

MARKET REPORT

Office
Cincinnati Metro Area

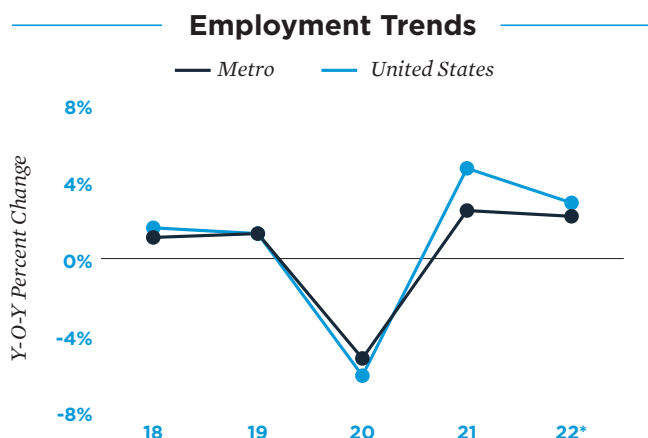
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2Q/22

Lower-Tier Properties Garner Stronger Tenant Interest Amid Potential Supply Headwinds

Class B/C buildings capture demand rebound. After pandemic losses, the fourth quarter of 2021 reported positive net absorption of nearly 200,000 square feet. Class B/C office properties were the overwhelming target of firms looking for space. This momentum continued into the first quarter as net absorption remained positive, despite the challenges imposed by the omicron variant. Interest in these lower-tier buildings has helped offset the falling demand for Class A layouts. Furthermore, all Class B space under construction is fully leased, contrasting conditions in the upper-tier segment. Although speculative Class A deliveries present some near-term headwinds, overall leasing velocity in April and May indicate tenant demand is rising as employers revive in-person operations.

Return to office drives leasing. As Cincinnati's job count inches closer to its pre-pandemic benchmark, the number of traditionally office-using positions sits at a record mark. Larger companies in the metro, such as Procter & Gamble and American Financial, began implementing full or hybrid office returns at the end of last year. The University of Cincinnati has begun a similar process as it opens its Digital Futures building downtown later this year. Following suit, companies that support these larger employers and firms that have been expanding payrolls by adding remote staff may begin to seek larger or supplementary office space. This shift may already be well underway, as the number of leases inked year-to-date through May nearly surpassed the 2021 total.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**24,500
JOBS**
will be created

EMPLOYMENT:

The metro's employment base is on track to expand by 2.2 percent this year, sitting just below Cincinnati's previous high. Traditional office-using employment gains are fueled by elevated hiring in financial, professional and business services.



**650,000
SQ. FT.**
will be completed

CONSTRUCTION:

Supply additions in the metro will continue at an above-average pace, with developers expanding inventory by 0.7 percent. The volume of space delivered during 2022 will almost double the trailing five-year average of 358,000 square feet.



**10
BASIS POINT**
increase in vacancy

VACANCY:

Office demand will slightly trail the elevated number of new builds that come online this year, pushing vacancy up to 14.0 percent. Availability shifted similarly when construction was comparably high in 2017.

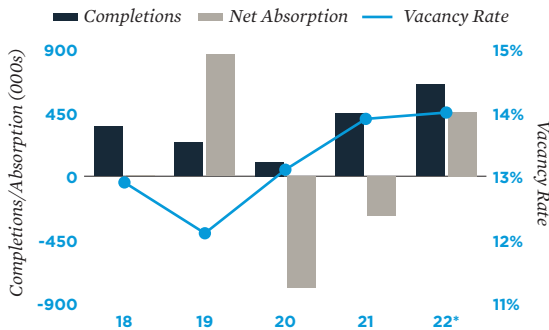


**1.2%
INCREASE**
in asking rent

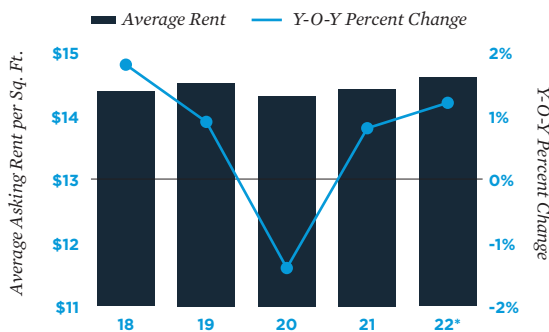
RENT:

The average asking rate will elevate to a record mark in 2022, reaching \$14.60 per square foot. This year's increase is primarily driven by gains at suburban properties, which have noted positive rent growth throughout the health crisis.

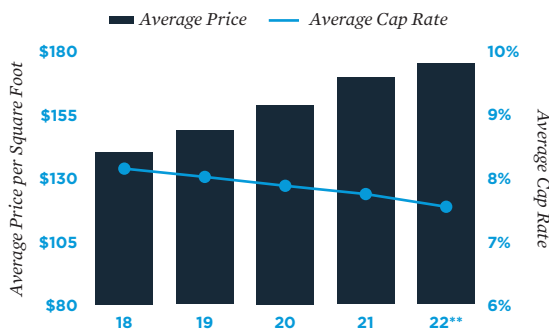
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

557,000 sq. ft. completed

- Deliveries in the trailing 12-month period ended in March surpassed the previous yearlong span by over 500,000 square feet.
- The first quarter alone noted 111,000 square feet of openings, with most of this space delivered in Butler County. The remainder of this year's active pipeline is primarily slated for downtown, with over 350,000 square feet.



VACANCY

110 basis point increase in vacancy Y-O-Y

- Driven by a 240-basis-point rise in Class A availability over the past year, overall metro vacancy rose to 14.1 percent. Availability in the Class B/C segment rose 30 basis points amid the delivery of 190,000 square feet.
- CBD vacancy inched up just 20 basis points to 11.0 percent across the past nine months, after surging 120 basis points in the second quarter of 2021.



RENT

0.7% increase in the average asking rent Y-O-Y

- The average asking rent reached \$14.53 per square foot in March. This nominal climb was fueled by suburban rates increasing 2.7 percent to \$14.00 per square foot.
- Marketed rents in the Class B/C sector grew by 0.8 percent to \$14.15 per square foot, with the segment's average rate approaching the 2019 high.

Investment Highlights

- At \$175 per square foot, Cincinnati reported the highest mean sale price among major Ohio markets during the 12-month period ended in March. Transaction velocity nearly doubled in this span, coinciding with an 8 percent rise in pricing, and a mean cap rate of 7.5 percent. Compared to other Midwest markets, the metro ranks in the middle of the pack in terms of both sale price and cap rate averages.
- Home to a growing cohort of residents age 55 and over, Cincinnati is noting increased demand for health services. In response, investors are acquiring medical office properties in locales with sizable older populations, including Forest Park and Blue Ash. Here, assets trade in the high-\$200 to mid-\$400 per square foot range, depending on vintage and tenant roster.
- An elevated number of trades took place in Eastern Cincinnati along Tri-County Interstate 275 last year. This was followed by the locale reporting the highest first quarter net absorption total among metro submarkets. With mix-use developments underway, the submarket is set to offer office-using companies convenient amenities with a competitive average asking rent of \$13.48 per square foot at the end of March. Additional companies being attracted to the area could spur further transaction activity.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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