

# Cincinnati Office MarketView

Q1 2014

CBRE Global Research and Consulting

**CINCINNATI UNEMPLOYMENT RATE**  
6.8%

**OHIO UNEMPLOYMENT RATE**  
6.9%

**US UNEMPLOYMENT RATE**  
6.6%

**CINCINNATI JOB GROWTH**  
+6,304 QoQ

## ACTIVITY CONTINUES TO ACCELERATE AS INVESTMENT AND CONSTRUCTION INTENSIFY

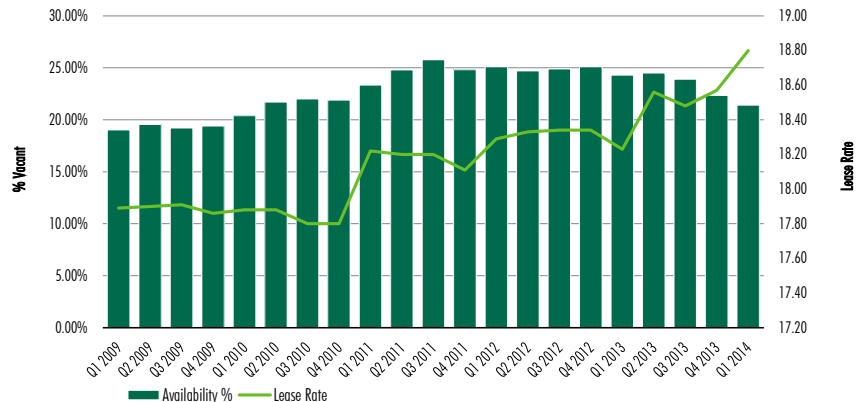
### Quick Stats

Q1 2014	Current	QoQ	YoY
Vacancy	21.5%	↓	↓
Lease Rates	\$18.80	↑	↑
Net Absorption	174,589	↑	↑
New Construction	0.02%	↔	↔

### Hot Topics

- Eagle Realty, a subsidiary of Western & Southern Financial, is looking to sell a minority share of Queen City Square comprised of Great American Tower, 303 Broadway and the attached parking garage.
- Executive Centre I, II and III in Tri-County were sold for \$38.9 million. Executive Centre I and II are fully leased.
- Pure Romance leased 30,000 sq. ft. at 655 Plum in downtown Cincinnati. They are expected to create 126 new jobs within three years
- 237 William Howard Taft, a 165,000 sq. ft. building occupied by Christ Hospital and Hamilton County, sold for \$22.5 million based on the strength of the Christ Hospital lease.

Figure 1: Vacancy Rate vs. Lease Rate



Source: CBRE Research, Q1 2014.

The Cincinnati market continued the momentum it was generating at the end of 2013. Leases signed last year transformed into positive net absorption in Q1 2014. Market activity for tenants searching for Class A space increased compared to Q4 2013. The caveat is available Class A space is lacking and comes at a premium. Vacancy for this type of space in desirable submarkets is very low with limited space above 20,000 sq. ft. Additionally, tenants seeking to purchase single-occupancy buildings over 40,000 sq. ft. are having difficulties finding prime locations.

Western & Southern Financial Group is actively searching for investors to purchase a minority share of Great American Tower, Cincinnati's signature Class A office building. The property consists of over 1,000,000 sq. ft. including 303 Broadway and a parking garage with 2,000 spaces. The building was completed in 2011 with anchor tenant American Financial Group and has 91% occupancy.

The Cincinnati office market ended Q1 2014 with 174,589 sq. ft. of positive net absorption. The Central Business District (CBD) accounted for 14,368 sq. ft. while the suburban market accumulated 159,727 sq. ft. of positive net absorption in Q1 2014.

Multiple investment sales occurred during the quarter. Executive Centre I, II and III in Springdale sold for \$38.9 million to Lone Star Funds. PBY Partners LLC purchased the 10 building portfolio

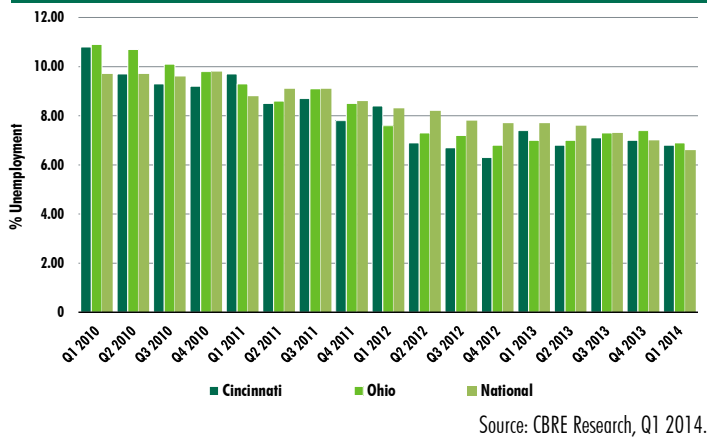
Central Parke in Norwood for \$34 million. The property consists of five office buildings, five flex space buildings and a retail center. A Cleveland-based development company purchased the former U.S. Playing Card property in Norwood for \$500,000 with hopes to re-purpose the former industrial building into Class A office space. Vandercar Holdings Inc., the developer of Oakley Station, is planning to build 400,000 sq. ft. of Class A office space depending on the project's ability to garner pre-leasing of at least 50%.

The healthcare sector continues to thrive. Tri-Health recently announced plans to construct a new 60,000 sq. ft. facility at Keystone Parke in Evanston and is in talks to construct a 100,000 sq. ft. medical office building in Kenwood. Catholic Healthcare Partners may consolidate two of its offices and is searching for over 350,000 sq. ft. of office space to house a new headquarters. Christ Hospital purchased 21 acres of land at the former Drawbridge Inn site in Fort Mitchell with intentions to build a 75,000 sq. ft. medical office building. Al Neyer Inc. sold 237 William Howard Taft, the majority occupied by Christ Hospital, for \$22.5 million to Chicago-based Oak Street Real Estate Capital. Construction on two 40,000 sq. ft. buildings for UC Health are nearing completion in Cincinnati's Central and Northern Kentucky submarkets. Finally, UC Health recently opened a new downtown location in US Bank Tower at Fountain Square.

Figure 2: Market Statistics

Submarket	Rentable Area	Vacancy Rate	Net Absorption Q1 2014	Under Construction sq. ft.	Average Lease Rate \$/sq. ft./Y	Availability Rate %
CBD	12,811,313	19.6%	14,862	280,000	\$21.03	21.9%
CBD Peripheral	2,336,818	32.5%	2,478	0	\$17.67	34.1%
Central	1,871,065	24.9%	5,283	370,000	\$19.64	28.9%
East	1,464,408	27.6%	34,647	0	\$15.76	27.6%
Fields Ertel/Mason	2,844,388	16.5%	93,248	0	\$18.74	18.6%
Blue Ash	4,136,119	17.7%	(22,739)	0	\$18.21	20.1%
Tri-County	4,865,972	22.1%	40,467	0	\$18.16	23.2%
NKY	3,969,370	26.7%	703	0	\$18.87	32.8%
Kenwood	1,211,176	11.4%	5,640	220,000	\$24.29	11.8%
<b>Cincinnati</b>	<b>35,510,629</b>	<b>21.5%</b>	<b>174,589</b>	<b>870,000</b>	<b>\$18.80</b>	<b>23.8%</b>

Figure 3: Unemployment Rate

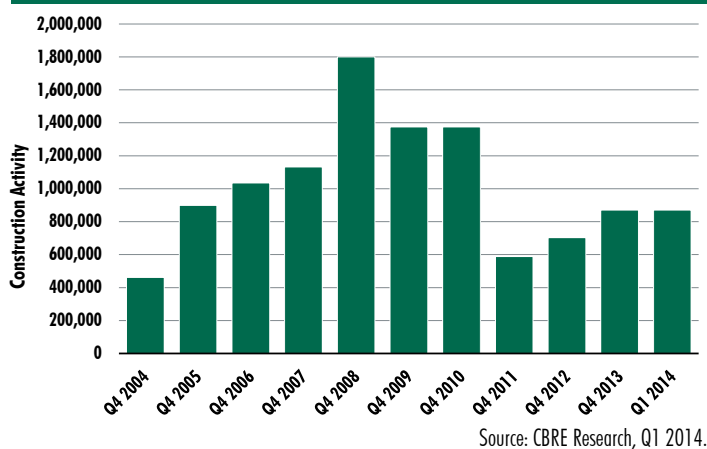


**UNEMPLOYMENT RATE**

Since Q4 2013, Cincinnati’s MSA unemployment rate decreased from 7.0% to 6.8%. The national rate declined from 7.0% to 6.6%, while Ohio’s unemployment rate decreased from 7.4% to 6.9%. (Source: U.S. Bureau of Labor Statistics).

Year-over-year, Cincinnati’s MSA created 14,900 jobs. The largest gains were in Professional and Business Services and Education and Health Services, which increased by 5,900 and 3,900, respectively. During that time period, the unemployment rate dropped from 8.0% to 6.8%.

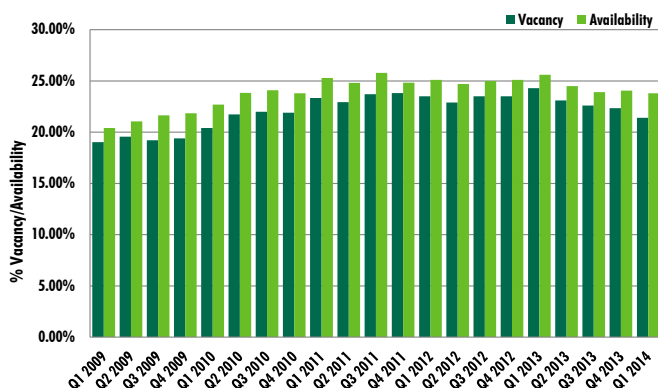
Figure 4: Construction Activity



**CONSTRUCTION ACTIVITY**

Cranes are visible in the heart of downtown working to complete dunhumbys’s 280,000 sq. ft. headquarters by early 2015. Another is visible on the eastern side of downtown constructing 111 high-end apartments at Seventh and Broadway. Construction of the parking garage at the Rookwood Exchange along I-71 is nearing completion. Additionally, the 230,000 sq. ft. office building above the garage continues to progress. The mix-use development University Station, located adjacent to Xavier University, is progressing rapidly. The project is expected to be completed by August 2014. The building is 100% pre-leased by CTI and Tri-Health who will occupy 23,000 sq. ft. and 20,000 sq. ft., respectively. Along the Norwood Lateral, Paycor placed its sign on top their new 140,000 sq. ft. headquarter building as it nears completion.

**Figure 5: Vacancy/Availability Rate**



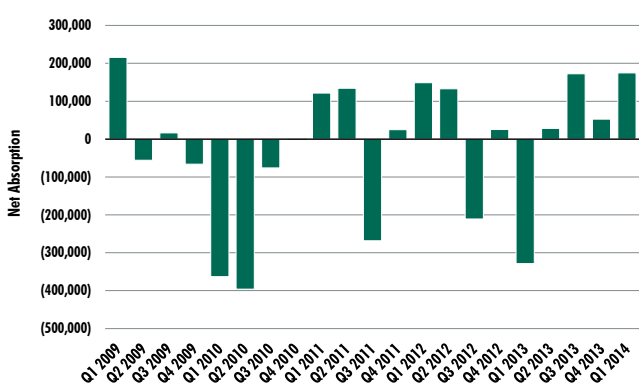
Source: CBRE Research, Q1 2014.

**VACANCY RATE**

Since Q1 2013, the overall vacancy rate has declined by 280 basis points to 21.5% in Q1 2014. The overall vacancy rate decreased in Q1 2014 from 22.3% to 21.5%, with the CBD remaining flat at 19.6%. While overall market vacancy continues to hover around 21.5%, the Class A vacancy rate in select submarkets is rapidly decreasing. For example, the submarkets of Tri-County, Kenwood and Blue Ash have Class A vacancy rates of 8.2%, 9.2% and 13.7%, respectively.

The suburban market saw a decrease moving from 23.6% to 22.5%. The Fields Ertel/Mason submarket observed the largest decrease in vacancy shifting 380 basis points from 20.3% to 16.5%. Currently, Kenwood, Fields Ertel/Mason and Blue Ash submarkets have the lowest overall vacancy rates with 11.4%, 16.5% and 17.7, respectively.

**Figure 6: Net Absorption**



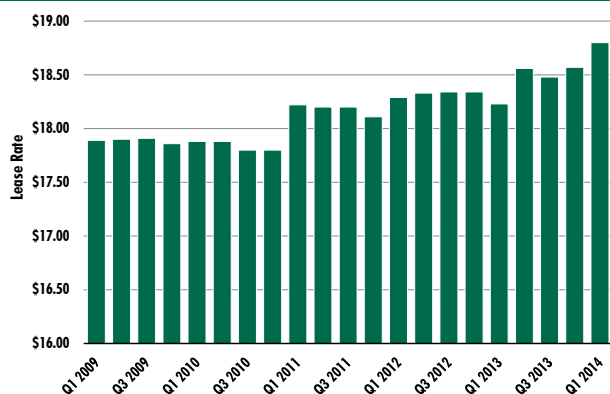
Source: CBRE Research, Q1 2014.

**NET ABSORPTION**

Q1 2014 had positive net absorption of 174,589 sq. ft. The suburban market experienced positive net absorption of 159,727 sq. ft., while the CBD closed the quarter at positive 14,862 sq. ft. Of the suburban submarkets, Fields Ertel/Mason witnessed the largest amount of net absorption at 93,248 sq. ft. with General Revenue Corporation taking 55,000 sq. ft. at 4660 Duke Drive in Mason. PowerNet Global took 21,000 sq. ft. at 8805 Governors Hill in Mason. Tata Consulting took 25,000 sq. ft. at Ivy Pointe in the East submarket.

In the CBD, Pure Romance occupied 30,000 sq. ft. space at 655 Plum Street and Mellot & Mellot occupied 11,492 sq. ft. at the Scripps Center. Additionally, Western & Southern took the 9th and 10th floors of 303 Broadway, while First Financial Center had 60,000 sq. ft. of negative absorption due to the PNC Bank sublease expiring.

**Figure 7: Average Asking Lease Rates**



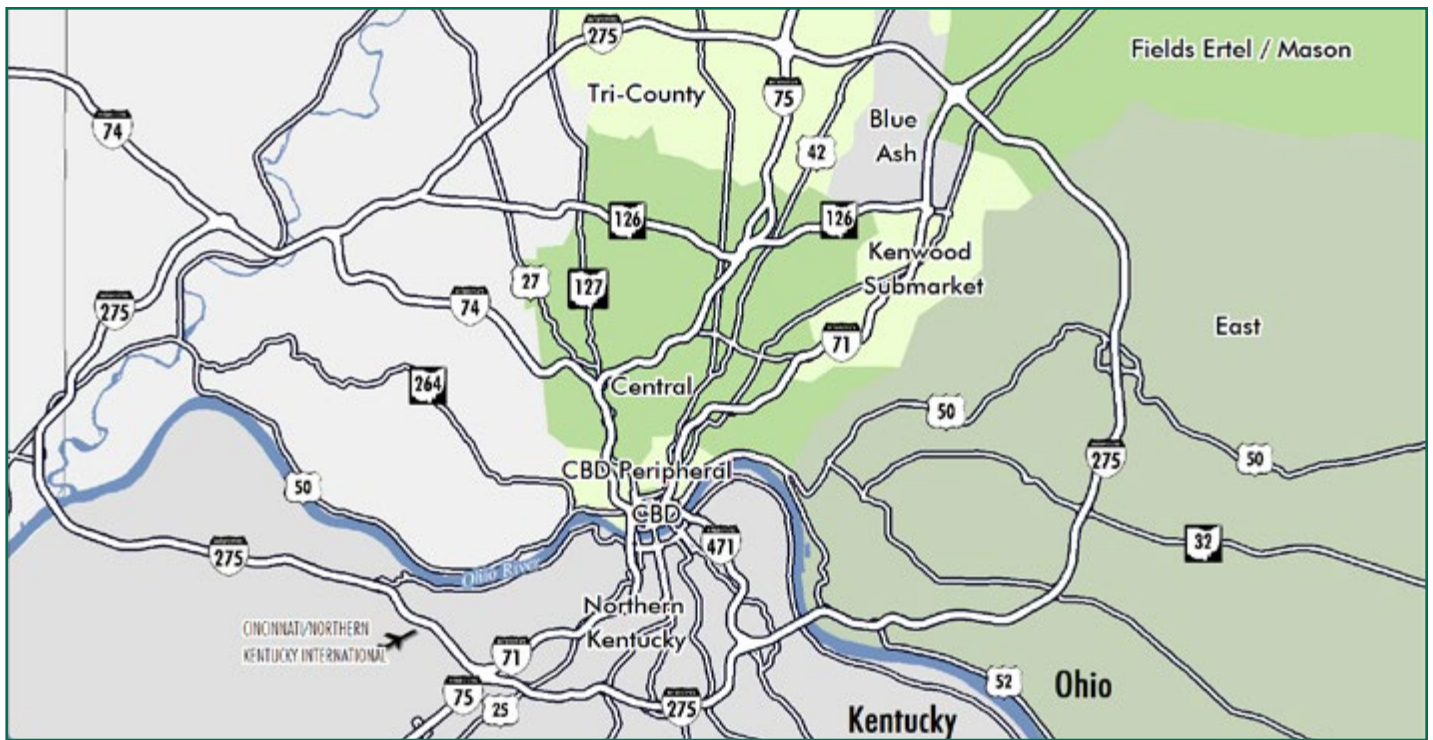
Source: CBRE Research, Q1 2014.

**AVERAGE ASKING LEASE RATES**

Gross rental rates in the Cincinnati office market increased from \$18.57 per sq. ft. to 18.80 per sq. ft. in Q1 2014. In the CBD, rental rates increased from \$20.98 per sq. ft. to \$21.03 per sq. ft. Downtown Class A asking lease rates increased to \$25.15 per sq. ft. from \$24.92 per sq. ft. while Class B rates rose by \$0.13 to \$16.89 per sq. ft. As a result of an increase in Class A asking rates, the Kenwood submarket observed the largest rental increase at \$0.49, moving from \$23.80 per sq. ft. to \$24.29 per sq. ft. The Fields Ertel/Mason submarket experienced the largest decrease shifting from \$18.98 per sq. ft. to \$18.74 per sq. ft.

**Figure 8: Key Office Transactions**

Size (sq. ft.)	Tenant/Buyer	Address	Submarket
23,000	CTI	1714 - 1728 Dana Avenue	Central
20,000	Tri-Health	1714 - 1728 Dana Avenue	Central
16,000	Hazen & Sawyer	7870 East Kemper Road	Fields Ertel/Mason
12,246	Whapps	441 Vine Street	CBD
11,492	CDI	25 Merchant Street	Tri-County



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