

# MARKETBEAT

## CLEVELAND INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



4Q08

### ECONOMY

The Federal Reserve District 4 (Cleveland) Region report for the fourth quarter did not vary much from the third quarter in that the overall economic activity has continued to weaken. Factory output and steel shipments softened. Residential construction remains very weak. The commercial builders are experiencing declining backlogs and a fall-off in inquiries. Several firms attributed the slowdown to difficulties in financing projects and uncertainty on the part of clients. Output at factories was flat to down during the past six weeks, with several reports indicating double-digit reduction in orders. Companies have trimmed back or halted capital expenditures during the past couple of months and many of them expect additional cutbacks or a freeze on capital spending during 2009. The downward trend in raw material pricing has started to level off and product pricing remains relatively stable.

On the upside, Team NEO reported during the fourth quarter that Cleveland Plus region ranks 10th in terms of total HQ employment, with the 4th highest share in the nation when adjusted for scale, with 60% more headquarters employment than the national average. Northeast Ohio's strong national position in corporate headquarters is supported by a higher than average share of critical headquarters occupations, such as Chief Executive, General and Operations. Based on location quotient, our region is stronger in that sector share than other areas such as Chicago, Houston, Phoenix and Atlanta.

### OVERVIEW

Sales activity increased at year-end with the transfer of thirty-five buildings totaling 1.2 million square feet (msf) of which 32 buildings (966,701 sf) were owner occupied sales and 3 buildings (294,714 sf) were investment sales. The average sales price of the owner occupied industrial buildings were \$740,423 representing an average price increase from the third quarter of 18.3%, to \$24.51 per square foot (psf). Notable sales include 6161 Halle Drive, Valley View, a 91,809-sf transfer from Tyler Elevator to Graybar Electric and a three-building office-warehouse investment sale on Engle Road in Middleburg Hts. to HJB Holdings, LLC. Leasing activity of 1.2 msf in the fourth quarter was at its highest level since a year ago, however was still 21.74% less than the lowest level of 2007. Eight new construction projects were completed in the fourth quarter totaling 1.1 msf consisting of three speculative buildings and five-owner occupied buildings. The average owner occupied building was 106,445-sf compared with the average speculative building of 194,000-sf.

### FORECAST

Older buildings will see an increase in activity as companies look to reduce occupancy costs and evaluate less expensive alternatives vs. newer space. New construction could suffer drastically because of the equity required by lenders and the freeze on capital expenditures by most manufacturing companies.

### BEAT ON THE STREET

"In today's environment, lenders are typically requiring additional equity into a project and some "as-built" appraisals are being submitted less than the actual cost of construction."


- George J. Pofok, CCIM, Cresco Real Estate


### ECONOMIC INDICATORS


National	2007	2008	2009F
GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%
Regional			
Unemployment	5.8%	6.3%	7.0%
Employment Growth	-0.4%	-0.6%	-1.0%

Source: Moody's | Economy.com

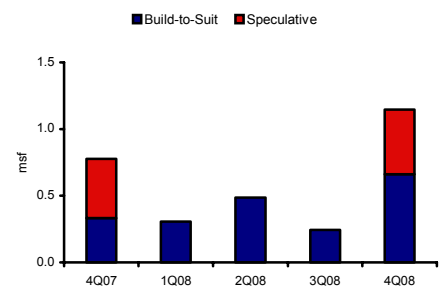
### MARKET FORECAST

**LEASING ACTIVITY** is expected to be active due to the significant number of leases expiring in 2009. 

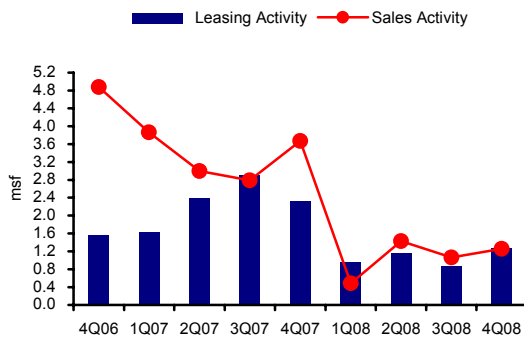
**DIRECT ABSORPTION** will continue to be positive, however, the increases will be minimal. 

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

### BUILD-TO-SUIT vs. SPECULATIVE COMPLETIONS

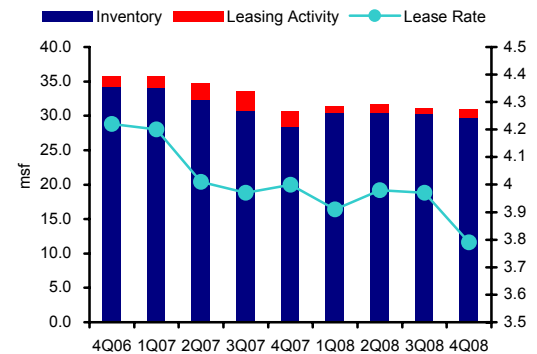


### Overall Leasing vs. Sales Activity



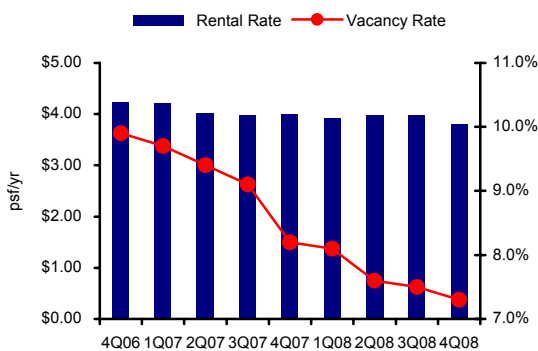
- Sales activity for the fourth quarter saw 32 owner / user transactions totaling 966,701 sf with an average selling price of \$24.51 psf. Unfortunately, the positive trend of 2007 did not continue in 2008 as sales activity in the fourth quarter was 65.6% less year-over-year and 18.4% more than the fourth quarter 2008.
- Investment sales represented 23% of the total square footage and 35% of the total dollar activity in the fourth quarter. Cresco Real Estate represented the buyer and seller in a three-building, office/warehouse portfolio sale, comprising of 294,714 sf in Middleburg Heights, Ohio for 12.9 million.

### Overall Available Space vs. Leasing Activity



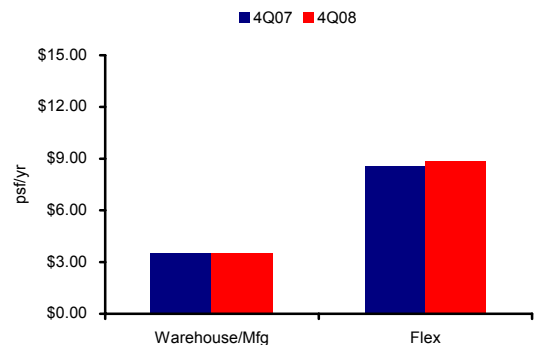
- The net result of the building additions to the database and fourth quarter overall absorption of 1.3 msf was a continued decrease in the vacancy rate of 0.2%.
- The rental rate decreased 4.5% from the third quarter and 10.2% from a high of \$4.22 psf in the fourth quarter of 2006. Overall leasing activity was down 53.8% in 2008 compared to 2007.

### Overall Rental vs. Vacancy Rates



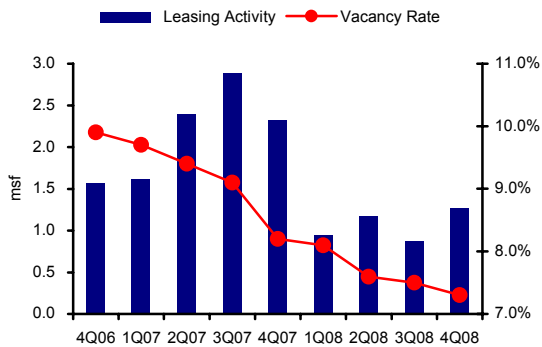
- Rental rates in the fourth quarter dipped 4.5% to \$3.79 psf. The vacancy rate declined for the eighth consecutive quarter to 7.3% based upon a net absorption of 1.3 msf. This represents a 10.96% decrease in the vacancy rate year over year.

### Rental Rate Comparison

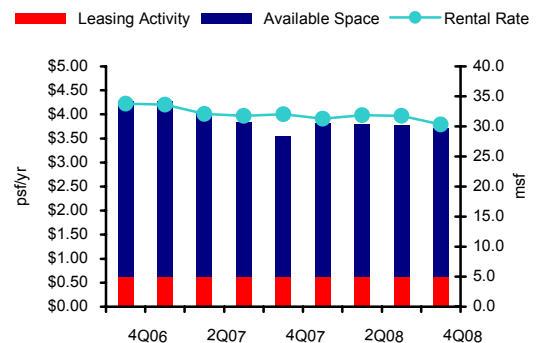


- Rental rates in the fourth quarter for warehouse / manufacturing buildings averaged \$3.51 psf, a decrease of 0.5% year-over-year and flex buildings average \$8.87 psf, an increase of 3.4% over the same time last year. The change in flex building rental rate remained below CPI growth statistics for the same time period.

### Overall Leasing Activity vs. Vacancy Rates



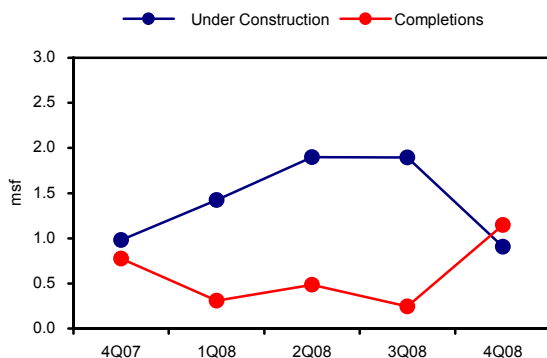
### Overall Market Trends



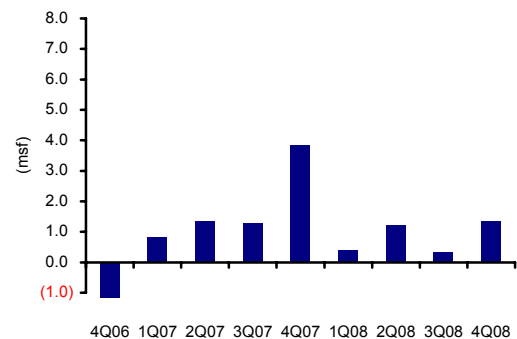
- Leasing activity of 1.2 msf in the fourth quarter was at its highest level since the fourth quarter 2007, however was still 21.74% less than the lowest level of 2007. As previously stated, leasing activity is expected to see continued growth due to companies challenge in obtaining suitable financing. We expect prospects will elect to renew existing leases on the short term while waiting on the economies resurgence.

- As anticipated, leasing activity saw an increase in activity due to the 36.1% of warehouse tenants with expiring in 2009 and 2010. Thirty percent of those leases are in the 10,000 – 24,999 sf range.
- Flex tenants with expiring leases is considerably higher with 51% expiring in 2009 and 2010, however 61.3% of those leases are 4,999 sf and under.

### SF Under Construction vs. Completions



### Overall Absorption



- In the fourth quarter, eight projects were completed consisting of five owner/user projects averaging 106,445 sf and three speculative projects averaging 194,000 sf.
- New construction projects will continue to be limited due to the current terms and conditions required by lenders. In today's environment, lenders are typically requiring additional equity into a project and some "as-built" appraisals are being submitted less than the actual cost of construction.

- Overall absorption for the fourth quarter 2008 was at its highest level since the fourth quarter 2007. The majority of sales activity was in contract prior to the current economic downturn and likewise tenants were currently negotiating leases with landlords. The local Cleveland market continues to lose jobs and 2009 will be a challenging year.

### 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	58,936,131	1,483	7.3%	544,627	153,000	127,143	(308,352)	\$3.72
Downtown	30,451,344	827	8.7%	188,899	0	0	269,043	\$3.51
East	9,830,306	175	6.5%	180,242	0	0	361,894	\$6.41
Medina County	11,599,878	301	9.5%	337,116	50,000	119,000	(35,499)	\$4.06
Northeast	65,795,371	1,603	7.2%	336,225	0	228,800	965,182	\$3.01
Southeast	87,549,150	1,669	7.9%	1,174,055	594,000	1,168,000	1,135,710	\$4.39
South	44,103,701	841	3.8%	752,363	29,000	30,000	785,565	\$4.89
Southwest	52,998,743	1,080	5.3%	541,882	0	98,000	(161,128)	\$4.91
West	45,807,210	1,050	10.2%	192,191	82,500	382,225	333,035	\$3.48
<b>TOTAL</b>	<b>407,071,834</b>	<b>9,029</b>	<b>7.3%</b>	<b>4,247,600</b>	<b>908,500</b>	<b>2,153,168</b>	<b>3,345,450</b>	<b>\$3.79</b>

\*Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
All-Pro Freight Distribution	West	Comprehensive Logistics	208,000	A
2210 International Parkway	South	Suarez Corporation	122,500	A
Knall Beverage	Southwest	Weleski Transfer	59,526	C

#### SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Englewood Centre I – IV	Southwest	HJB Holdings, LLC	182,916	\$7,200,000
Hadley Business Campus	Southwest	HJB Holdings, LLC	111,798	\$5,700,000
Sematic / Tyler Elevator	South	Graybar Electric Co., Inc.	91,809	\$4,090,000

#### SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Hinckley Lighting	West	Hinckley Lighting	243,225	12/08
Sun Life Assurance Co.	Southeast	Speculative	202,000	11/08
Interdesign, Inc.	Southeast	Interdesign, Inc.	200,000	11/08

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Rotek	Southeast	Rotek	273,000	7/09
Dots	Southeast	Dots	193,000	2/09
Industrial Tube	Southeast	Industrial Tube	110,000	6/09

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

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

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