



Cincinnati Office Market

Leasing Activity Leads to Positive Absorption

After four consecutive quarters of negative absorption, the Cincinnati office market has posted a modest 56,110 square feet of positive absorption for the second quarter of 2021. The vacancy rate also decreased just 10 basis points since the end of first quarter 2021, from 19.9% to 19.8%. This is a welcome sign that the massive downturn brought on by the COVID-19 pandemic is in the rearview mirror and the recovery can begin. These positive signs of a brighter future were primarily driven by a slight uptick in leasing activity as well as the take-back of space that had previously been placed on the market for sublease. The announcement that office employees could return to work and that life could somewhat return to normal is evidence of the remarkable effort by the public/private partnership to not only create a vaccine but also distribute it widely to the general public.

Looking more closely at the details, market activity was primarily in the suburban submarkets where positive absorption of 126,731 square feet was recorded. The Central Business District has continued to suffer as negative 70,621 square feet was recorded, which brought the overall absorption total down to the 56,110 square foot figure. This differentiation of suburbs vs. CBD follows the general trend throughout the pandemic of people wanting to follow social distancing protocols and stay closer to home. There is more space and freedom of movement in suburbia, as compared with the more congested CBD. There has also been a differentiation growing between Class A and Class B spaces with a flight to quality made possible by owners of better buildings offering concessions to fill vacancies and maintain occupancy with aggressive renewal

Current Conditions

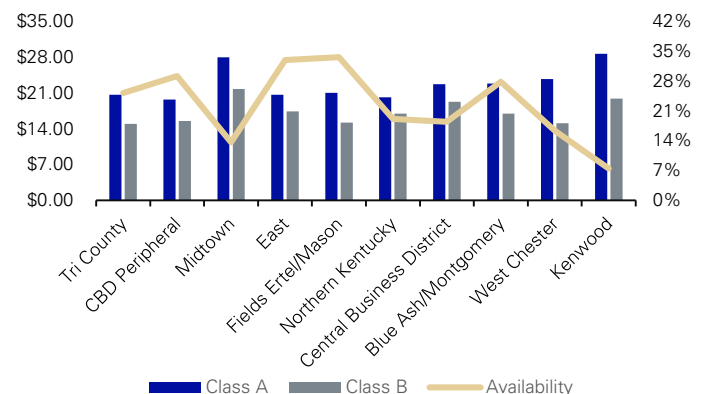
- The downturn caused by COVID-19 appears to have bottomed out with the first positive absorption recorded since Q1 2020.
- There was a large difference in the absorption amounts for Class A vs. Class B buildings. Class A absorption was nearly 200,000 square feet, while Class B space was still being vacated resulting in a negative 137,641 square feet.
- Generally speaking, the suburban submarkets fared better than the CBD, as Class B buildings in the CBD accounted for over 100,000 square feet of negative absorption.
- There is very little new construction underway, with the 150,000 square foot 505 Vine St. being the only major building currently under construction.
- There is demand for buildings that can be purchased, with several notable sales recorded during the quarter.

proposals. Tenants have noted the trend and have been taking advantage to upgrade their surroundings. Asking rental rates have already begun to reflect these trends with a \$0.05/SF increase over the first quarter, from \$19.52/SF to \$19.57/SF.

Moving forward, expect the recovery to continue for the higher-quality buildings, and the upward trends will eventually spill into the CBD as confidence rises that the pandemic is over. The question will be what to do with the lesser quality spaces now that remote working and shared work spaces have significantly reduced demand. Where possible, there will be conversions to residential space, as seen in the recent announcement of the redevelopment of 134 and 144 Merchant Street in Springdale by Vandercar Holdings and WP Land Company. This project involves converting 180,000 square feet of office space into 131 one- and two-bedroom apartments.

Market Analysis

ASKING RENT AND AVAILABILITY



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	36.6M	36.9M	36.5M	↑
Availability Rate	22.0%	21.7%	18.6%	↓
Vacancy Rate	19.8%	19.9%	17.3%	↓
Average Asking Rent/SF	\$19.51	\$19.52	\$19.35	↓
Quarterly Net Absorption	56,110	(141,984)	52,312	↑

RESEARCH Q2 2021

Lease Activity

The largest leasing transaction in second quarter 2021 was the 17,301-square-foot expansion of Katz Teller at the First Financial Center in the CBD submarket.

Restaurant Management Inc also subleased half of the Passport USA space in Cornerstone at Norwood II, which is in the Midtown submarket.

Sale Activity

Rasameel Investments purchased the 386,500-square-foot Bon Secours Mercy Health building for \$100.0 million, which was the largest purchase in Hamilton County since 2016. This building is fully leased to Bon Secours Mercy Health for 14 more years, so it was seen as a very stable investment for the buyer.

135 Courthouse Crossing was another medical office building that was acquired in the second quarter. These transactions are evidence of the demand for stable investments, even when the office market as a whole has been suffering .

Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Katz Teller	First Financial Center	CBD	Expansion	17,301
Restaurant Management Inc.	4000 Smith Rd.	Midtown	Sublease	10,000
Advanced Technology Consulting Inc.	Liberty Center	West Chester	New	7,000

Sale Transactions

Buyer	Building	Submarket	Price	Square Feet
Rasameel Investments	Bon Secours Mercy Health	Midtown	\$100,000,000	386,500
Red Devil Investments Kenwood LLC	Fountains of Mason	Mason	\$3,100,000	60,600
Time Equities	4243 Hunt Rd	Blue Ash	\$1,810,000	49,131
North Kentucky Medical	135 Courthouse Crossing	NKY	\$4,500,000	12,400

Class A Submarket Statistics							
Submarket	Total Inventory (SF)	Availability Rate / Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Asking Rent (SF)	Net Absorption	YTD Absorption
Blue Ash/Montgomery	2,870,256	28.3%/17.8%	811,830	41,686	\$22.81	(5,252)	(26,829)
CBD	6,970,746	15.9%/15.8%	1,105,084	77,312	\$22.71	(69,192)	(39,007)
CBD Peripheral	849,963	36.8%/36.8%	386,534	0	\$19.72	104,079	102,818
East	332,087	11.3%/10.4%	37,650	11,063	\$20.64	(11,063)	(18,825)
Fields Ertel/ Mason	1,743,593	36.6%/26.4%	637,497	132,480	\$21.02	77,776	64,037
Kenwood	996,623	5.8%/4.4%	57,948	11,549	\$28.64	(7,966)	(5,441)
Midtown	1,943,198	15.2%/10.4%	294,777	167,814	\$27.94	58,104	(43,872)
Northern Kentucky	3,007,065	23.8%/20.8%	714,369	120,470	\$20.18	4,966	26,206
Tri County	1,001,572	13.8%/14.2%	137,824	11,911	\$20.66	0	(11,911)
West Chester	1,404,626	15.7%/15.7%	220,556	0	\$23.69	42,299	36,221
Class A Total	21,119,729	20.5%/17.3%	4,330,064	574,285	\$22.12	193,751	83,397

Class B Submarket Statistics							
Submarket	Total Inventory (SF)	Availability Rate / Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Asking Rent (SF)	Net Absorption	YTD Absorption
Blue Ash/Montgomery	2,588,749	27.2%/24.6%	704,590	47,435	\$16.93	(52,102)	(76,679)
CBD	4,474,701	22.4%/25.5%	1,001,014	53,665	\$19.28	(100,833)	(125,856)
CBD Peripheral	1,091,806	23.3%/23.3%	254,685	0	\$15.54	(4,675)	(1,885)
East	1,036,020	39.9%/37.2%	412,855	0	\$17.38	5,911	7,899
Fields Ertel/ Mason	952,080	28.2%/19.7%	267,417	2,768	\$15.21	(3,653)	(12,189)
Kenwood	383,803	11.8%/8.4%	45,166	0	\$19.89	653	6,646
Midtown	538,259	7.8%/8.0%	42,207	2,164	\$21.76	(7,025)	(7,360)
Northern Kentucky	1,438,310	9.2%/7.8%	132,768	0	\$16.95	16,567	11,183
Tri County	2,797,497	29.2%/27.7%	817,741	3,950	\$14.93	7,516	43,519
West Chester	197,409	20.8%/23.8%	41,092	0	\$15.06	0	13,391
Class B Total	15,528,670	24.0%/23.3%	3,729,855	109,982	\$17.00	(137,641)	(141,331)
Grand Total	36,648,399	22.0%/19.8%	8,059,919	684,267	\$19.51	56,110	(57,934)

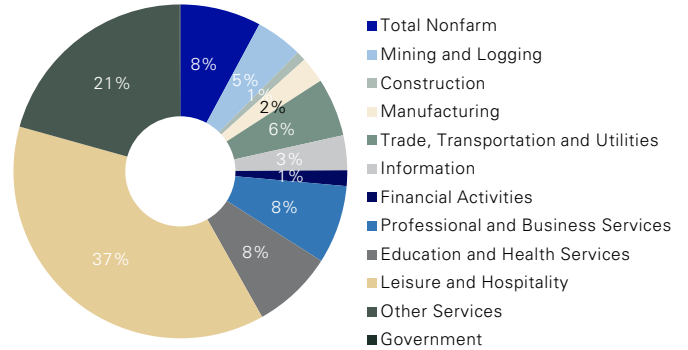
Economic Conditions

The Cincinnati Metro’s economic conditions began a massive swing to recovery, along with the rest of the country, in April and May of 2021. The rate of change in employment has finally swung back to positive after being negative since March 2020. The largest gains were made in the leisure and hospitality, as well as other service industry classifications as businesses rush to reopen and provide food, lodging and entertainment related services to the travel industry, which is poised to make a massive recovery this summer.

The Consumer Price Index has begun to reflect the influx of cash into the economy with prices beginning to rise rapidly, with overwhelming demand and continued issues with the supply chain keeping up.

Employment by Industry

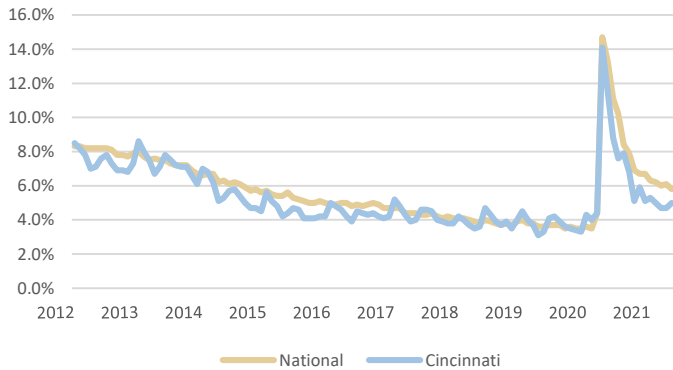
CINCINNATI – May ,2021



U.S. Bureau of Labor Statistics

Unemployment Rate

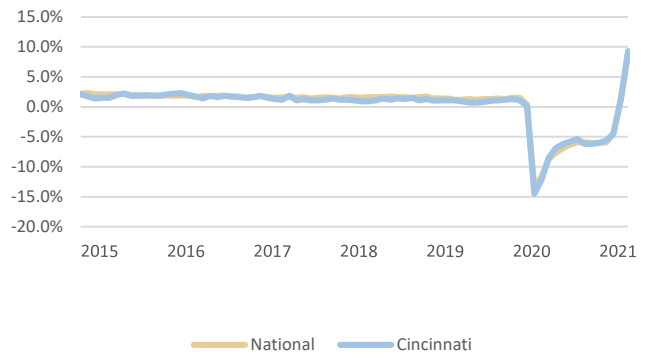
NOT SEASONALLY ADJUSTED



*U.S. Bureau of Labor Statistics

Payroll Employment

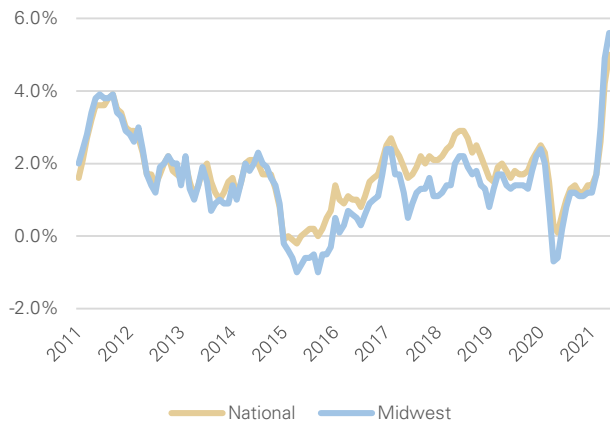
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

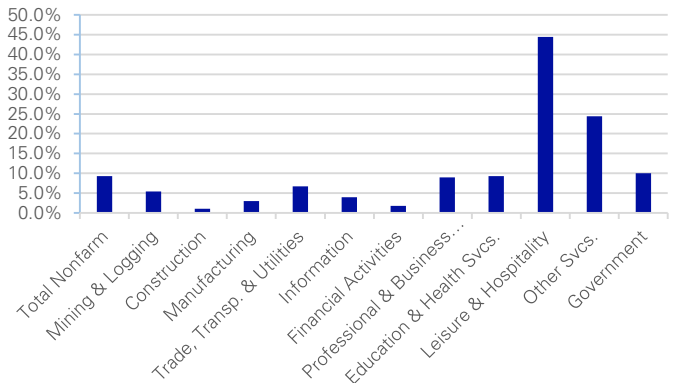
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



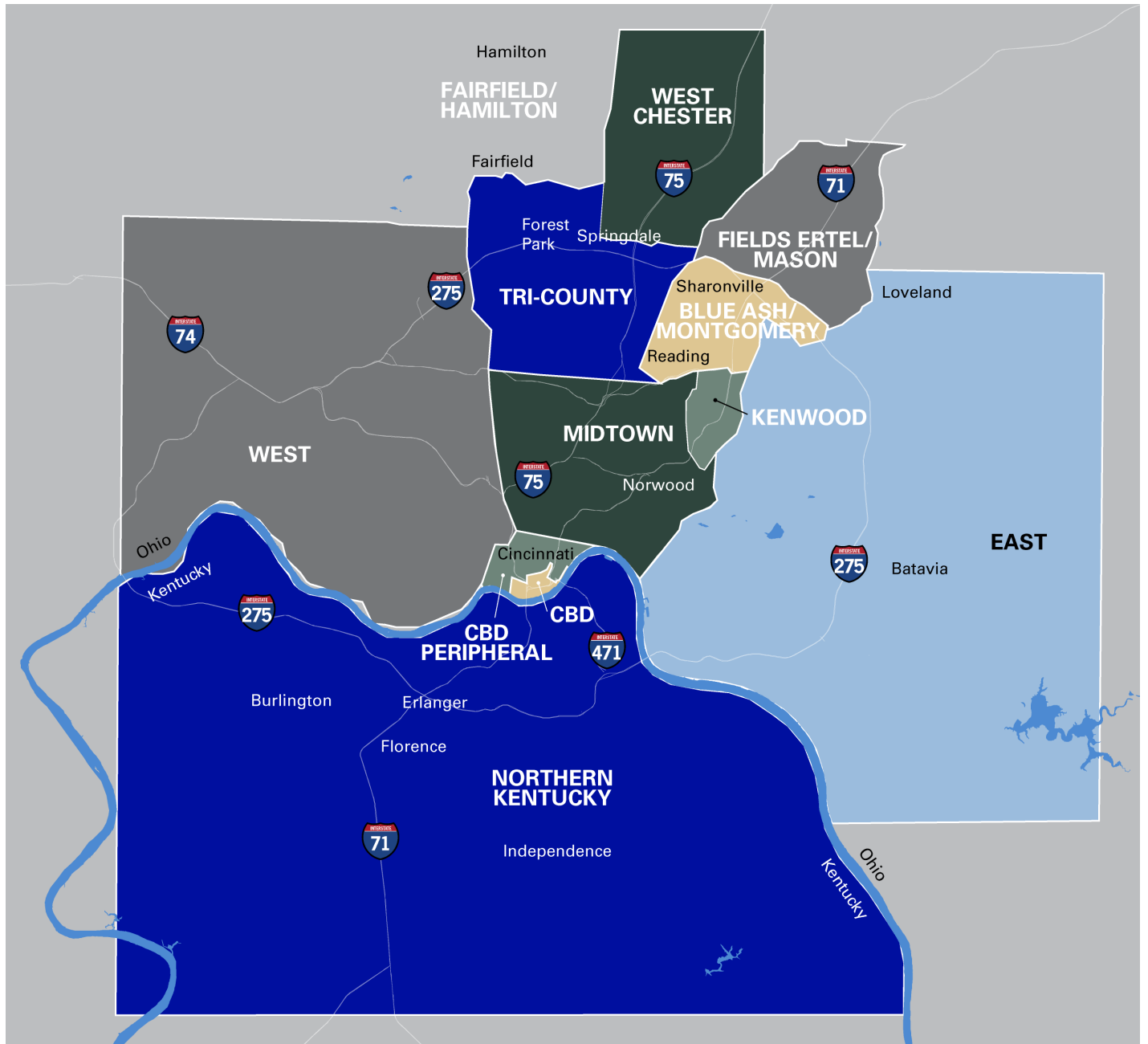
*U.S. Bureau of Labor Statistics

Employment Growth By Industry

CINCINNATI, MAY 2021, 12-MONTH % CHANGE NOT SEASONALLY ADJUSTED



U.S. Bureau of Labor Statistics



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