

2Q14 absorption gains bring occupancy near 80 percent

Economy

The Cincinnati economy continued on its impressive run of recovery as of late, posting an annualized gain of 21,300 jobs through the month of May, bringing total non-farm employment to 1,054,800 payrolls. Meanwhile, unemployment has shrunk to 5.1 percent, 170 basis points lower during the same timeframe last year. Cincinnati's office employment sectors have added 4,000 jobs, year-over-year, led by the typically-strong professional and business services sector, which posted an annualized gain of 2,900 jobs.

Market conditions

The Cincinnati real estate market continued its momentum into the second quarter, posting just over 200,000 square feet of absorption, while lowering total vacancy 30 basis points to 20.3 percent. Despite this positive note, vacancy stands 1.9 percent higher over the same period last year. Cincinnati Bell secured 220,000 square feet in the Atrium Two building at 221 E. Fourth Street in what may be the largest lease, year-to-date. Cincinnati Bell will relocate 600 workers from Norwood into the Class A building. General Electric has also recently done much to excite downtown Cincinnati, leasing 80,000 square feet of temporary space at the Atrium Two building to house several hundred employees prior to the construction of its global operations center at The Banks. Meanwhile, Catholic Health Partners has chosen the former Showcase Cinemas site in Bond Hill to house its new, 350,000-square-foot headquarters, a space it hopes to move into by the second quarter of 2016.

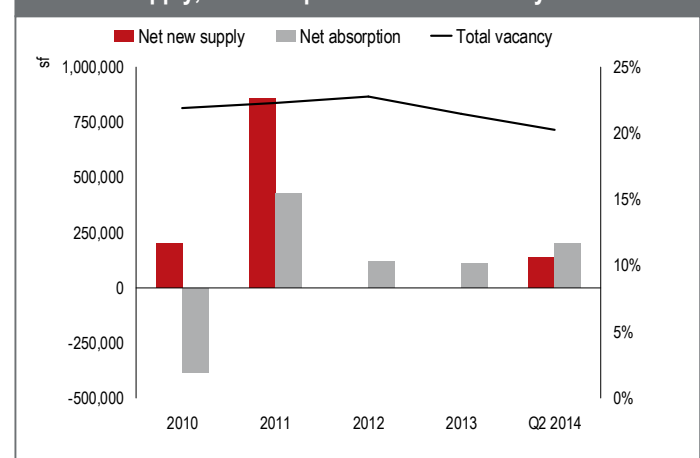
Construction projects continued on a hot streak through the second quarter, with nearly 1.5 million square feet currently under construction or renovation. New construction announcements in the second quarter include the planned development of the 106,000-square-foot Summit Woods IV building in Sharonville, a project which saw JLL's involvement in securing a 28,000-square-foot lease for CH2M Hill to help kick start construction. In addition, Steiner and Associates began construction on its 75,000-square-foot office building along with 600,000 square feet of retail at the mixed-use Liberty center development. Also of note, Shumacher Dugan Construction Inc. has commenced construction on Union Centre Office Park II, a three-story, Class A, 48,000-square-foot speculative office building located in West Chester.

Outlook

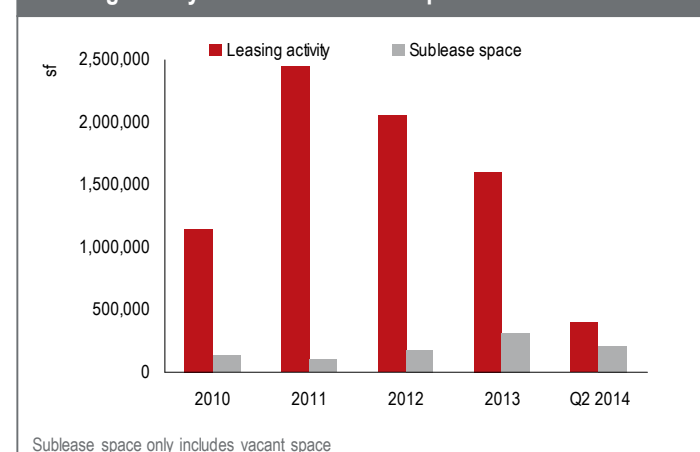
Tour activity and leasing volumes will likely remain stable through the latter half of 2014. While a number of large tenants have already staked their claim around the Cincinnati market, a handful of smaller tenants will keep leasing volume active. Recent transactions such as General Electric's planned construction at the Banks and Cincinnati Bell's consolidation at Atrium Two have done much to excite tenants about the downtown area, indicating that the CBD is still a competitive and sought-after location.

Key market indicators		12-month forecast	
Supply	Supply	▲	34,888,117 sf
	Direct vacancy rate	▼	19.7%
	Total vacancy rate	▼	20.3%
	Under construction (% preleased)	▼	1,439,000 sf (30%)
Demand	Leasing activity 12 mo. % change	▶	-11.1%
	YTD net absorption	▲	307,062 sf
Pricing	12-month overall rent % change	▲	-2.0%
	Class A overall asking rent	▲	\$21.31 psf
	Class B overall asking rent	▲	\$15.42 psf

Net new supply, net absorption and total vacancy



Leasing activity vs. sublease vacant space



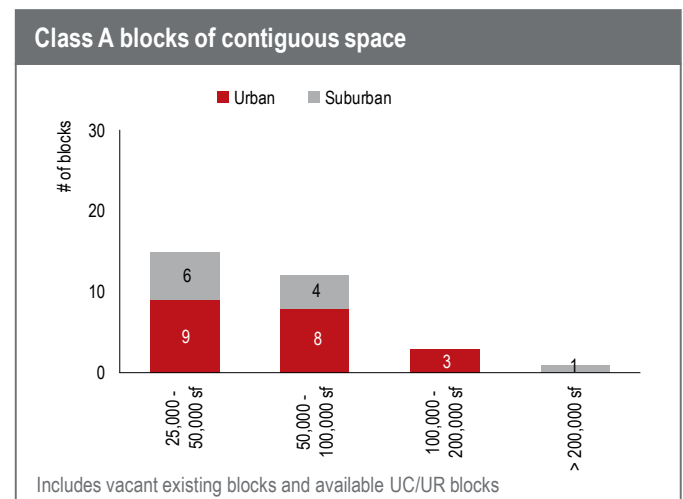
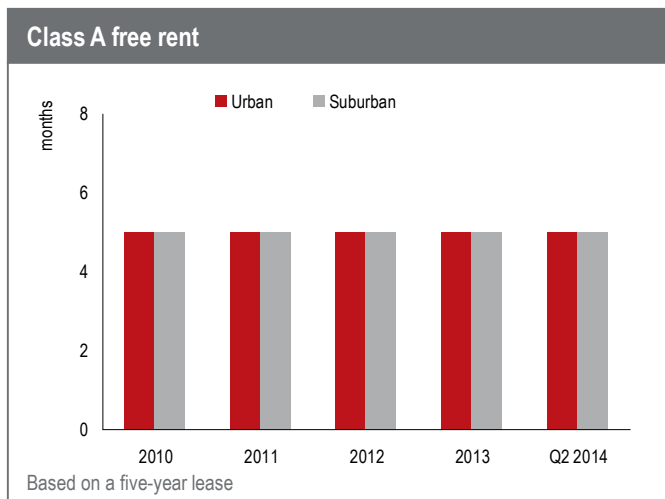
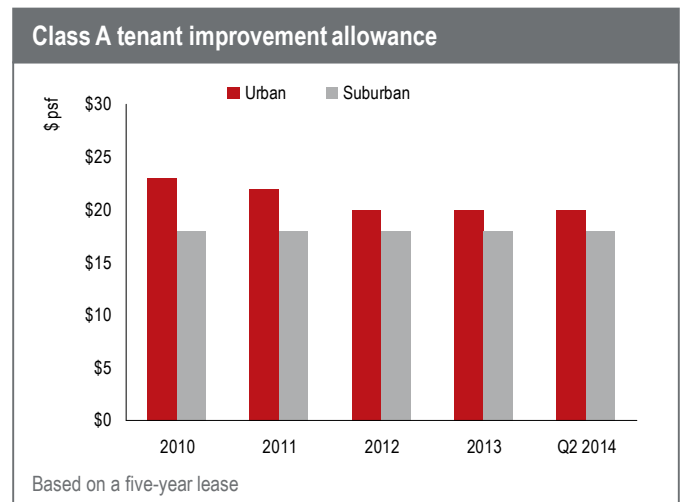
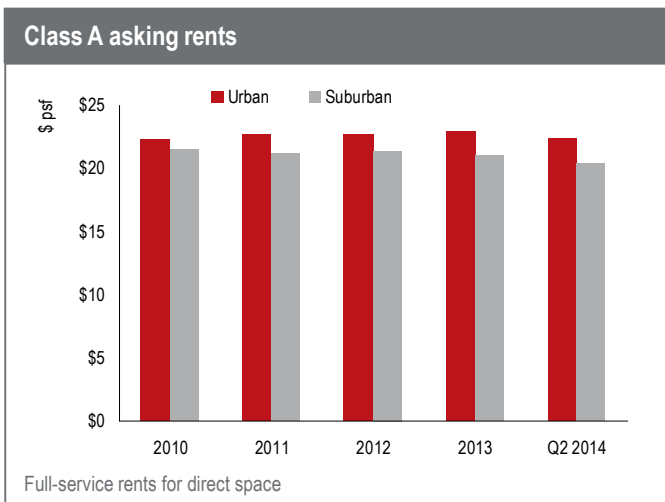
Tenant perspective

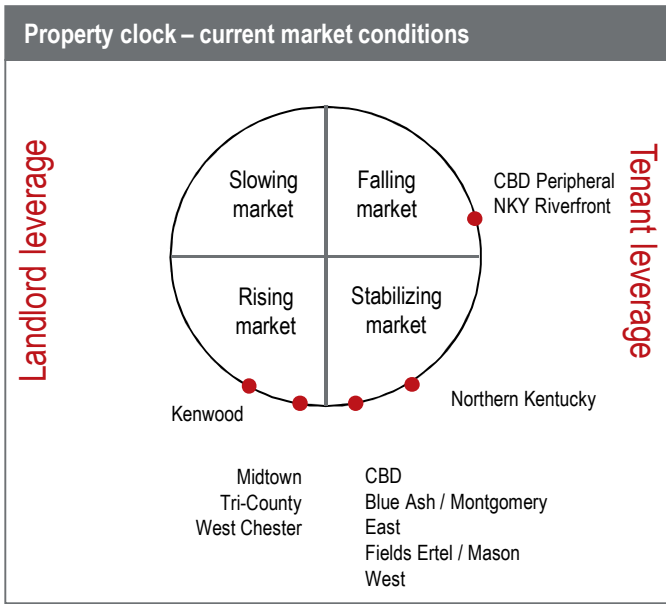
Office demand and leasing activity continue to increase steadily as companies look to add additional space amidst an improving economy. Large, quality blocks of space remain plentiful in both urban and suburban markets for these tenants, which despite positive metro absorption numbers, have kept vacancy at inflated levels. Paycor's much anticipated move from the Gateway West Tower to its built-to-suit building at Linden Pointe will put 57,000 square feet back into the market, and provides just one example of the availability of large spaces. Local economists predict that metro employment is expected to increase by 1.4 percent over the course of 2014 – encouraging news for Cincinnati's typically strong-performing office sector, which began the year with an annualized gain of 7,600 jobs. Overall, users will continue to experience a tenant-friendly marketplace with depressed rents and attractive concession packages.

Landlord perspective

Most landlords have an optimistic outlook, estimating the market has hit bottom and will continue to tighten throughout 2014. Vacancy rates have stabilized, but with excess supply currently on the market, landlords are expected to endure another year of minimal rent growth. Concessions by landlords have remained largely unchanged over the past two years, another indicator of the slow pace at which the market is currently running. Among Class A assets, free rent remains at one month per year in both the urban and suburban submarkets. Tenant improvement allowances have also gradually decreased overall, with suburban submarkets offering slightly lower packages, due to the ease of build-out in newer buildings among other factors.

Cincinnati is an attractive market for value-add investors as distressed properties continue to be flushed through the system. Renovations have also been a key theme as Cincinnati's building stock continues to age. Developers are able to purchase buildings at great values, invest in upgrades, and reposition the assets for lease. Recent examples of this trend can be seen at the former U.S. Playing Card facility in Norwood, and the announcement by the ownership team at 309 Vine Street.





Submarket leverage – market history and forecast

Submarket	2013	2014	2015	2016	2017
Blue Ash/Montgomery					
CBD					
CBD Peripheral					
East					
Fields Ertel/Mason					
Kenwood					
Midtown					
Northern Kentucky					
Northern KY Riverfront					
Tri-County					
West					
West Chester					

■ Landlord-favorable conditions
 ■ Balanced conditions
 ■ Tenant-favorable conditions

Completed lease transactions

Tenant	Address	Submarket	SF	Type
Cincinnati Bell	221 E. Fourth Street	CBD	220,000	New Lease
General Electric	221 E. Fourth Street	CBD	80,000	New Lease
Cincinnati USA Regional Chamber	3 E. Fourth Street	CBD	40,000	New Lease
Unlimited Systems	5901 E. Galbraith Road	Kenwood	32,000	Relocation
PricewaterhouseCoopers LLP	201 E. Fifth Street	CBD	29,000	Relocation
AdvancePierre Foods Inc.	9987 Carver Road	Blue Ash/Montgomery	25,000	Relocation

Completed sale transactions

Address	Submarket	Buyer / Seller	SF	\$ psf
300 E-Business Way	Blue Ash/Mont.	Sabal Financial Group / CW Capital Asset Management	150,000	\$74
9435 Waterstone Boulevard	Fields Ertel/Mason	D.S. Waterstone LLC / Garrison Investment Group	74,000	\$38
400 Buttermilk Pike	Northern Kentucky	The Christ Hospital / 400 Buttermilk Pike LLC	48,000	\$76
619-29 Madison Avenue	NKY Riverfront	Mutual Building LLC / City of Covington	20,000	\$34
11550 Century Boulevard	Tri County	MDM Mason Properties LLC / Jersey Springdale Inc.	17,000	\$20
6860 Tylersville Road	Fields Ertel/Mason	Assorted Holdings Ltd. / East-West Properties LLC	11,000	\$79

Cincinnati methodology: Inventory includes all Class A & B office properties > 20,000 square feet, excluding all office condo, medical, government, and owner-occupied buildings



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