie for the limited available space with proximity to the lake in addition to nearby railroad access.

Growing manufacturing presence headlines industrial market. Cleveland will remain an active investment market in 2019 as buyers are enticed by relatively low entry costs in a major Great Lakes industrial hub. Lower-tier assets near the core will continue to attract a plethora of private buyers to the high upside many of these buildings offer. Proximity to the Port of Cleveland drives interest in this area; however, the potential for strong NOI growth will fuel purchase decisions as well. Additionally, suburban manufacturing facilities will garner attention from a broad pool of investors. Many of these assets net initial yields in the mid-8 to 9 percent realm, up to 100 basis points above the metro average. Cleveland added roughly 4,200 manufacturing jobs during 2018, signaling the industry's growing strength within the metro.

2019 Market Forecast

- Employment up 2.7%

Cleveland businesses continue their hastened pace of job creation, staffing 29,000 workers this year. This follows the addition of 27,700 hires one year earlier.
- Construction 1.1 million sq. ft.

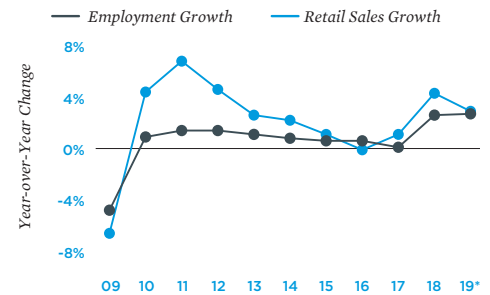
Development declines roughly 40 percent this year after 2018's cyclical high of 1.9 million square feet.
- Vacancy down 20 bps

Market vacancy remains on a downward trend this year as net absorption tallies nearly 2.1 million square feet, pushing the rate down to 3.4 percent.
- Rent up 2.2%

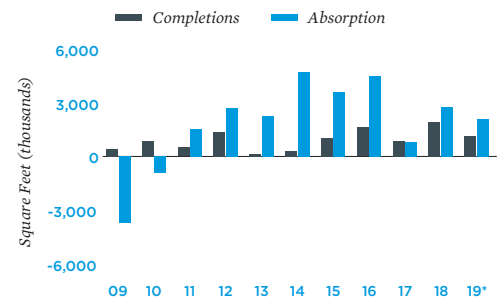
In 2019, rent growth will outpace last year's 1.7 percent increase as the average asking rent rises to \$4.18 per square foot.
- Investment

Strong household growth in the metro's southernmost sections will support more deliveries in these areas moving forward, expanding many firms' distribution networks.

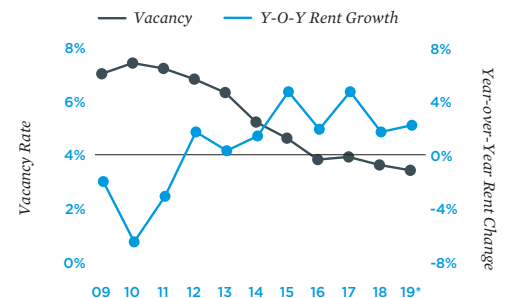
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast;

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2018. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.