

MARKETBEAT

CLEVELAND INDUSTRIAL REPORT



2Q09

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

ECONOMY

The Federal Reserve District 4 (Cleveland) Region report for the second quarter suggests that the overall economic activity has pointed to signs of stabilization. Reports from factories indicate that production has stabilized at low levels, with manufacturers expecting little change in demand during the upcoming months. Steel producers reported that the decline in shipping volume has leveled off and the only end market showing growth was the defense industry. New home construction remains weak, while non-residential building activity was mixed. Most non-residential building activity was public works and education projects. Credit availability continues to be an issue for residential and commercial contractors. Commercial and Industrial loan demand is mixed in that regional banks reported declining loan demand, while community banks report an increase in activity as they attract business from large regional banks.

OVERVIEW

Sales activity showed a significant increase in the second quarter although the numbers are skewed. Twenty-eight buildings sold in the second quarter totaling 1.9 million square feet (msf) of which 25 buildings (692,722 sf) were owner occupied sales and 3 buildings (1,237,250 sf) were investment sales. The average per square foot (psf) sales price of the owner occupied industrial buildings was \$27.95. Notable sales include 30725 Aurora Road in Solon, a 41,324-sf transfer from Galactic Enterprises to Rausche-Likens, 32150 Just Imagine Drive in Avon, and a 644,850 sq.ft. sale-leaseback between Shurtap Technologies and HRPT Properties. Leasing activity in the second quarter was a challenge, although several transactions over 100,000 sq.ft were completed. Those transactions include a 257,000 sq.ft. lease between Fasteners For Retail and First Industrial Realty Trust at 8181 Darrow Road in Twinsburg and a 136,000 sq.ft. lease between Fannie May Candy and Equity Industrial Partners at 17000 Rockside Road in Maple Heights. Of the thirteen new construction projects completed this year, eight were expansions of existing facilities with an average size of 40,000 sq.ft. Notable projects include a 273,000 sq.ft. expansion for Rotek, Inc., a manufacturer of large diameter slewing ring bearings for the wind turbine industry; a 193,000 sq. ft. corporate headquarters building for Dots, Inc., an affordable women's fashion clothing retailer and a 110,000 sq.ft. manufacturing facility for American Auger, a manufacturer of horizontal earth boring machines. The projects were completed by Ray Fogg Building Methods, Premier Development and Campbell Construction respectively. Most of the new construction completions were projects that were planned, funded and under construction prior to the economic decline.

FORECAST

We can expect continued negative absorption in the short term until manufacturer orders increase depleted company inventories. Sales activity will remain flat with values 10 – 20 % lower than those in 2008.

BEAT ON THE STREET


"We are starting to experience an up-tick in activity. However, users are extremely hesitant to commit primarily due to the constant negative focus of the media. Perhaps its time to focus on the positive."
- Joseph V. Barna, SIOR, Cresco Real Estate

ECONOMIC INDICATORS


National	2008	2009F	2010F
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Regional			
Unemployment	6.6%	10.0%	10.3%
Employment Growth	-0.7%	-3.5%	-3.8%

Source: Moody's | Economy.com

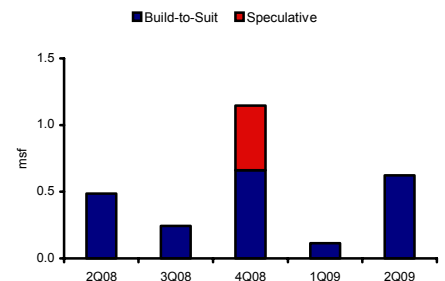
MARKET FORECAST

LEASING ACTIVITY is expected to increase due to the significant number of leases expiring in 2010. 

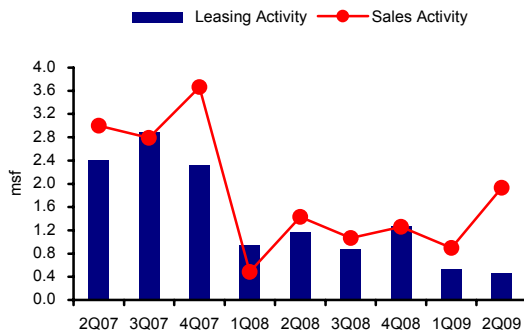
DIRECT ABSORPTION will continue to be negative with increases expected in 2010. 

CONSTRUCTION activity in the second half of 2009 will be minimal because of the lack of excess capital. 

BUILD-TO-SUIT vs. SPECULATIVE COMPLETIONS

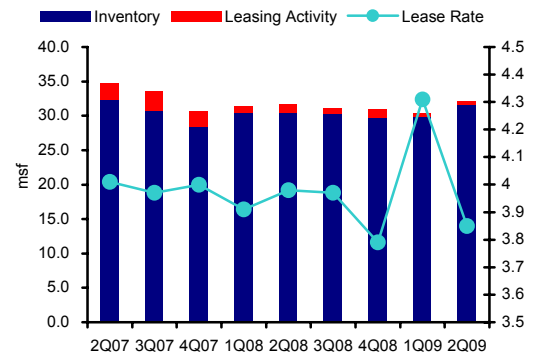


Overall Leasing vs. Sales Activity



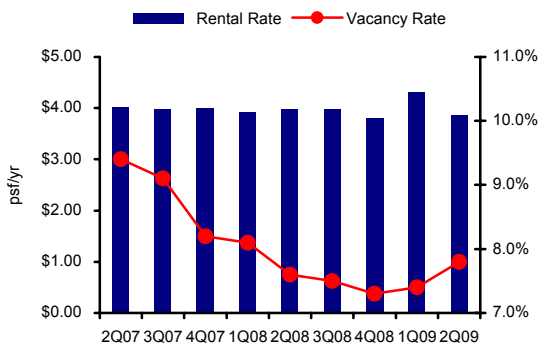
- Sales activity was at its highest level since the fourth quarter 2007, primarily the result to three investments sales totaling 1,237,250 sf with a total consideration of \$55 million. Twenty-five (25) owner / user transactions occurred in the second quarter totaling 692,722 sf with an average selling price of \$27.95 psf up 14% from the fourth quarter 2008.
- Investment sales represented 64% of the total square footage and 75% of the total dollar activity in the second quarter. The most notable transaction was a 650,000 sf sale-leaseback between HRPT Properties and Shurtape Technologies.

Overall Available Space vs. Leasing Activity



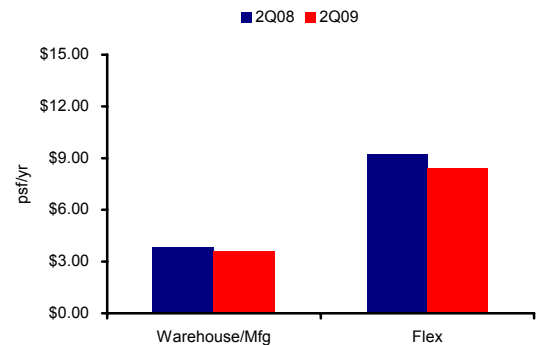
- Bankruptcies, plant closings and a decrease in orders have resulted in a year to date negative overall absorption of 1.2 msf. The result is a 0.5% increase in the vacancy rate since the fourth quarter 2008.
- The average rental rate in the second quarter was \$3.85 sf which is below rates seen over the last two years. The market continues to show signs that decline in rental rates will continue. Overall leasing activity continues to remain at record lows with companies looking to make short-term commitments (12 – 24 months).

Overall Rental vs. Vacancy Rates



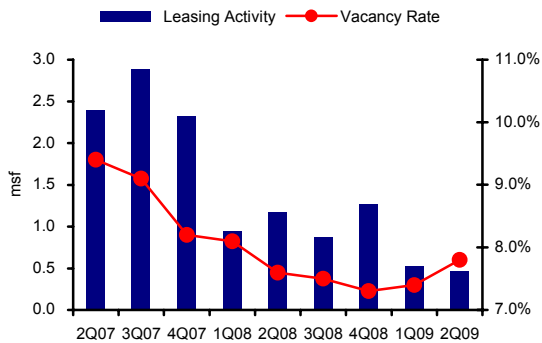
- The vacancy rate, as expected, increased in the second quarter to 7.8%. This represents an increase of 0.5% from year end 2008 and is at its highest level since the end of the first quarter 2008. Year to date overall absorption is negative 1.2 million square feet (msf).
- Average rental rates in the second quarter increased slightly from the fourth quarter 2008 to \$3.85 sf, however is 10.7% less than the first quarter.

Rental Rate Comparison

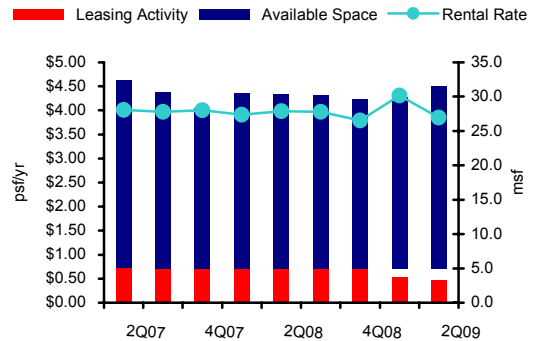


- The lack of tenant's in the market has driven Landlord's to be extremely aggressive in structuring transactions. As a result of the lack of activity and aggressiveness, rental rates in the second quarter for warehouse / manufacturing buildings have decreased from \$3.84 sf to \$3.59 sf a difference of 6.51% year over year.
- Flex building rental rates have likewise decreased, however at a higher rate. The rate went from \$9.23 sf to \$8.40 sf a difference of 8.9%.

Overall Leasing Activity vs. Vacancy Rates



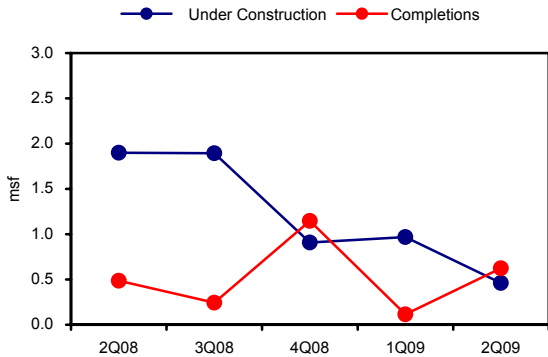
Overall Market Trends



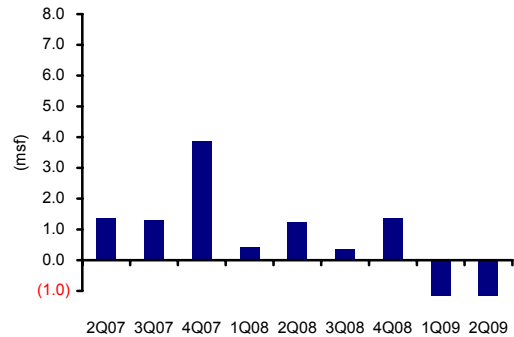
- It was forecasted at the end of the fourth quarter 2008 that leasing activity was expected to see continued growth due to companies challenge in obtaining suitable financing and that tenants will elect to renew existing leases on the short term while waiting on the economies resurgence. New leasing activity has not seen the projected growth, however we have experienced the short-term renewal projection.
- The combined activity in the first and second quarter was lower than the lowest quarter over the last two years.

- The amount of available space has increased 6.7% from the fourth quarter 2008, but only 3.71% from the same point year over year.
- The lack of leasing activity combined with company closures and downsizing has lead to an increase in the amount of space available and to near record low average rental rates.

SF Under Construction vs. Completions



Overall Absorption



- Of the thirteen projects completed this year, eight were expansions of existing facilities with an average size of 40,000 sq.ft. Notable projects include a 273,000 sq.ft. expansion for Rotek, Inc., a manufacturer of large diameter slewing ring bearings for the wind turbine industry; a 193,000 sq.ft. corporate headquarters building for Dots, Inc.

- Overall absorption continued to be negative for the second straight quarter ending a two year run of positive absorption.
- With inventories near depletion, a spike in manufacturing is expected, workers who have been laid off will be called back to work, truck drivers will start delivering to customers and companies will hopefully need additional space. The first sign of this has occurred recently when Arcelor Mittal announce the restarting of their blast furnace.

MARKET/SUBMARKET STATISTICS

Market / Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Triple Net Rental Rates
Akron	61,774,694	1,521	8.1%	197,600	110,000	61,000	(511,670)	\$3.61
Downtown	30,322,909	825	8.5%	18,175	100,000	0	(7,858)	\$3.60
East	9,502,850	176	6.7%	26,216	0	0	(48,921)	\$6.99
Medina County	12,320,555	323	12.8%	61,821	0	50,000	(317,554)	\$5.08
Northeast	65,854,676	1,612	7.0%	147,228	0	20,000	133,873	\$3.29
Southeast	87,961,293	1,687	8.3%	137,178	241,500	386,000	(164,846)	\$4.25
South	36,556,982	835	4.1%	78,541	0	9,000	107,644	\$5.08
Southwest	54,299,076	1,087	6.3%	239,767	10,000	130,000	(150,454)	\$4.61
West	47,708,456	1,216	10.3%	78,490	0	82,500	(260,914)	\$3.22
TOTAL	406,301,491	9,282	7.8%	985,016	461,500	738,500	(1,220,700)	\$3.85

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
First Industrial	Southeast	Fasteners for Retail	257,000	A
Former Tops Warehouse	South	Fannie May Candies	136,000	B
Former Northrup Gruman	East	Great Eastern Metals	100,000	C

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Shurtape Technologies	West	HRPT Properties Trust	644,850	\$34,000,000
Goodyear Headquarters	South	Industrial Realty Group	500,000	\$16,000,000
Johnsonite, Inc.	Southeast	Johnsonite, Inc.	92,640	\$5,405,568

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Dots	Southeast	Dots	193,000	6/09
Rotek	Southeast	Rotek	150,000	5/09
American Auger	Southwest	American Auger	110,000	7/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Rotek	Southeast	Rotek	123,000	9/09
Industrial Tube	Akron	Industrial Tube	110,000	9/09
Steel Warehouse	Downtown	Steel Warehouse	100,000	11/09

For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

*Market terms & definitions based on BOMA and NAIOP standards.

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