

MARKETBEAT

Cincinnati

Office Q2 2019



CINCINNATI OFFICE

Economic Indicators

	Q2 18	Q2 19	12 Month Forecast
Cincinnati Employment	1.11M	1.13M	▲
Cincinnati Unemployment	3.9%	3.6%	▼
U.S. Unemployment	3.9%	3.6%	▼

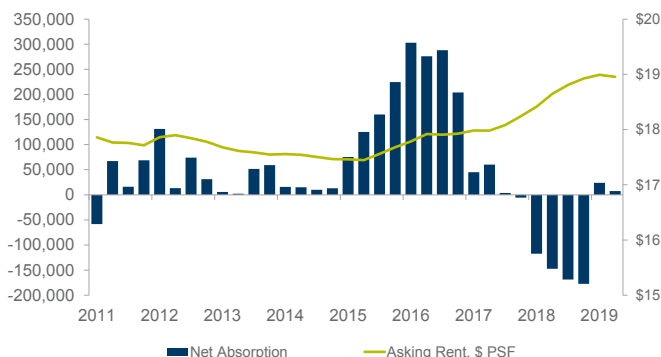
Source: BLS, Moody's Analytics
Q2 2019 data are based on latest available data.

Market Indicators (Overall, All Classes)

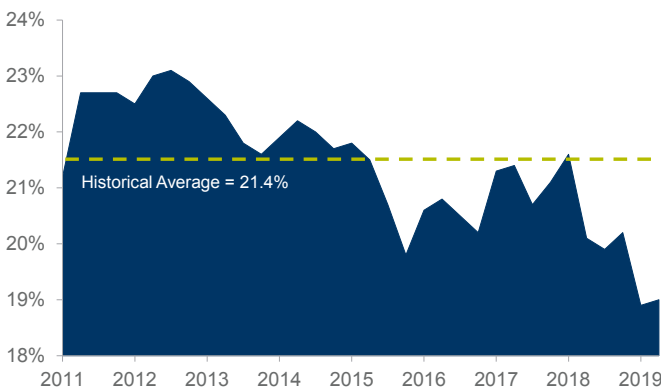
	Q2 18	Q2 19	12 Month Forecast
Overall Vacancy	20.1%	19.0%	▼
Net Absorption (sf)	1k	-65k	▲
Under Construction (sf)	0k	210k	▲
Average Asking Rent*	\$19.09	\$18.94	▲

*Rental rates reflect gross asking \$psf/year

Net Absorption/Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

A recent Bureau of Labor Statistics (BLS) analysis revealed that Greater Cincinnati has the lowest cost of living among all major metro areas in the U.S. The BLS regional price parity (RPP) index compares average costs of goods, housing and other items to set a national barometer for cost of living. San Francisco and New York have RPP indices of more than 120, while Cincinnati's RPP is just 90. The RPP for Cincinnati is 10% lower than the national average and is also lower than similar Midwest markets like Indianapolis and Kansas City. Along with low cost of living, the region's unemployment rate is also extremely low. Both the Greater Cincinnati and U.S. unemployment rate decreased during the past year from 3.9% to 3.6% in the second quarter of 2019.

Market Overview

While the decline was not significant from the prior quarter (17.9%), direct vacancy (which does not include sublease vacancy) in the Greater Cincinnati office market was 17.7% in Q2 2019. On a year-over-year basis, vacancy fell by 160 basis points (bps) and is now at a multi-year low level.

The vacancy decrease over the past year affected both Class A and B properties in the Central Business District (CBD) and the suburbs. The most noticeable yearly decline took place in the Class B suburban category, which fell by 200 bps. Office building conversions to multifamily or hotel uses earlier this year have also pushed CBD Class B vacancy down to just 10.1%. By comparison, CBD Class A vacancy was 15.8% in Q2 2019.

In Q2 2019, the total average asking lease rate was \$18.90 gross, which was a 1% decrease on a year-over-year basis, but nearly identical to the Q1 2019 rate. Class A vacancy has fallen over the past year and so have Class A asking rates. As of Q2 2019, Class A asking rates were \$21.58 psf gross.

The construction of the 30,000-square foot (sf) Sycamore Executive Center (Phase II) in Kenwood continued in Q2 2019. In addition, construction began in the highly-anticipated 'Uptown Gateway' district of the Midtown submarket located near Martin Luther King Jr. Drive and Interstate 71. The University of Cincinnati will lease a 180,000-sf building that broke ground in Q2 2019.

After nearly 150,000 sf of positive absorption in the first quarter, Q2 net absorption was a more modest 44,000 sf. Looking back, 10 of the past 14 quarters in the Cincinnati office market saw positive net absorption. Despite some new Class A leases in suburban buildings, Class A net absorption was nearly -30,000 sf in Q2 2019. Class B absorption neutralized the effect of Class A with more than 73,000 sf of positive net absorption.

The largest leases affecting Q2 net absorption included Bottom Line Systems, which leased nearly 19,000 sf in the One Gateway Place (Building I) in Midtown. Three additional tenants leased an additional 15,000 sf at this Class B complex. In Blue Ash, Advarra, Inc. leased 18,500 sf at the Class-A Landings of Blue Ash III on Carver Road. Raymond James also leased 5,500 sf at Landings of Blue Ash III.

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Apart from net absorption, over 670,000 sf of new leases were signed in Q2 2019 alone. This level of leasing activity was higher than at any point than the past four years. Leasing activity is an indicator of future net absorption, which bodes well for the second half of 2019.

Nearly 300,000 sf of new leases were signed at Class A buildings in the CBD in Q2. In one of the largest leases signed in the past five years, Western & Southern Financial Group (Eagle Realty) leased 126,000 sf at the Class-A Columbia Plaza on Fifth Street. Western & Southern will move employees from older owner-occupied buildings nearby to the top seven floors of Columbia Plaza before the end of 2019.

This Fall, Ernst & Young will relocate its Cincinnati office from Scripps Center to 22,000 sf at Atrium II on Fourth Street.

On the eastern edge of the CBD, more than 40,000 sf was leased at Sawyer Point Place on Pete Rose Way. The Greater Cincinnati Foundation leased 22,000 sf on the first floor, while financial firm Tempoe LLC leased 20,000 sf on the fourth floor.

Unlike the CBD, the majority of suburban leasing activity in Q2 2019 took place in Class B buildings. The largest of these new leases took place in Norwood, where Paycor took 70,000 sf at Central Parke I, which had been available for sublease. Three blocks away, software firm Rippe & Kingston leased 25,500 sf at 4850 Smith Road.

In the Tri-County submarket, Jacobs Engineering will move from Forest Park to Sharonville in early 2020. The firm signed a lease for 65,000 sf at the Class-B Two Crowne Point building, which will be fully-occupied when Jacobs Engineering moves in.

At the Class-A Governors Pointe 4660 building in Mason, Resurgent Financial signed a 27,000 sf lease which will commence in Q4 2019. General Revenue Corp. also renewed 26,500 sf in the same building.

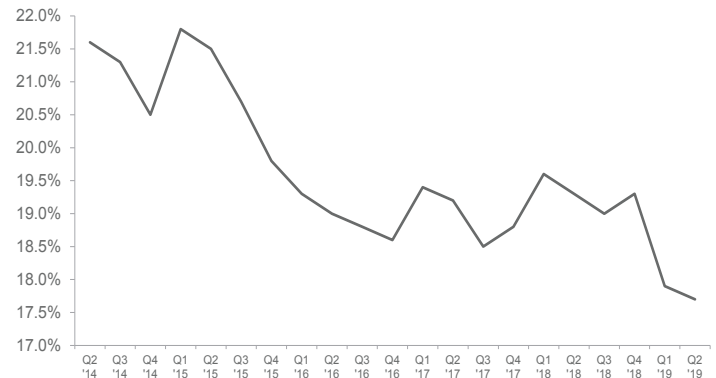
In Q2 2019, six office buildings sold for more than \$1.5 million each. The largest sale by far took place in Kenwood, where Hines sold the 402,000-sf Towers of Kenwood to New York-based investor DRA Advisors. DRA acquired the Class-A property for \$78.8 million (\$196 psf). Nearby in Blue Ash, General Electric Credit Union purchased the Class-B Cornell Center (91,000 sf) for \$6.8 million (\$74 psf).

Outlook

- Direct vacancy will continue its downward trend and reach 17.0% before the end of the year.
- Class B suburban vacancy will also soon fall below 20.0%, which will put it in-line with the other office categories in Greater Cincinnati.
- Strong leasing activity in the second quarter increases the possibility of significant positive net absorption for the next two quarters. Net absorption in Cincinnati has not been positive for four consecutive quarters since 2015.

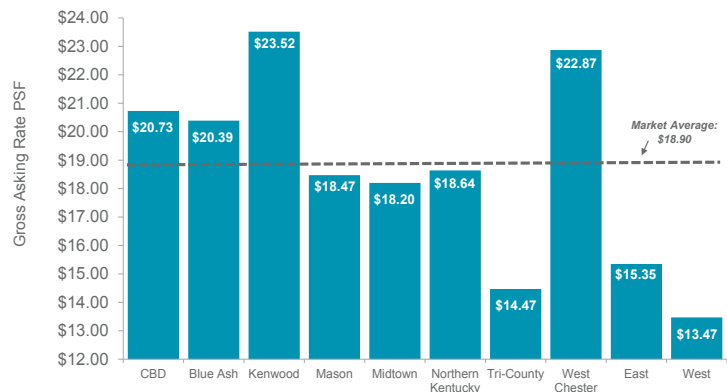
DIRECT VACANCY RATE - QUARTERLY TREND

From a five-year high of nearly 22%, direct vacancy dropped to less than 18% in Q2 2019



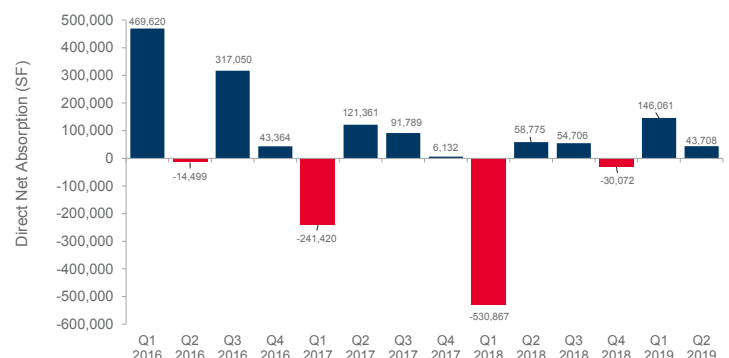
CLASS A+B ASKING RATE - BY SUBMARKET

The most expensive area submarkets also tend to have low Class B vacancy rates



QUARTERLY DIRECT NET ABSORPTION

10 of the past 14 quarters saw positive net absorption



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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	DIRECT NET ABSORPTION (SF)	DIRECT YTD NET ABSORPTION (SF)	UNDER CONSTR (SF)	DIRECT AVERAGE ASKING RENT (ALL CLASSES)*	DIRECT AVERAGE ASKING RENT (CLASS A)*
CBD	53	12,429,817	1,677,640	13.5%	17,394	46,621	0	\$20.73	\$22.39
Blue Ash	55	4,406,228	801,644	18.2%	24,675	64,696	0	\$20.39	\$23.57
Kenwood	13	1,320,159	109,809	8.3%	-27,466	-32,317	30,000	\$23.52	\$29.09
Mason	27	2,505,521	548,761	21.9%	-1,476	-998	0	\$18.47	\$19.72
Midtown	46	3,639,230	766,565	21.1%	20,015	25,302	180,000	\$18.20	\$23.98
NKY	46	3,473,507	738,060	21.2%	26,075	48,162	0	\$18.64	\$19.38
Tri-County	31	2,794,103	746,189	26.7%	-6,486	28,257	0	\$14.47	\$15.21
West Chester	14	1,504,065	206,606	13.7%	-10,651	8,283	0	\$22.87	\$22.87
East	26	1,124,218	239,654	21.3%	11,228	11,363	0	\$15.35	N/A
West	7	884,558	211,865	24.0%	-9,600	-9,600	0	\$13.47	\$17.25
Class A	136	20,243,361	3,473,876	17.2%	-29,609	68,909	210,000	\$21.58	
Class B	182	13,838,045	2,572,917	18.6%	73,317	120,860	0	\$15.41	
TOTALS	318	34,081,406	6,046,793	17.7%	43,708	189,769	210,000	\$18.90	\$21.58

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Columbia Plaza	126,155	Western & Southern Fin. Group / Eagle Realty	New	Central Business District
Central Parke I	69,763	Paycor	New	Midtown
Two Crowne Point	64,760	Jacobs Engineering	New	Tri-County/Sharonville
Shillito Center	40,778	Young & Rubicam	Renewal	Central Business District
Governor's Pointe (4660)	27,163	Resurgent Financial	New	Mason/Montgomery
Governor's Pointe (4660)	26,534	General Revenue Corp.	Renewal	Mason/Montgomery
Central Parke - Office	25,609	Rippe & Kingston Systems Inc.	New	Midtown
Atrium Two	21,951	Ernst & Young	New	Central Business District
Sawyer Point Place	21,828	Greater Cincinnati Foundation	New	Central Business District
Sawyer Point Place	19,900	Tempoe LLC	New	Central Business District

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Towers of Kenwood	402,000	Hines / DRA Advisors LLC	\$78,800,000 / \$196	Kenwood
Cornell Center	91,168	Lone Star Funds / General Electric Credit Union	\$6,800,000 / \$74	Blue Ash
155 Tri-County Parkway	41,600	OKD Four Ltd. / Olymbec USA	\$1,600,000 / \$38	Tri-County/Sharonville
Christ Hospital Surgery Center	35,229	CNL Healthcare Properties / Welltower, Inc.	\$8,500,000 / \$240	Midtown
5158 Fishwick Drive	26,001	Messer Realty II Ltd. / 5158 Fishwick LLC	\$1,600,000 / \$60	Midtown

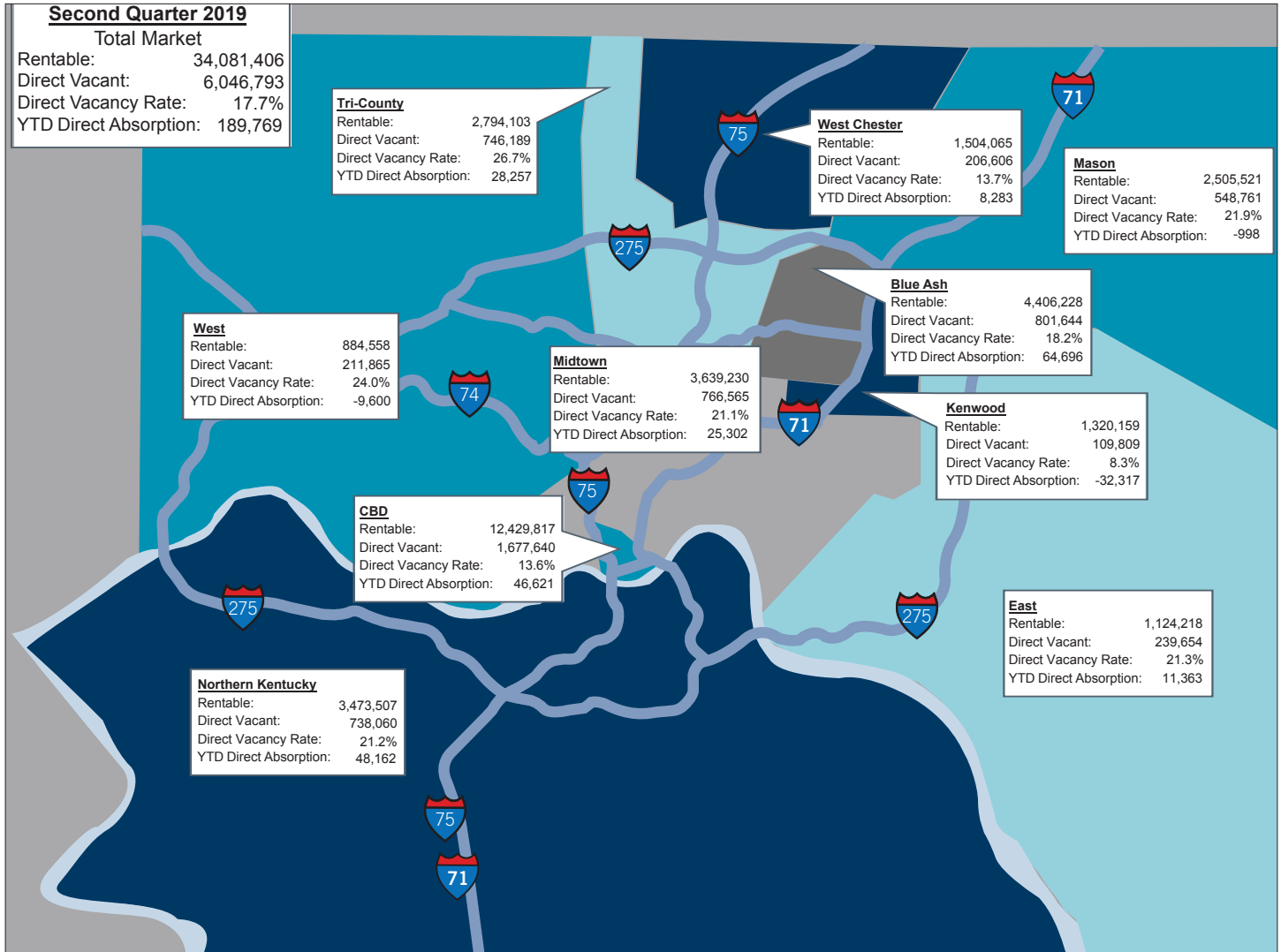
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OFFICE SUBMARKETS GREATER CINCINNATI



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