Q3 2018 | Greater Cincinnati Office Market Report

The office vacancy rate in the Cincinnati market area decreased to 7.8% at the end of the third quarter of 2018. The vacancy rate was 8.3% at the end of the second quarter of 2018, 8.5% at the end of the first quarter of 2018, and 8.8% at the end of the fourth quarter of 2017.

The vacancy rate was down over the previous quarter, with net absorption totaling positive 549,124 square feet in the third quarter. Vacant sublease space decreased in the quarter, ending at 195,052 square feet. Rental rates ended the third quarter at $16.13, an increase over the previous quarter and a total of one building delivered to the market totaling 67,000 square feet, with 35,200 square feet still under construction at the end of the quarter.

Vacancy compression has been further aided by the conversions of obsolete inventory into multifamily, particularly in the Cincinnati CBD Market. The Clifton/Midtown Submarket is home to a large portion of the ongoing development, including multiple speculative properties that have been delivered over the last several quarters. Investors have shown widespread interest in the metro, with sales exceeding historical expectations every year since 2014.

The Cincinnati Office Market is on solid footing, the result of abundant demand over the last few years. Net absorption, which escalated every year of the cycle, reached its peak in 2016 at over two million square feet, although it fell significantly in 2017. A major portion of recent leasing activity has been in submarkets outside the Cincinnati CBD Market, including Butler County and Northern Kentucky. Developers have steadily delivered new buildings since 2015, the largest of which have been build-to-suits for Kroger and GE and the Tower in Kenwood, which was nearly fully occupied a year after completing.

Q3 2018 | Office Market at-a-Glance

Vacancy Rates	Net Absorption	Construction	Lease Rates

Source: *CoStar Group®*

Q3 2018 | Economy & Employment

Under the Tax Cuts and Jobs Act, there has been an increase in consumer and investment spending, a tax change that reduced the corporate tax rate from 35 percent to 21 percent. Payroll employment is projected to increase 1.7 percent for the year, which would push the unemployment rate down to 3.8 percent. Inflation is expected to accelerate to 2.9 percent, as the economy continues to reach its full capacity and oil prices continue to recover. National Association of Realtors (NAR) forecasts the prime rate to hit 4.9 percent and the 30-year government bond rate to move up to 3.2 percent for the year. NAR expects monetary policy to continue to tighten in 2019, but at a cautious pace.

Real estate economists continue to have an overall positive outlook for the U.S. economy, capital markets, and real estate fundamentals. Expectations have improved since the prior forecast in March 2018, and the strong second-quarter gross domestic product (GDP) growth rate of 4.2 percent was fresh in forecasters' minds as they weighed in on future years. Based on this forecast, the U.S. economy will easily surpass the current record for length of expansion (120 months) in mid-2019. Consistent with a strong economy, key real estate metrics–such as NCREIF Property Index (NPI) returns and transaction volumes–moved moderately higher in this survey. While expectations have improved, the survey was completed prior to recently announced tariffs by the United States and China that could curtail growth in 2019 and possibly beyond. While there are many potential outcomes for the current trade dispute, escalated tariffs with China could dampen the next round of forecasts in April 2019.

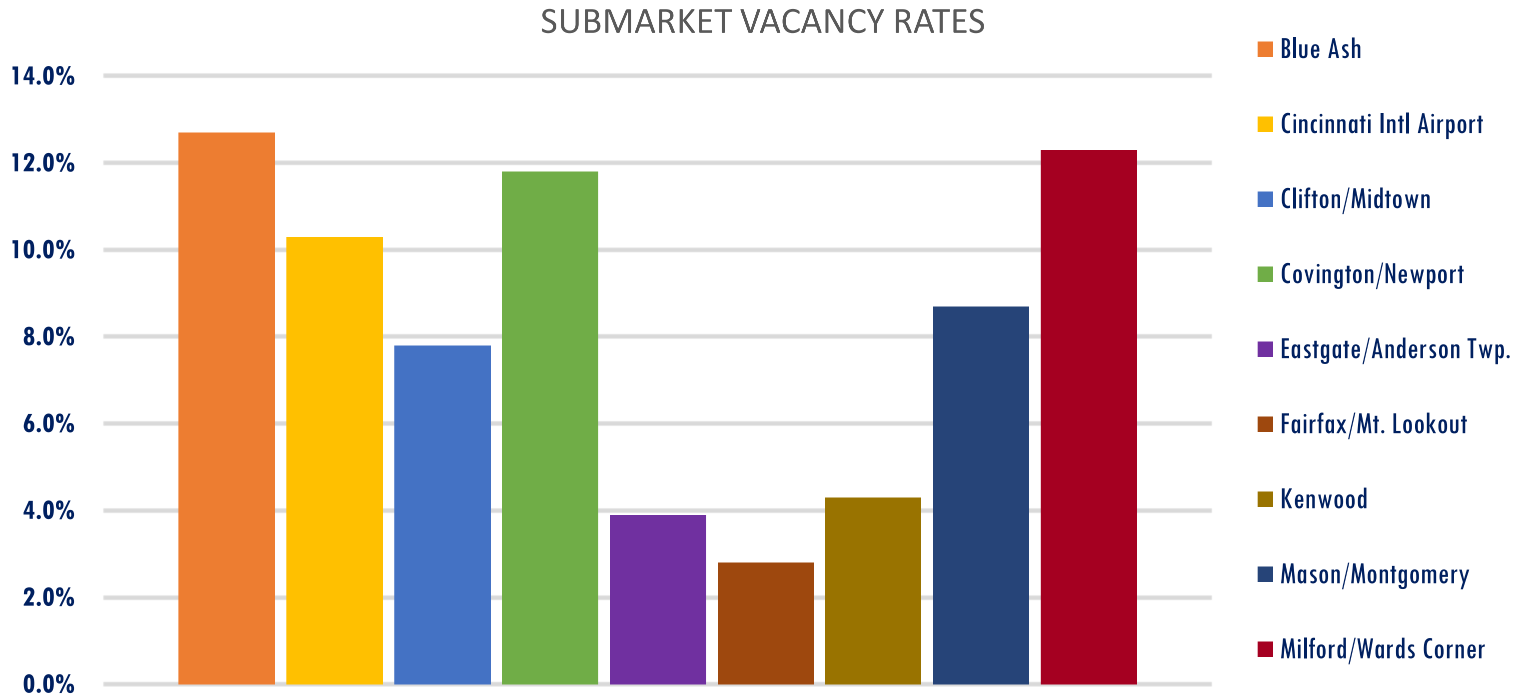
Net job growth should average 1.77 million per year through 2020, compared with a long-term average of 1.15 million. Compared with the last forecast, expected job growth is up in 2018 and 2019 and slower in 2020. Job growth is forecast at 2.4 million in 2018, higher than the past two years but falls to 1 million in 2020, possibly due to concerns about labor availability. The national unemployment rate is forecast to drop to 3.8 percent in 2018 and 2019, the lowest rate since 1969.

Strong GDP and job growth in 2018 have set the stage for solid real estate demand and absorption, particularly for the rest of 2018 and in 2019. Forecasters have signaled slowing–though still positive–growth in 2020, which could be due to a respite from the tax cut-led growth of the next 15 months, or concerns that the very long current expansion cannot last forever. Expectations for the real estate market are more tempered than for the overall economy, with rent growth and return forecasts below trend and surprisingly moderate for late in the cycle. That said, if forecasters are correct about growth continuing through 2020, the 11-year real estate expansion that started in 2010 will be one of the longest on record.

Source: *National Association of Realtors*

Q3 2018 | Office Submarket Snapshot

Submarket	# Buildings	Total RBA	Available SF	Vac %	YTD Total Net Absorption	Deliveries	Const. SF	Rates/SF
Blue Ash	246	6,864,804	894,821	13.0%	124,094	0	0	$16.73
Butler County	685	10,726,600	963,109	9.0%	47,944	0	0	$14.19
Cincinnati CBD	212	22,190,766	1,487,607	6.7%	274,172	0	0	$16.51
Cincinnati Intl Airport	457	6,701,968	686,474	10.2%	169,318	40,593	0	$17.01
Clifton/Midtown	565	11,310,507	815,142	7.2%	11,831	55,000	0	$17.16
Covington/Newport	324	5,118,960	320,109	6.3%	303,503	0	0	$18.79
Eastgate/Anderson Twp.	279	3,064,994	122,872	4.0%	32,759	0	0	$16.57
Fairfax/Mt. Lookout	220	3,120,823	82,451	2.6%	23,554	0	13,200	$18.22
Forest Park/West	618	5,562,196	313,345	5.6%	(63,751)	0	0	$15.17
Kenwood	227	3,459,926	126,821	3.7%	38,331	0	0	$18.64
Mason/Montgomery	232	7,577,431	612,323	8.1%	135,123	63,560	0	$16.13
Milford/Wards Corner	186	2,173,070	274,322	12.6%	(110,773)	0	0	$11.47
Queensgate	167	2,090,908	173,926	8.3%	1,988	0	0	$14.95
Reading/Roselawn	138	2,156,714	75,878	3.5%	31,643	15,000	0	$12.13
Tri-County I-275	174	4,473,979	755,023	16.9%	17,091	0	0	$15.10



Source: *CoStar Group®*

Q3 2018 | Leasing Activity & Rental Rates

The largest lease signings occurring in 2018 included: the 68,000-square-foot lease signed by DHL at 77 Comair Boulevard - CVG Centre in the Northern Kentucky market; the 44,400-square-foot deal signed by Kroger at 10123 Alliance Road-Northmark II in the Northern Cincinnati Area market; and the 42,503-square-foot lease signed by Regus at 1425-1437 Vine Street in the Cincinnati market.

The average quoted asking rental rate for available office space, all classes, was $16.13 per square foot per year at the end of the third quarter 2018 in the Cincinnati market area. This represented a 0.7% increase in quoted rental rates from the end of the second quarter 2018, when rents were reported at $16.02 per square foot. The average quoted rate within the Class-A sector was $18.13 at the end of the third quarter 2018, while Class-B rates stood at $14.89, and Class-C rates at $14.13. At the end of the second quarter 2018, Class-A rates were $17.99 per square foot, Class-B rates were $14.90, and Class-C rates were $13.80. The average quoted asking rental rate in Cincinnati's CBD was $16.51 at the end of the third quarter 2018, and $16.05 in the suburban markets. In the second quarter 2018, quoted rates were $16.48 in the CBD and $15.91 in the suburbs.

Q3 2018 | Construction Activity

During the third quarter of 2018, one building totaling 67,000 square feet was completed in the Cincinnati market area. This compares to two buildings totaling 108,000 square feet that were completed in the second quarter of 2018, five buildings totaling 79,750 square feet completed in the first quarter of 2018, and 241,000 square feet in three buildings completed in the fourth quarter 2017.

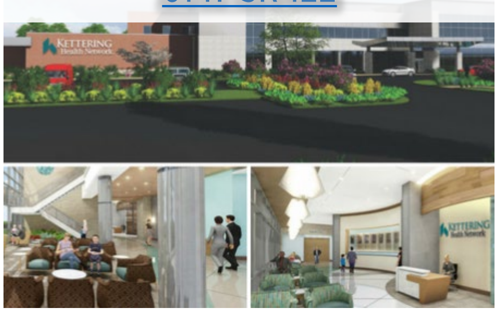
There were 35,200 square feet of office space under construction at the end of the third quarter of 2018. Some of the notable 2018 deliveries include: 100 Kettering Way, a 67,000-square-foot facility that delivered in third quarter of 2018 and is now 100% occupied, and 1425-1437 Vine Street, a 55,000-square-foot building was delivered in the second quarter of 2018 and is now 100% occupied.

The largest projects underway at the end of third quarter 2018 were 5092 Wooster Road, a 13,200-square-foot building with 100% of its space pre-leased, and 775 Gardner Road - Phase II Building 5, a 11,000-square-foot facility that is 100% pre-leased.

Chard Snyder HQ

15th & Vine

6147 SR 122



Source: *CoStar Group®*