Q3 2018 | Greater Cincinnati Retail Market Report

The Cincinnati Retail Market experienced a slight improvement in market conditions in the third quarter of 2018. Cincinnati's retail vacancy rate decreased in the third quarter of 2018, ending the quarter at 4.8%. Over the past four quarters, the market has seen an overall decrease in the vacancy rate, with the rate going from 5.1% in the fourth quarter of 2017, to 5.0% at the end of the first and second quarter of 2018, to 4.8% in the current quarter. The amount of vacant sublease space in the Cincinnati market has trended up over the past four quarters. At the end of the fourth quarter of 2017, there were 49,285 square feet of vacant sublease space. Currently, there are 62,992 square feet vacant in the market.

Quoted rental rates decreased from second quarter 2018 levels, ending at $11.43 per square foot per year. A total of four retail buildings with 33,634 square feet of retail space were delivered to the market in the quarter, with 426,112 square feet still under construction at the end of the quarter.

Over the past few years, Cincinnati's solid net absorption and reduced supply have compressed vacancies significantly. Since reaching a cyclical high in 2015, new supply additions have continued at a modest pace but have not eclipsed net absorption a single year in this cycle.

Cincinnati's Rust Belt economy has recovered some of its manufacturing jobs, and employment in leisure, hospitality and financial activities is well above the prerecession peak. With retailers snapping up vacant space, developers have returned to the metro, and transaction volume has largely outpaced the metro's historical average.

Q2 2018 | Retail Market at-a-Glance

Vacancy Rates	Net Absorption	Construction	Asking Rates

Source: *Costar®*

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 | Retail Submarket Snapshot

Market	# Buildings	Total GLA	Vacant SF	Vacancy	YTD Net Absorption	YTD Deliveries	Under Construction	Quoted Rates
Blue Ash	201	2,027,828	92,546	4.6%	(42,026)	0	0	$13.54
Butler County	1,651	21,319,964	1,115,140	5.0%	(40,283)	41,280	90,500	$10.70
Cincinnati CBD	153	2,011,551	48,758	2.4%	12,377	0	0	$20.22
Clifton/Midtown	1,146	7,099,508	141,195	2.0%	(47,260)	0	14,000	$16.87
Eastgate/Anderson Twp.	658	9,349,906	395,929	4.2%	68,218	18,500	2,500	$15.23
Fairfax/Mt. Lookout	430	4,570,575	81,374	1.8%	(12,627)	12,000	269,436	$20.23
Forest Park/West	1,461	18,716,564	1,408,732	7.5%	(22,369)	19,664	2,500	$11.75
Kenwood	429	6,188,855	259,283	4.2%	171,819	11,700	0	$12.56
Mason/Montgomery	400	7,744,068	283,913	3.7%	134,337	25,945	0	$13.83
Milford/Wards Corner	388	3,950,136	120,690	3.1%	66,000	4,200	31,776	$13.00
Queensgate	549	3,456,455	167,566	4.8%	3,702	0	0	$9.35
Reading/Roselawn	417	2,817,571	49,776	1.8%	37,641	6,419	0	$11.71
Tri-County I-275	393	9,062,500	988,761	10.9%	44,214	0	0	$7.91

Q3 2018 | Power Center Submarket Snapshot

Market	# Centers	Total GLA	Vacant SF	Vacancy	YTD Net Absorption	YTD Deliveries	Under Construction	Quoted Rates
Butler County	2	1,087,409	36,746	3.4%	(4,451)	0	0	$0.00
Cincinnati Intl Airport	2	801,768	22,600	2.8%	7,100	0	0	$28.16
Eastgate/Anderson Twp.	2	1,295,602	21,568	1.7%	29,642	18,500	0	$0.00
Fairfax/Mt. Lookout	2	1,006,317	30,192	3.0%	(18,731)	0	0	$0.00
Forest Park/West	2	867,884	249,948	28.5%	(143,825)	0	0	$16.03
Kenwood	1	466,126	2,764	0.6%	27,204	0	0	$0.00
Mason/Montgomery	1	261,427	12,292	4.9%	(5,764)	0	0	$13.67
Outlying NKY	3	1,084,182	75,837	7.0%	30,165	0	0	$13.00
Outlying Warren County	1	310,431	90,386	29.1%	0	0	0	$0.00
Tri-County I-275	3	1,431,047	385,191	26.9%	(7,044)	0	0	$5.26

Source: *CoStar®*

Q3 2018 | Construction Activity

During the third quarter of 2018, four buildings totaling 33,634 square feet were completed in the Cincinnati Retail Market. Over the past four quarters, a total of 360,579 square feet of retail space has been built in Cincinnati. In addition to the current quarter, eight buildings with 66,449 square feet were completed in second quarter of 2018, 16 buildings totaling 112,631 square feet were completed in first quarter 2018, and 147,865 square feet in 13 buildings completed in fourth quarter of 2017.

There were 426,112 square feet of retail space under construction at the end of the third quarter 2018. Some of the notable 2018 deliveries include: 35 W 8th Street, a 24,000-square-foot facility that delivered in first quarter of 2018 and is now 100% occupied, and The Shoppes at Anderson Towne Center, a 18,500-square-foot building that delivered in second quarter 2018 and is now 93% occupied. Total retail inventory in the Cincinnati market area amounted to 138,593,170 square feet in 12,360 buildings and 914 centers as of the end of the third quarter of 2018.

Q3 2018 | Under Construction Inventory

Under Construction Inventory					Average Building Size (SF)	
Market	# Bldgs.	Total GLA	Preleased SF	Preleased %	All Existing	Under Construction
Cincinnati City	4	283,436	278,404	98.2%	7,405	70,859
Butler County	3	90,500	38,075	42.1%	12,913	30,167
Eastern Cincinnati	3	34,276	32,148	93.8%	11,994	11,425
Western Cincinnati	1	2,500	2,500	100%	14,983	2,500
Northern Kentucky	1	15,400	6,314	41%	9,901	15,400
Outlying Warren County	0	0	0	0%	13,713	0

Source: *CoStar Group®*