

INVESTMENT FORECAST

OFFICE
Cincinnati Metro Area

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2020

Research Industry Spurs Resurgence of Office Construction in Metro Suburbs

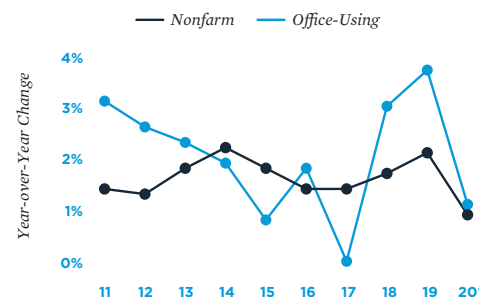
Expanding healthcare services and education industries encourage office development. Tenant demand for suburban Class B/C space outpaces supply, positioning suburban office vacancy in the low-13 percent band, 100 basis points below last year's vacancy rate. As demand permeates outside of downtown, new construction is focused near major employment centers, such as the city's research campuses and hospitals. In the suburb of Evendale, near the GE Aviation headquarters and learning center, the initial 100,000 square feet of AeroHub Innovation District will be delivered this year. The campus will bring together researchers, engineers, and advanced manufacturing businesses. Slightly southeast, in the suburb of Madisonville, 268,000 square feet of the 350,000-square-foot Madison Square development will be delivered in the spring. Medpace, a clinical research firm, initiated the commercial growth of the area, advancing the medical research industry. Its initiative to expand healthcare education, along with AeroHub's plan to educate the millennial workforce on advanced manufacturing and technology, will notably elevate the appeal of office space in the metro's suburbs this year, boosting the metro's overall average asking rent over \$17.00 per square foot.

Low entry costs promote Class B investment in northern suburbs of Cincinnati. Vacancy continues to contract outside of downtown as the lower rent appeals to businesses in this area, and the location is near a plethora of amenities and attractive household demographics. Investors target aged assets along Interstate 71 spanning from downtown to Sycamore, where buildings can be acquired for up to 10 percent less than the market's average price of \$110 per square foot. Marketwide, yields are in the high-7 to mid-8 percent range, slightly above the national average cap rate in the mid-7 percent area. Northern Kentucky also remains an attractive investment market as the area's average cap rate is in the low-9 percent range.

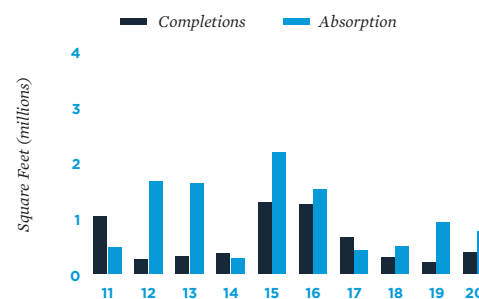
2020 Market Forecast

- Employment**  Hiring will ease to less than half the amount of positions generated last year as 10,000 workers are added to the metro. Nearly a third of job gains will be office-using positions.
up 0.9%
- Construction**  Completions will rise to nearly double last year's amount of deliveries. This is the largest level of completions since 2017.
381,000 sq. ft.
- Vacancy**  Strong leasing activity across the metro will result in a contraction of vacancy to 10.9 percent in 2020. Last year, vacancy declined 80 basis points.
down 50 bps
- Rent**  Following a 5.8 percent lift in 2019, the average asking rent will rise to \$17.40 per square foot this year.
up 1.6%
- Investment**  Listings for downtown office assets are met with multiple bids as Class B inventory is traded at an average sales price in the \$2 million to \$6 million price tranche.

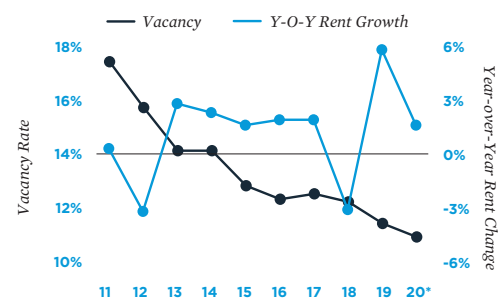
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



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

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.