INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

RETAIL

Cincinnati Metro Area

2019

Rent Growth Remains Pronounced in Neighboring Kentucky; Local Investors Driving Market Activity

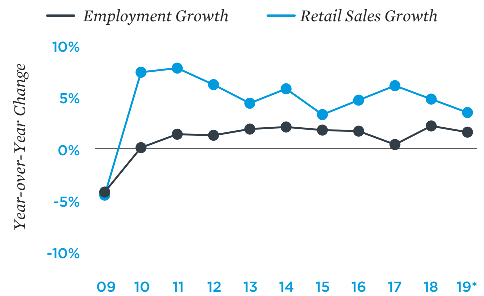
Tightening conditions headlined by several low-vacancy pockets. Steady household formation will underpin another year of strong retail space demand as market vacancy decreases for the eighth time in nine years. Demand is particularly robust in the urban core where vacancy sits in the mid-2 percent band. First-floor retail space in several recently completed apartment projects in Over-the-Rhine should help alleviate some of this pressure, opening up opportunities for retailers struggling to find space near the city center. Furthermore, space availability in North Kentucky will remain limited this year despite the infusion of nearly 400,000 square feet over the past three years. This submarket is expected to receive a sparse amount of construction in 2019, so vacancy will likely stay contracted. Here, tight conditions have prompted substantial rent gains in recent quarters, bringing this area's average asking rent to the highest in the metro and almost $3 per square foot above the market rate.

Northern submarkets garner heightened investor attention. Local buyers remain a dominant force in Cincinnati, accounting for the majority of deal flow while capitalizing on relatively affordable entry costs. Kenwood, Mason and Montgomery were popular targets for these investors, who focused on several strip malls and grocery-anchored strip centers. Here, cap rates reached the upper-7 percent band, 40 to 50 basis points higher than the market average. Buyers with similar criteria yet willing to accept slightly lower yields looked in neighborhoods around Glendale and Springdale, where consumers are drawn to the Tri-County Mall as well as other retail establishments like Costco and Lowe's. Moving farther south, a variety of private investors will remain focused on the urban core. The continued revitalization of the central business district and adjacent neighborhoods presents many value-add opportunities to investors willing to make necessary space and operational improvements.

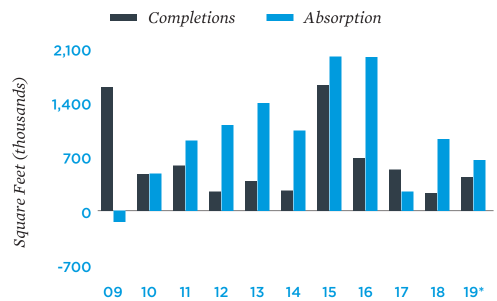
2019 Market Forecast

Employment up 1.6%	Employment growth remains stable in 2019 as 17,500 new workers are staffed. Last year, organizations hired 19,600 employees with an emphasis on retail trade additions.
Construction 436,000 sq. ft.	Outer-ring submarkets witness most of this year's retail development as builders accelerate efforts by almost 65 percent relative to last year.
Vacancy down 20 bps	An uptick in construction is outpaced by substantial absorption, driving market vacancy down to 4.8 percent.
Rent up 4.1%	The average asking rent will rise 4.1 percent in 2019, moving to $12.60 per square foot. Last year, Cincinnati's asking rents receded 2.0 percent.
Investment	The continued transformation of Over-the-Rhine should spark considerably more retail development in the area during the coming years.

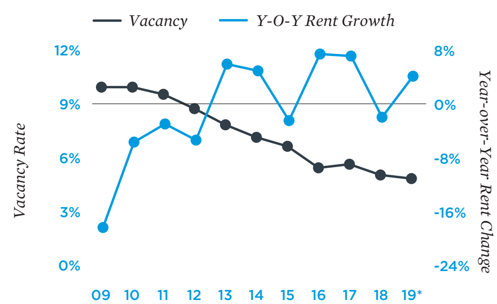
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Scott M. Holmes
Senior Vice President | National Director
(602) 687-6689
scott.holmes@ipausa.com