INVESTMENT FORECAST

Retail

Cincinnati

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

High-Paying Job Creation Tightens Employment Gap; Reuse Plays Highlight in Retail Sector's Transformation

Cincinnati leads Ohio markets in job gains as redevelopment tightens vacancy. The metro's professional and business services sector has already surpassed a full recovery and is expected to carry overall job creation this year. Growth in higher-income job segments will bolster discretionary spending, pushing retail sales to a projected 28 percent above 2019's volume. This should result in an enhanced need for retail space among vendors at a time when removals are altering the sector's property stock. The metro's substantial demolition and conversion activity will counterbalance an uptick in construction this year, significantly reducing the impact of retail space coming online. Nearly 1 million square feet of space was taken off the market in the second half of 2021, including the 130,000-square-foot Skytop Pavilion demolished in favor of a multifamily development. The approved redevelopment of the Tri-County Mall will remove an additional 1.3 million square feet, as the property will be converted into a mixed-use lifestyle center, featuring a heavily reduced amount of retail space.

Buyers pursue lifestyle centers, smaller deals as larger properties are taken offline. As retail conditions improved in 2021, Greater Cincinnati reported upward-trending buyer activity as deal flow returned to pre-health crisis levels. Last year saw a greater proportion of private buyers participating in the market, with many pursuing single-tenant net-leased deals. These investors usually sought out high-credit national tenants that proved resilient to pandemic shocks. As many older multi-tenant properties were taken offline, several large trades involving lifestyle centers occurred. Multi-tenant assets with more vintage may face competition from the newer developments in the pipeline, which typically cater more heavily to experiential retail. Despite the large amount of stock taken off the market, positive multi-tenant absorption throughout last year shows demand for multi-tenant space that will likely attract elevated bidding activity going forward.

2022 Market Forecast

Employment up 2.2% — Area employers add 24,000 positions, bringing Cincinnati's job count within 0.5 percent of the pre-pandemic total.

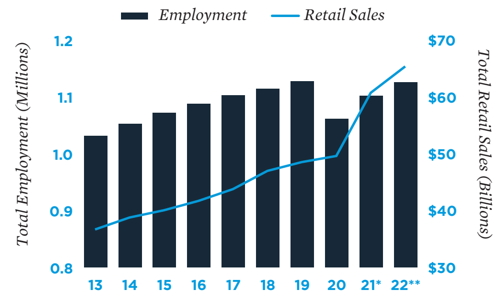
Construction 535,000 sq. ft. — New additions exceed the trailing five-year average by over 185,000 square feet, helping replace the high amount of inventory converted to other uses.

Vacancy down 10 bps — Continuing economic recovery drives demand for retail space, resulting in moderate vacancy compression. Space availability will end 2022 at 4.8 percent.

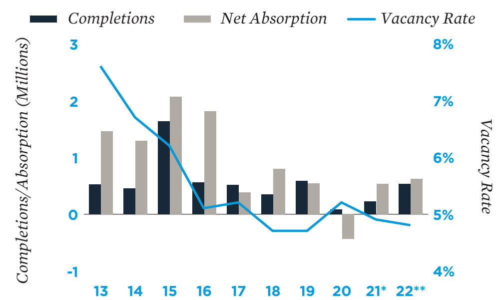
Rent up 2.4% — After surging 9.3 percent in 2021, rent growth slows to a more sustainable upward pace. Asking rents are projected to reach an average of $13.00 per square foot by the end of this year.

Investment — Bidding competition for shopping centers may escalate this year, as multi-tenant vacancy is historically tight and underperforming properties are candidates for redevelopment.

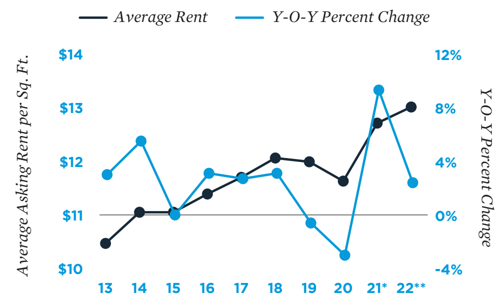
Economic Trends



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 February 2022. 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. Forecasts for employment and retail data are made during the first 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.