

RE BUSINESS ONLINE

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Brokerage Outlook: Ohio

Cincinnati Office

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Vitori

What area is your expertise? • I focus on sale/leaseback investments and sales and leasing of office properties in the Greater Cincinnati market with a specialization in suburban properties located in areas with 0 percent local earnings taxes.

What trends do you see presently in office development in your area? • There has been a syndrome of “if you build it they will come” lately in many of the suburban office submarkets. Several new Class A projects have been absorbed surprisingly quickly after being built on speculation. The first new Class A office tower in the Central Business District (CBD) in over a decade is almost full and there is talk of another new tower being proposed downtown. This new development has been ongoing in the face of relatively high office vacancies in many of the Cincinnati submarkets.

Who are the active office developers in your area? • Cincinnati United Contractors — suburban office projects • Duke — suburban office projects • Western & Southern Financial Group — CBD office projects • Al. Neyer — urban infill and redevelopment projects • Neyer Properties — urban infill and redevelopment projects • Miller-Valentine Group — suburban medical offices • Bear Creek Capital — retail anchored office projects

Please name one or two significant office developments in your area. What impact will these projects have on the market? • One development, 303 Broadway, was the first new CBD office tower in a decade. After opening in 2005, the 15-story project is fully leased except for half of one floor. The developer, Western & Southern Financial Group, is proposing a second project based on the success of 303 Broadway.

Where is the majority of development taking place? Why is this area doing well? • The northern suburbs have seen the most significant development activity following the residential growth and the merging of the Cincinnati-Dayton markets. Several new Class A projects along the Interstate 71 corridor of the Norwood area just north of downtown have been absorbed quickly at higher than average rents. This area provides close proximity to downtown and close proximity to upscale urban neighborhoods with ease of parking.

What area do you expect to be the next big development market? Why?• The suburban I-75 corridor further north between Cincinnati and Dayton has seen explosive residential growth followed by significant retail developments. There are now at least four new hospital projects either completed or under way in that market that are obviously drawing a lot of medical users. The West Chester area just north of Cincinnati has seen very strong absorption of new Class A office space and we expect this trend to continue up the Interstate.

What areas are doing well in terms of office leasing? Which areas are struggling with office leasing? • The CBD and midtown markets continue to do well with below average vacancies as does the I-71/Norwood area and the I-75 suburban corridor north of Cincinnati. Above average vacancies are found in the Blue Ash and Mason-Montgomery submarkets. The tri-county submarket north of Cincinnati and the airport office submarket in Northern Kentucky continue to struggle with over 20 percent vacancy.

Please give a measure of office vacancy rates and a measure of available sublease space. • The overall office vacancy is 16 percent for the entire Cincinnati market and ranges from about 12 percent in the CBD and midtown submarkets to 23 percent in the lesser performing suburban submarkets. Just less than 1 million square feet of sublease space is available or about 1.3 percent of total office space.

What impact do current interest rates have on the office market? What predictions do you have for interest rates and their effect on the office market in the next year? • Historically low interest rates continue to drive new construction and investment transactions in the face of high vacancies. My overall economic outlook is for flat to slight growth over a very long period of time with slight peaks and valleys but no significant busts or booms. Interest rates will rise over the short term and stabilize at more realistic levels just above where they are now. I expect interest rates to follow the overall outlook — flat to slight growth for a long, long time. Rising rates will slow new development and pressure many borderline projects plagued by high vacancies.

What is the status of job growth/(un)employment rates and what bearing will it have on the office market?• Growths in office employment and total employment as well have slowed to 0 percent in the last two years in Cincinnati. We will continue to see high vacancies overall.

Is there any type of office tenant absorbing a majority of space? What industries do you expect to expand in the next year to absorb a great deal of office space? What areas will be affected?• Cincinnati is a very diverse Midwest employer. It's tough to target one particular market for job growth beyond typical national trends in service growth overall and medical services in particular.

Would you like to make any additional observations about the office market in your area? • The Eastern Corridor project, which will more directly link Cincinnati to the Eastern suburbs, may have the most significant impact on the future office market if it ever comes to fruition. It will greatly improve access for workers from the east to Cincinnati. The project will also greatly enhance the growth of the eastern submarket.