

Industrial Market Trends Cleveland

Grubb & Ellis Research
Third Quarter 2008



Applying the breaks...

Executive Summary

For the first time in six years, the overall absorption entered negative territory. Vacancy increased 40 basis points with a net negative absorption of 100,000 square feet in the 3rd quarter. Gridlock in the credit markets has caused a sudden and significant shift in the industrial sector. During this time of economic uncertainty, many manufacturers are deferring plans for expansion and new hires. Credit is more difficult to attain, placing many plans for growth, relocation and capital improvements on hold. Companies that had benefited from the weak dollar and have been projecting positive earnings for 2008, have swiftly shifted priorities. Some of this is due to an actual decline in demand for their products and some is due to a survival-mode mentality, resulting from uncertainty. The availability of dollars to sustain business and payroll, have become the main concern, therefore, capital expenditures for expansion seem impracticable at the moment.

The commercial real estate sector has survived the housing predicament. The latter half of the third quarter is when the credit crisis began impacting the industrial real estate sector. There were closings that permeated the news earlier in the year, resulting in negative absorption in the 3rd quarter. However, more vacancies are anticipated in the last quarter of 2008, but a positive net absorption is still forecasted

Contents

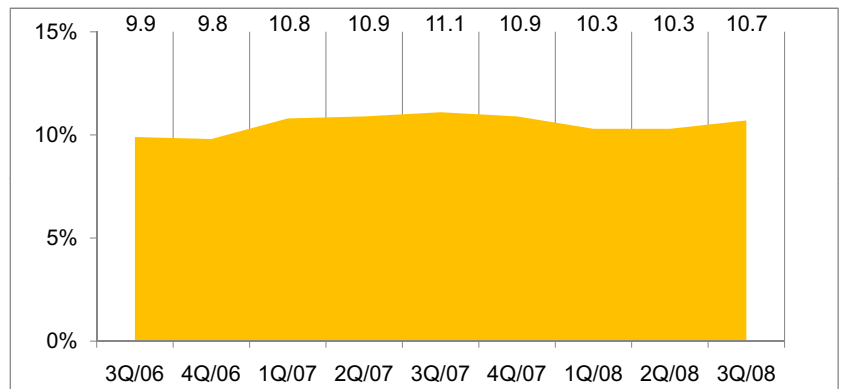
Executive Summary	1
Overview	2
Construction Watch	2
Major Transactions	3
Opportunities & Challenges	3
Forecast	3
Market Snapshot	4

Cleveland Industrial Market Trends

is a newsletter published quarterly by Grubb & Ellis Company. To obtain additional copies or other Grubb & Ellis publications, please contact:

Deirdre C. McGuane
Research Services Manager
E-mail: deirdre.mcguane@grubb-ellis.com

Grubb & Ellis Company
1350 Euclid Avenue
Suite 300
Phone: 216-453-3052
Internet: www.grubb-ellis.com



Industrial Vacancy Rate*
* All Product Type

Industrial Market Trends Third Quarter 2008

1261 Highland Rd
Macedonia, Ohio

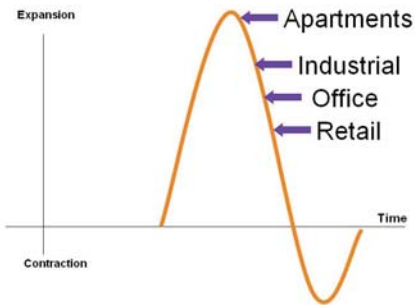


Overview

As more industries such as automotive and commercial construction continue to stagnate, suppliers to those industries will need to scale back. The less financially stable companies are expected to lose ground, if they have not already diversified their product lines, as so many did after the lessons learned in the 1990s. The sudden changes in credit terms make it difficult to attain financing for investment and user sales. Loan to Value requirements have been lowered significantly and stricter lending criteria have delayed and in some cases eliminated the short-term possibility of relocation or new build-to-suits.

Some planned build-to-suit and speculative developments have been put on hold due to the difficulty in attaining financing; however, those that were underway are being added to the industrial base in the next 12 months. In the Southeast market, A 200,000 square foot speculative was completed on Highland Road in Macedonia. International Mulch, a maker of rubber based mulch, completed a 100,000 square foot plant in Twinsburg, to expand ease of access to their Northeast customers. They entered the market in May, 2008 after purchasing an existing business and then expanding from a 40,000 square foot facility into their new building. PCC Airfoils LLC of Mentor, a unit of Precision Castparts Corp. also completed an 80,000 square foot expansion, in the Painesville Renaissance Business Park in the Northeast submarket. This expansion is expected to add 100-150 jobs. This facility will manufacturer industrial gas turbine blades and vanes for use in electrical power equipment and power generation of all veins, will be a growing segment in Northeast Ohio.

REAL ESTATE CYCLE



Another thriving entity is Ben Venue Laborites Inc., a bright spot in the growing biomed industry in the region. They are a subsidiary of the Boehringer Ingelheim family of pharmaceutical companies, based in Germany. Recently completed was a 90,000 square-foot office/lab facility on their ever-expanding campus in Bedford. In addition, they are also working on a 224,000 square foot isolated facility where potent cancer drugs will be manufactured.

Construction Watch

Third Quarter 2008									
<i>New Speculative Development</i>				<i>New Build-to-Suit Development</i>			<i>New Owner Occupied Development</i>		
Under Construction	Preleased %	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr.	Completed YTD
274,142	67%	202,000	218,384	0	100,000	100,000	568,000	170,000	170,000

Industrial Market Trends Third Quarter 2008

Major Transactions

Grubb & Ellis is pleased to announce that it represented the following companies in industrial transactions during the Third quarter 2008.

<p>Albrecht, Inc. Lease 67,200 Square Feet Akron, Ohio Lessor Agent: Richard Bishop</p>	<p>Albrecht, Inc. Lease 41,181 Square Feet Akron, Ohio Lessor Agent: Richard Bishop</p>	<p>2330 Denison Ave, LLC Lease 34,132 Square Feet Cleveland, Ohio Lessor Agents: Terry Coyne, Jeffrey Kennedy</p>
<p>Archer Realty Advisors User Sale 20,472 Square Feet Seville, Ohio Buyer Agent: Mike Petrigan</p>	<p>Dougherty Lumber Co. Lease 20,242 Square Feet Wickliffe, Ohio Lessor Agent: Terry Coyne</p>	

What is considered a “clean” building will prevent the toxic drugs from contaminating nontoxic drugs, which is a requirement for some international regulators. This will be the only isolated facility of its size and type in the United States. Some regulators require this type of facility when cytotoxic and genotoxic compounds are manufactured for use in cancer fighting drugs. At the urging of international drug regulators this facility was built and in turn has garnered new pharmaceutical business for Ben Venue.

Ben Venue employs approximately 1,200 at their Bedford campus and are anticipating the addition of 200 more employees in the next two years. The city of Bedford also granted them an 80 percent, 10 year property tax abatement for the project. They are also planning to start construction on a replacement for the original building, which will be phase seven of their master plan, implemented in 1997.

Opportunities and Forecast

Property owners and developers have an opportunity to continue pursuit of green technology and the biomed/healthcare industry companies which are ever-growing sectors. With several recent wins for the

region, rethinking their target audience may prove beneficial.

Free rent and other concessions are still offered on a limited basis but will possibly be expanded in the next six months. With the limited availability of state-of-the-art product, owners of newly completed buildings may hold out for higher rents in the short term, but may need to shift focus to more concessions if they are unable to sustain the short term vacancies. With new construction, rising rental rates are inescapable, in order to recoup the higher construction costs incurred, further compounded by the shortage of modern facilities. However, with the recent downturn in the financial sector and companies scaling back plans for relocation, the owners of new buildings may need to reevaluate pricing if the gridlock in the credit market is not alleviated.

Sales will continue to be a challenge going into 2009 due to the new credit restrictions. Buyers with available cash for down payment will be the most desirable debtors. The lower loan to value ratio requirement will make some companies take a wait-and-see stance, while they bunker down and reserve cash for operations.

