

# CINCINNATI OFFICE MARKET

## CINCINNATI OFFICE MARKET SLOWDOWN

The Greater Cincinnati office market performed poorly compared to the second quarter of 2020. Tenants vacated space at a higher rate than the previous quarter, which resulted in (25,324) square feet of negative net absorption. Availability decreased from the second quarter to 20.7%, yet the gap between vacancy and availability expanded, which suggested that market occupancy was falling quickly. The third quarter's negative absorption is mainly attributable to the moveout and subleases offerings in multiple buildings and submarkets with little new leasing activity to offset.

Properties under construction included Uptown Gateway, a 364,000-square-foot building that will provide UC with 184,000 square feet of space and leave 180,000 square feet to another potential occupier. Furthermore, construction at Montgomery Quarter is expected to begin in earnest this year.

There were also major investments in the office market, the largest of which was the purchase of 7794 Five Mile Road in Anderson Township by Bethesda Hospital for \$21.0 million. The second-largest sale was the transfer of the 160,000 square-foot 5300 Kings Island Drive in the Fields Ertel / Mason submarket for \$9.3 million.

Economic conditions for Greater Cincinnati took a turn for the better since the start of COVID-19. The unemployment rate hit a historic high of 14.0% in second-quarter 2020 before bouncing back to 7.6%. The Consumer Price Index was 0.2% lower than the national average this past quarter, consistent with the lower cost of living in the Midwest. Furthermore, Cincinnati experienced positive employment growth in most supersectors, with the financial sector showing the most growth at 5.4%, followed by leisure and hospitality at 4.9%.

The Greater Cincinnati population grew by 60 basis points in 2019. International migration and births were the primary drivers of the increase, which signaled the reversal of a five-year negative net migration trend.

Overall, the market was stagnant. Net absorption decreased considerably compared to the previous quarter.

## CURRENT CONDITIONS

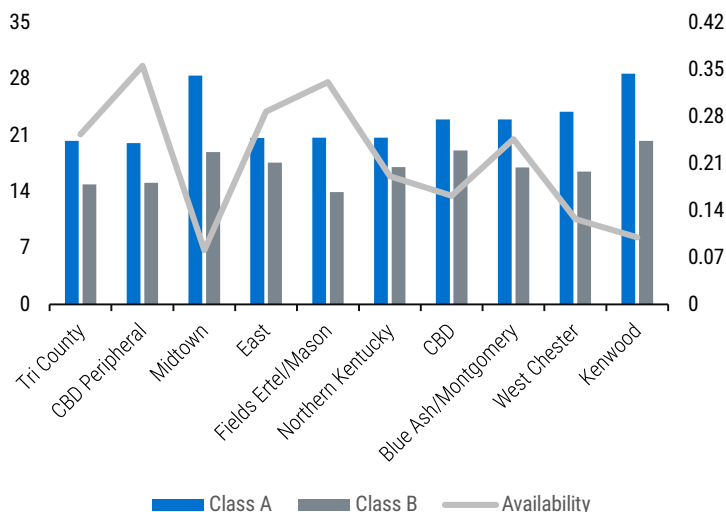
The overall office market began a downturn this past quarter, as vacancy rose from 16.4% to 18.4%. Availability dropped from 18.4% last quarter to 20.5%.

Manufacturing, financial services and professional services continued to drive the metro area's growth. With a high volume of investments and leasing activity picking up, the MSA continued to have the fastest growing population in the Midwest.

The bulk of activity occurred in the Kenwood submarket, which posted 48,889 SF of positive absorption.

## MARKET ANALYSIS

### Asking Rent and Availability



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	36.9 MSF	36.5 MSF	36.9 MSF	-
Availability Rate	20.5%	18.4%	18.3%	↑
Vacancy Rate	18.4%	16.4%	16.9%	↑
Average Asking Rent	\$19.37	\$19.35	\$19.51	↑
Quarterly Net Absorption	(25,324)	23,092	33,072	↑

### LEASE ACTIVITY

US Bank leased 25,000-square-feet in Blue Ash at Landings II.

In the Kenwood Submarket, Fifth Third leased 15,000 square feet at Montgomery Quarter. In the Fields Ertel/ Mason submarket, Vanderlande Industries signed a new lease at 4705 Duke Drive, for 9,352 square feet.

### SALE ACTIVITY

HJH Investments acquired the 160,000-square-foot 5300 Kings Island Drive for \$9.3 million. This was the biggest sale in this quarter in terms of square footage.

In the East submarket, Bethesda Hospital purchased the 89,000-square-foot property at 7794 Five Mile for \$21.0 million, or \$237/ SF. In the Northern Kentucky submarket, Cincinnati Children's Hospital purchased the 41,000-square-foot 2765 Chapel Place property for \$6.8 million.

### LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
US Bank	Landings II	Blue Ash	New	25,000
Fifth Third Bank	Montgomery Quarter	Kenwood	New	15,000
Vanderlande Industries	4705 Duke Drive	Fields Ertel / Mason	New	9,352

### SALE TRANSACTIONS

Buyer	Building	Submarket	Price	Square Feet
HJH Investments	5300 Kings Island Drive	Fields Ertel / Mason	\$9,344,388	160,000
Cincinnati Children's Hospital	2765 Chapel Place	Northern Kentucky	\$6,831,000	41,000
Bethesda Hospital	7794 Five Mile	East	\$21,095,000	89,000

### Class A Submarket Statistics

Submarket	Total Inventory (SF)	Availability Rate / Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Asking Rent (as FSG)	Net Absorption	YTD Absorption
Blue Ash/Montgomery	2,870,256	24.9%/18.0%	714,770	47,688	\$22.95	(47,004)	(23,908)
CBD	6,905,746	13.7%/14.9%	947,406	19,003	\$22.94	(88,018)	(28,610)
CBD Peripheral	849,963	48.9%/48.9%	415,347	-	\$20.00	(23,404)	5,848
East	519,863	3.0%/3.0%	15,738	-	\$20.64	(5,347)	(4,486)
Fields Ertel/Mason	1,743,593	39.3%/30.0%	685,805	150,657	\$20.69	(120,517)	(143,075)
Kenwood	966,623	6.6%/3.8%	65,780	27,829	\$28.59	41,006	74,394
Midtown	1,943,198	8.6%/6.4%	167,539	88,624	\$28.37	(39,351)	(13,752)
Northern Kentucky	3,007,065	23.5%/21.0%	707,817	103,407	\$20.68	(10,383)	14,703
Tri County	905,662	11.6%/10.8%	104,856	-	\$20.30	336	(38,228)
West Chester	1,404,626	8.5%/8.6%	119,302	-	\$23.91	15,281	19,984
<b>Class A Total</b>	<b>21,103,379</b>	<b>18.7%/16.6%</b>	<b>3,944,360</b>	<b>437,208</b>	<b>\$22.04</b>	<b>(277,401)</b>	<b>(136,320)</b>

### Class B Submarket Statistics

Submarket	Total Inventory (SF)	Availability Rate / Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Asking Rent (as FSG)	Net Absorption	YTD Absorption
Blue Ash/Montgomery	2,233,949	24.3%/22.0%	640,280	54,649	\$16.98	(53,766)	(164,601)
CBD	4,770,149	19.7%/18.6%	939,770	70,830	\$19.11	(66,665)	(11,626)
CBD Peripheral	1,091,806	25.1%/21.2%	273,516	-	\$15.08	(42,159)	(52,022)
East	1,036,020	40.4%/37.6%	413,145	5,082	\$17.57	(14,110)	(13,137)
Fields Ertel/Mason	952,080	21.6%/15.9%	206,121	-	\$13.94	1,638	(17,316)
Kenwood	383,803	18.7%/7.1%	71,749	-	\$20.28	7,883	1,189
Midtown	538,259	6.3%/5.9%	33,904	2,164	\$18.90	1,188	(610)
Northern Kentucky	1,438,310	9.7%/8.5%	139,922	-	\$17.05	18,334	12,806
Tri County	2,797,497	29.7%/28.7%	828,727	2,214	\$14.88	(2,244)	(13,340)
West Chester	197,409	42.4%/42.4%	83,671	-	\$16.47	682	(18,869)
<b>Class B Total</b>	<b>15,869,614</b>	<b>22.9%/20.9%</b>	<b>3,641,948</b>	<b>133,354</b>	<b>\$16.74</b>	<b>251,077</b>	<b>122,770</b>
<b>Grand Total</b>	<b>36,972,993</b>	<b>18.4%/20.5%</b>	<b>7,586,308</b>	<b>572,147</b>	<b>\$19.37</b>	<b>(26,324)</b>	<b>(13,550)</b>

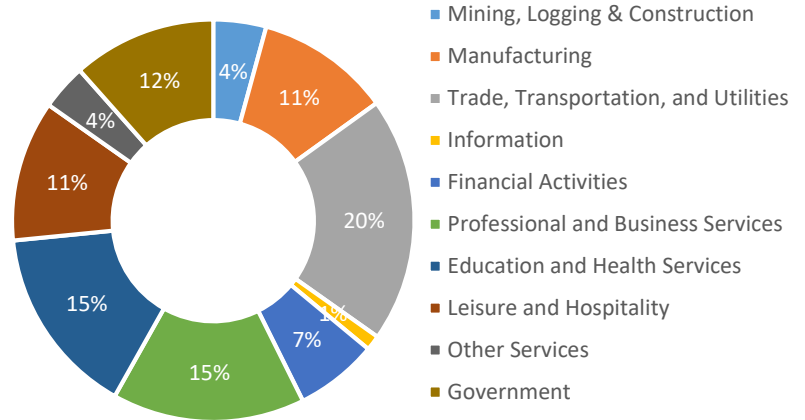
## ECONOMIC CONDITIONS

The Cincinnati office market slowed significantly in the second quarter. For most of 2019, local total nonfarm payroll employment numbers grew and appeared to mirror the national average. Office construction in Greater Cincinnati decelerated in the final quarter of the year. Nevertheless, the market is not geographically constrained and is far from its potential growth ceiling.

Second-quarter 2020 showed a large increase in job growth, continuing the trend since COVID-19 started. Unemployment was on an upward slope and on pace with national unemployment numbers at 7.6%.

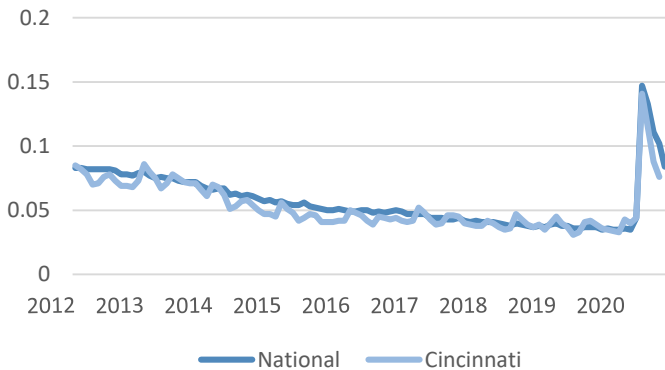
## EMPLOYMENT BY INDUSTRY

### Cincinnati



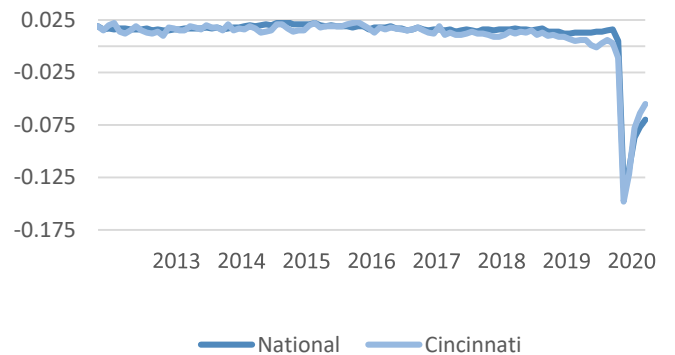
## UNEMPLOYMENT RATE

### Not Seasonally Adjusted



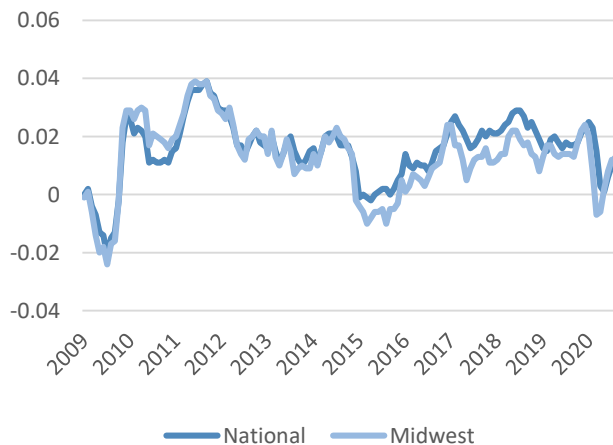
## PAYROLL EMPLOYMENT

### Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



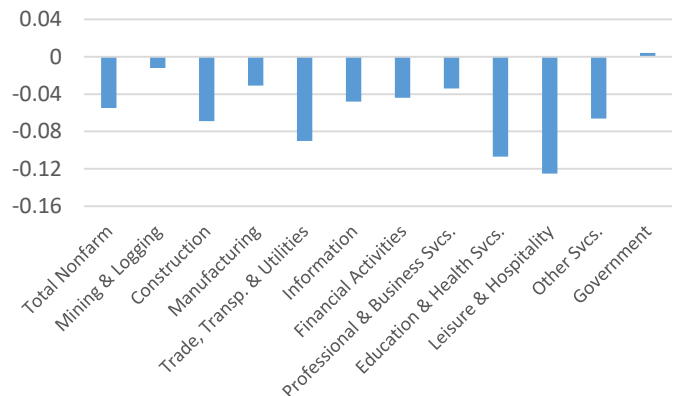
## CONSUMER PRICE INDEX (CPI)

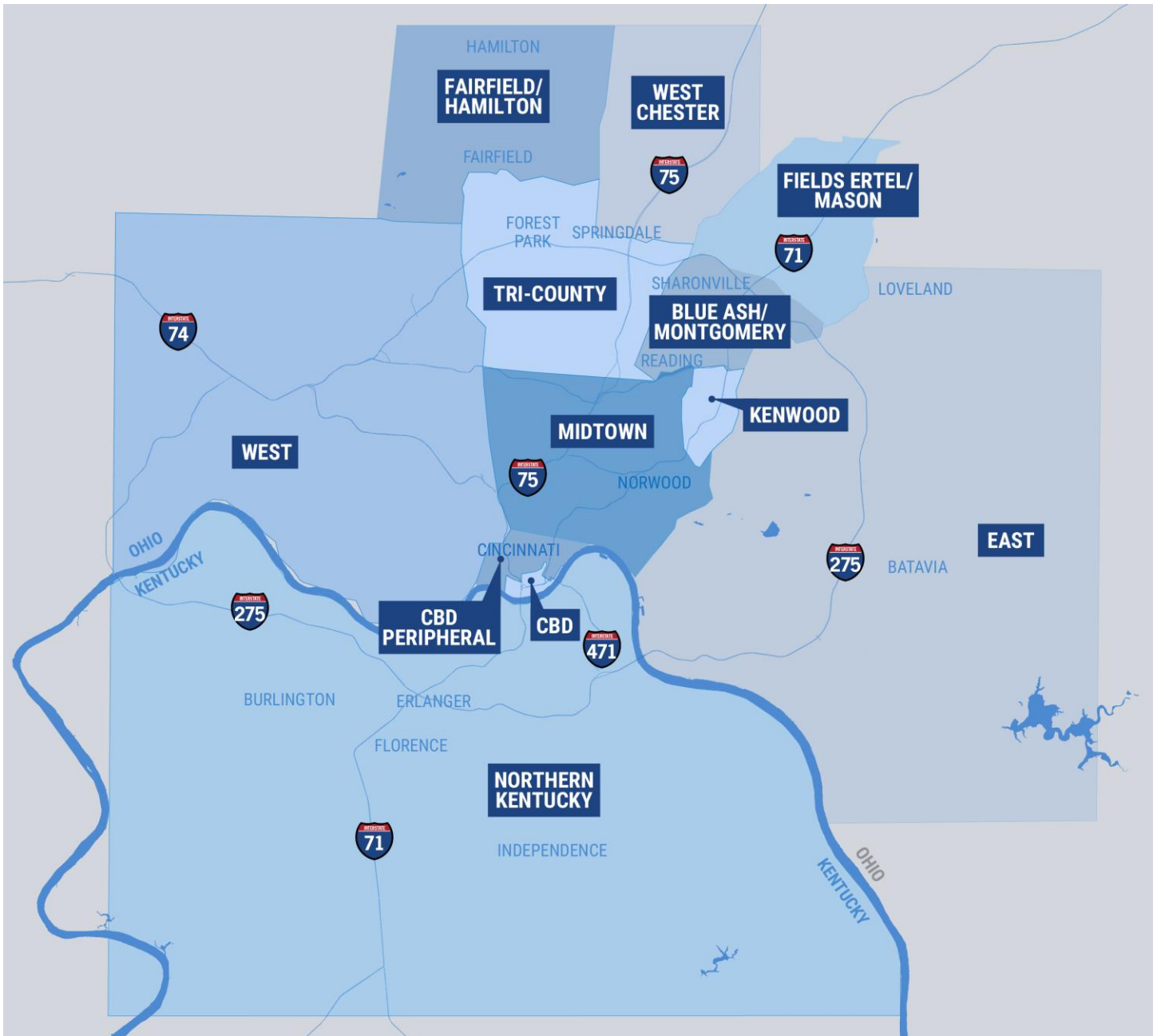
### All Items, 12-Month % Change, Not Seasonally Adjusted



## EMPLOYMENT GROWTH BY INDUSTRY

### Cincinnati, August 2020, 12-Month % Change Not Seasonally Adjusted





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