

## ▶ MARKET HIGHLIGHT: TOLEDO

### DESPITE LOW VACANCY, TOLEDO INDUSTRIAL MARKET LACKS SPEC DEVELOPMENT



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On March 12, Ohio's governor declared a state-wide order closing schools and gatherings of over 100 people. On March 15, he ordered all bars and restaurants to close dining rooms (but could maintain carryout and delivery) with further closings on almost a daily basis. Finally, the stay-at-home order came on the 22nd. As of the writing of this article, it is difficult to estimate the full effects of the COVID-19 pandemic and what the moves our government has taken to protect us will have on our real estate markets.

Prior to the spread of the coronavirus, Toledo's industrial real estate market had been running at unprecedented high levels in both leasing activity and new development for the past several years. While the beginning of this year was decidedly quiet compared with the fourth quarter of 2019, we had every reason to expect strong demand for industrial properties through the remainder of 2020.

In fact, the Toledo market still suffers from an inventory problem; virtually every project that was built last year was a build-to-suit. Local and regional developers have yet to develop enough of an appetite to build speculatively. Further, no one in the institutional investor world has been willing to invest in Toledo, despite the higher rates of return they could achieve when compared with major and secondary markets.

#### Vital signs

Vacancy for Class A buildings at year-end stood at 2 percent. The over-



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all Toledo industrial vacancy rate increased 24 basis points in the fourth quarter. It was the first increase since the end of 2014, moving from 3.8 percent at the end of the third quarter last year to 4 percent to close out 2019.

However, the modest gain in vacancy is largely attributed to the North Toledo submarket, which had negative net absorption of 403,755 square feet and the vacancy rate spiked from 2.9 percent to 4.6 percent. Of note, all other submarkets experienced positive net absorption or no change (East Toledo/Oregon) during the fourth quarter.

During the second half of 2019, positive net absorption was 872,584 square feet of industrial space, largely comprised of the First Solar facility in Perrysburg Township, where a 1.1 million-square-foot manufacturing facility was delivered in the fourth quarter.

#### Tenant activity

Much of the 2019 leasing activity was for non-automotive users and more manufacturing-related than warehouse and distribution. Among active searchers for space we have

also noted an uptick in Canadian companies pursuing facilities, perhaps in anticipation of the new North American trade agreement (the U.S.-Mexico-Canada Agreement (USMCA)), which was signed by President Trump during the last week of January.

At least one company cited a need to comply with new federal procurement rules stipulating higher U.S. manufacturing content. A Canadian company needing to expand its U.S. presence inked a transaction in the fourth quarter in nearby Monroe, Michigan (which is part of the Toledo industrial market).

The amount of new industrial product under construction (again, all build-to-suit) was at-or-near record levels — over 3.3 million square feet, most of which is owed to the highly anticipated groundbreaking of the 2.8 million-square-foot Amazon distribution center in Rossford.

Construction also continued on the 511,000-square-foot building for NSG Glass, the Japanese-based parent company of Pilkington (based in the United Kingdom), one of the world's largest glass manufacturers for commercial buildings and cars. The NSG

facility is in Troy Township. Current inventory of industrial buildings in the Toledo metro area is approaching 87 million square feet.

#### Rent movement

Average asking rents finished the year on the low-end at \$2.48 per square foot (annually) in the North Toledo market, to \$3.81 per square foot at the higher end in the Perrysburg/Northwood submarket. The average asking rate overall was \$3.30 per square foot. However, a better indication of the rents that can be achieved is the average asking rate for Class A space, which is \$6.06.

The average asking rental rate declined in the second half of 2019 as a result of much of the high-end buildings in the market being filled. The average asking rate then became heavily weighted with the rates of the remaining older, often less functional, available spaces that are offered at lower rates. We also know from the effective rates for completed transactions in which we have participated that rates for competitive spaces are trending up.

We are bullish on asking rates and are of the opinion that most landlords in most situations should be looking to increase rents as leases roll or they have the opportunity to re-lease newly available competitive spaces.

When considering the momentum the Toledo market had at the end of 2019 and beginning of 2020, it is hard to imagine the market completely reversing course. In fact, on March 13, Amazon announced a second facility, a 150,000-square-foot "delivery station" to be constructed within the city of Toledo.

Some deals are moving forward even if many are on hold. Thus, our outlook for Toledo's industrial market for the rest of the year continues to be favorable despite issues created by the coronavirus and the government's effort to help.



Early this year, Reichle Klein Group brokered the \$2.7 million sale of a 45,630-square-foot industrial facility in Perrysburg, just south of Toledo. The four-building property sits on 32 acres. Welded Construction LP was the seller.