

INVESTMENT FORECAST

Office
Cincinnati

IPA
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2022

Cincinnati Spearheads Job Growth Among Ohio Major Metros; Value-Add Buyers Lead Investment Market

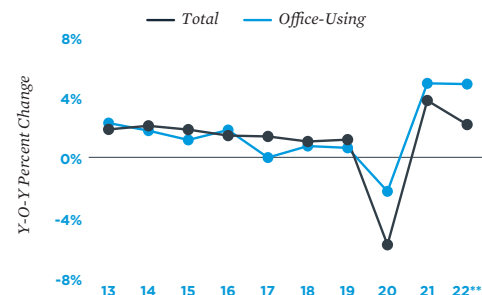
Office-using job sector strength bodes well for fundamentals. Cincinnati's employment recovery in the wake of the health crisis has been buoyed by a rebound in professional and business services positions. Sector employers recouped all pandemic job losses, surpassing February 2020 totals by 10,000 jobs entering this year. While the prevalence of remote work options is still a source of uncertainty, leasing has performed reasonably well throughout the crisis, with vacancy roughly 200 basis points below the national average. Corporate relocations and expansions will put downward pressure on availability, including new offices leased by global consulting firm Protiviti and headquarters for biotechnology startup Orange Grove Bio. This year's stock expansion, which is above the five-year average, would ordinarily be a cause for concern; however, the market is observing a substantial amount of office space converted for other uses. One project removed 200,000 square feet from the CBD last year, part of over 3 million square feet removed from the core since 2010. Ongoing conversion activity will offset pressure on vacancy created by new development, and the amount of older space taken off the market improves overall stock quality, further aiding future rent growth.

Investors return to a revitalizing metro bringing different strategies. After a depressed market in 2020, office sales sprang back last year to surpass the trade velocity reported in each of the two years prior to the pandemic. However, dollar volume remains under pre-pandemic norms due to lower prices resulting from investors' penchant for value-add opportunities. Buyers looking to take advantage of tenant preferences for the suburbs or looking to execute long-term strategies may seek deals in Butler County and the Forest Park/West submarket, the most popular areas for Class C trades. Renovation activity could place upward pressure on values in these areas if assets are added back to the market.

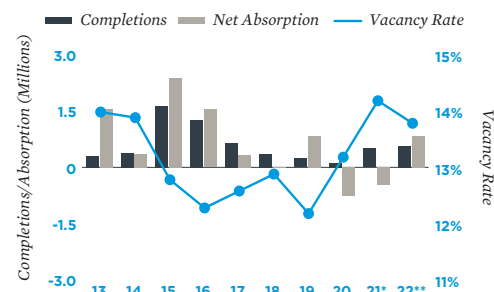
2022 Market Forecast

- Employment** up 2.2%  Cincinnati's job market continues expanding through 2022 as employers in office-using sectors boost staff counts by 13,000.
- Construction** 560,000 sq. ft.  Supply growth will be up 60,000 square feet from 2021, reaching a five-year high. This is still well below the peaks observed in the earlier part of the last decade.
- Vacancy** down 40 bps  Availability declines for the first time since the onset of the health crisis, falling by 40 basis points as firms find need for office space amid a lukewarm construction pipeline.
- Rent** up 0.7%  The metro will observe modest rent growth as the average monthly rate climbs to \$14.50 per square foot, as office demand begins the road to recovery.
- Investment**  Owners of existing stock in Cincinnati's core benefit from the area's high amount of removals, though buyers seeking older properties will look increasingly to Covington and Queensgate.

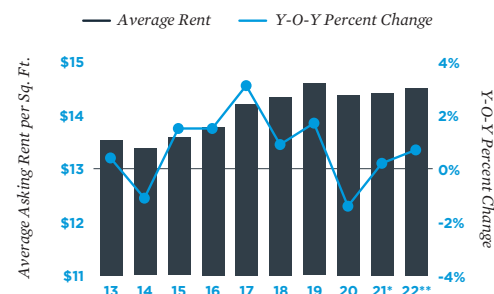
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.