

3Q23

Cincinnati Office Market Overview

NEWMARK

Market Observations

Economy

- The region’s labor market remained strong amid shifting macroeconomic conditions. Cincinnati’s 3.1% unemployment rate was slightly lower than the 3.8% United States average.
- Year- over- year, 8 sectors saw positive employment growth while 3 saw negative growth. Leisure/hospitality led all sectors in job gains at 10.8% during the past 12 months.
- Locally, employment growth across all office-occupying sectors is down year-over-year from 281.5 thousand to 279.1 thousand in the third quarter of 2023. Numbers continue to improve year- over- year for both office-using employment and unemployment.

Major Transactions

- There were several noteworthy leases that stood out in the third quarter of 2023.
- MegaCorp leased 40,000 SF at 200 W 3rd St., located in the Northern Kentucky submarket.
- Department of Veteran Affairs leased 19,412 SF at 4605 Duke Dr., located in the Fields Ertel/Mason submarket.
- Luxottica moved out of 316,303 SF at 4000 Luxottica Pl., located in the Fields Ertel/Mason submarket.
- Mercy Health vacated 92,938 SF at 4600 McAuley Pl., located in the Blue Ash/Montgomery submarket.

Leasing Market Fundamentals

- Absorption in the third quarter of 2023 totaled negative 366,555 SF. This was a - 407.74% decrease from the second quarter of 2023.
- The 85,000 SF in the construction pipeline trended downward for the second consecutive quarter due to completions in the construction pipeline. One new project located at OneNKY Center in the Northern Kentucky submarket began construction in the third quarter.
- Vacancy and rents both increased year over year. Vacancy slightly increased to 26.0% as deliveries modestly outpaced absorption. The availability rate in Greater Cincinnati is currently at 29.0%.
- Sublease space continues to increase quarter- over- quarter.

Outlook

- Demand remains uncertain for owners and investors as employers grapple with the right office size to accommodate changing hybrid and remote work schedules.
- Absorption will continue to be challenged as contractions offset expansion.
- Owners with maturing mortgages face financing challenges from increased interest rates and decreased NOI.
- Municipalities and school districts will be impacted by reduced real estate tax revenue as more office owners appeal valuations to reflect increased vacancy.
- Availability indicators signal continued increase in vacancy.

1. Economy
2. Leasing Market Fundamentals

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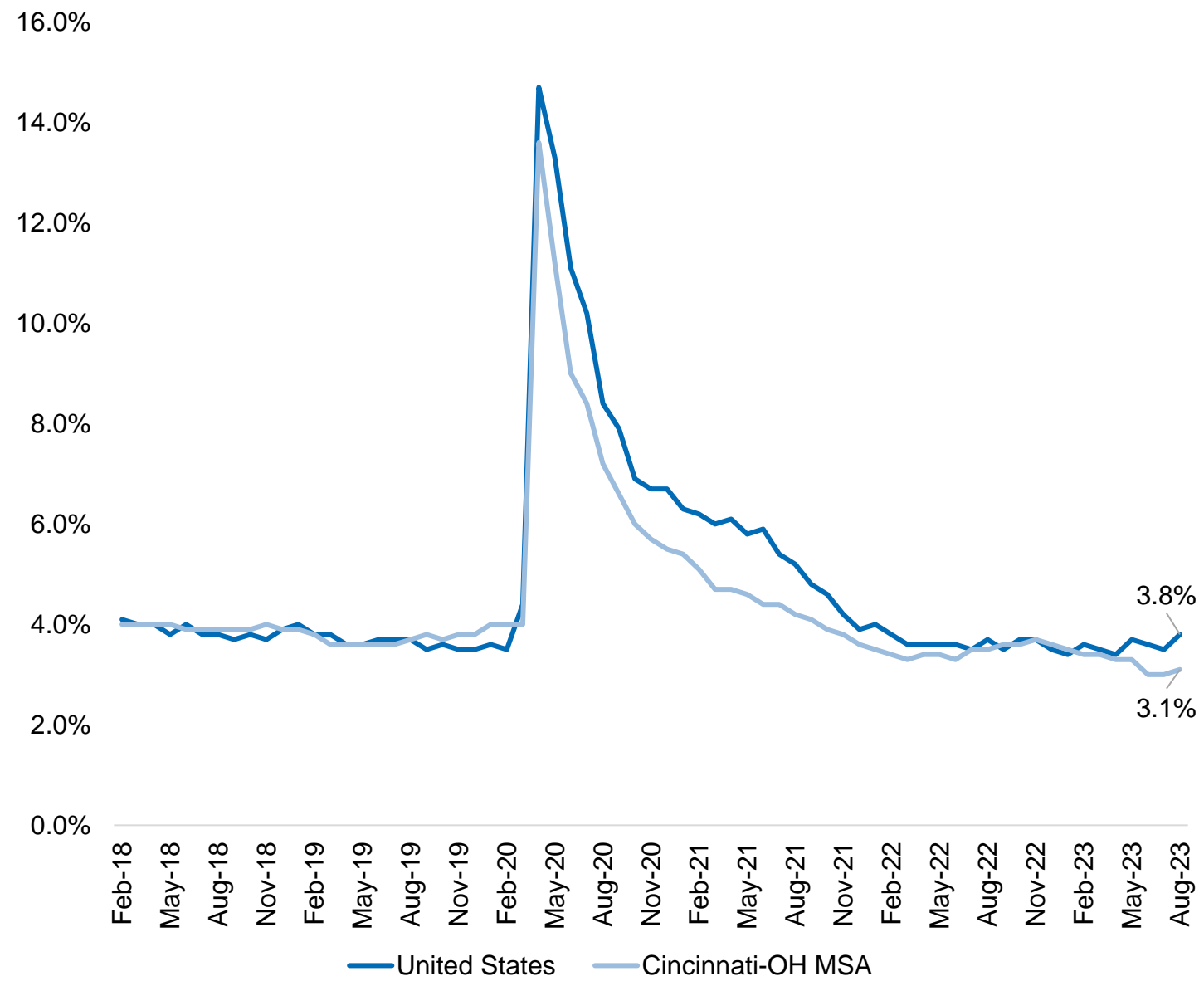
Economy



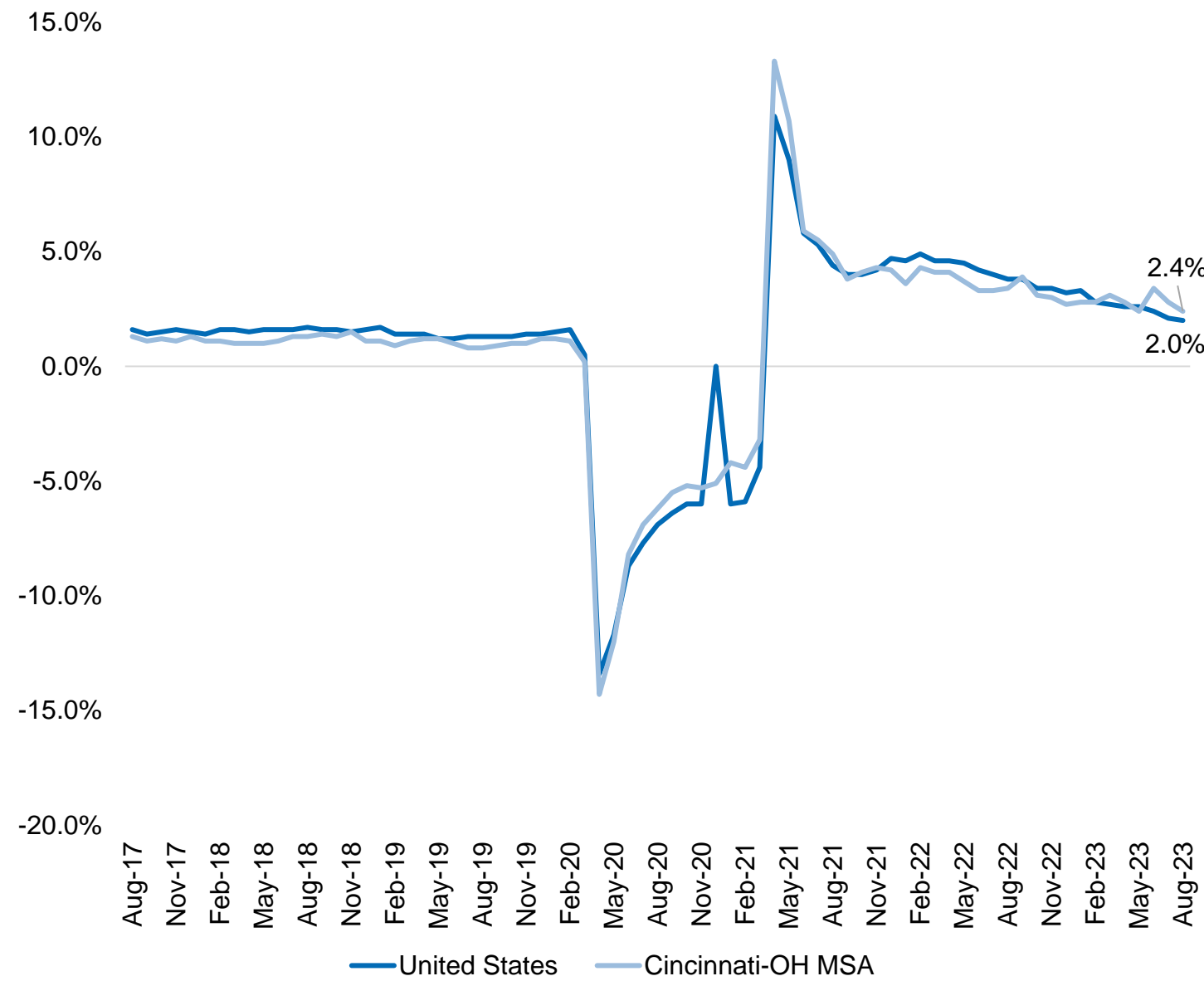
Unemployment Rate in Cincinnati Continues to Stay Consistent with the U.S. Average

The unemployment rate in Cincinnati is 3.1%, and the U.S. average is 3.8%, for the third quarter of 2023. Year-over-year, there was a 0.4% decrease for Cincinnati, and the United States average increased by 0.1%. Nonfarm payroll employment decreased year-over-year from 3.4% to 2.4% in Cincinnati, while the United States average decreased from 3.8% to 2.0%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

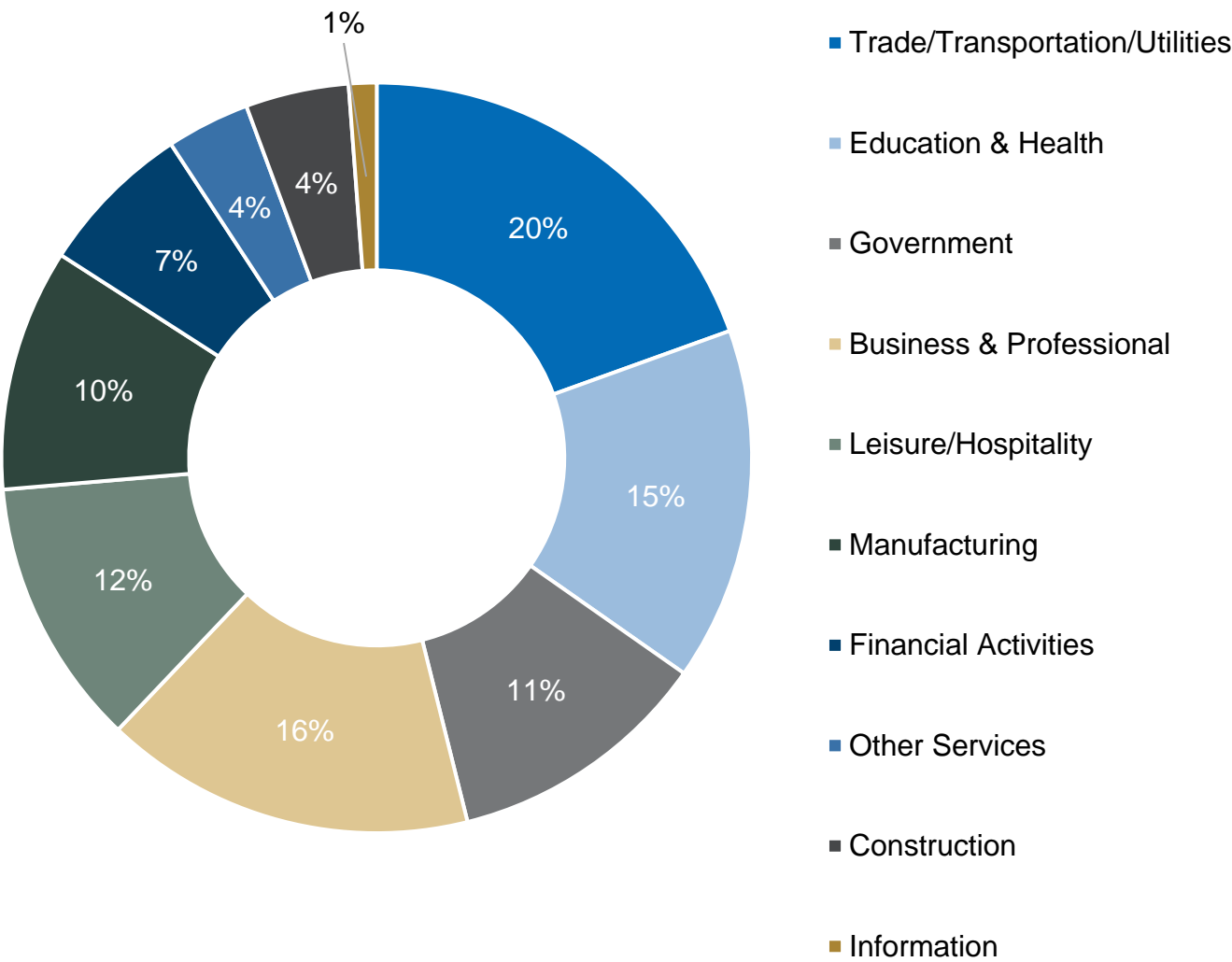


Source: U.S. Bureau of Labor Statistics, Cincinnati, OH-KY-IN

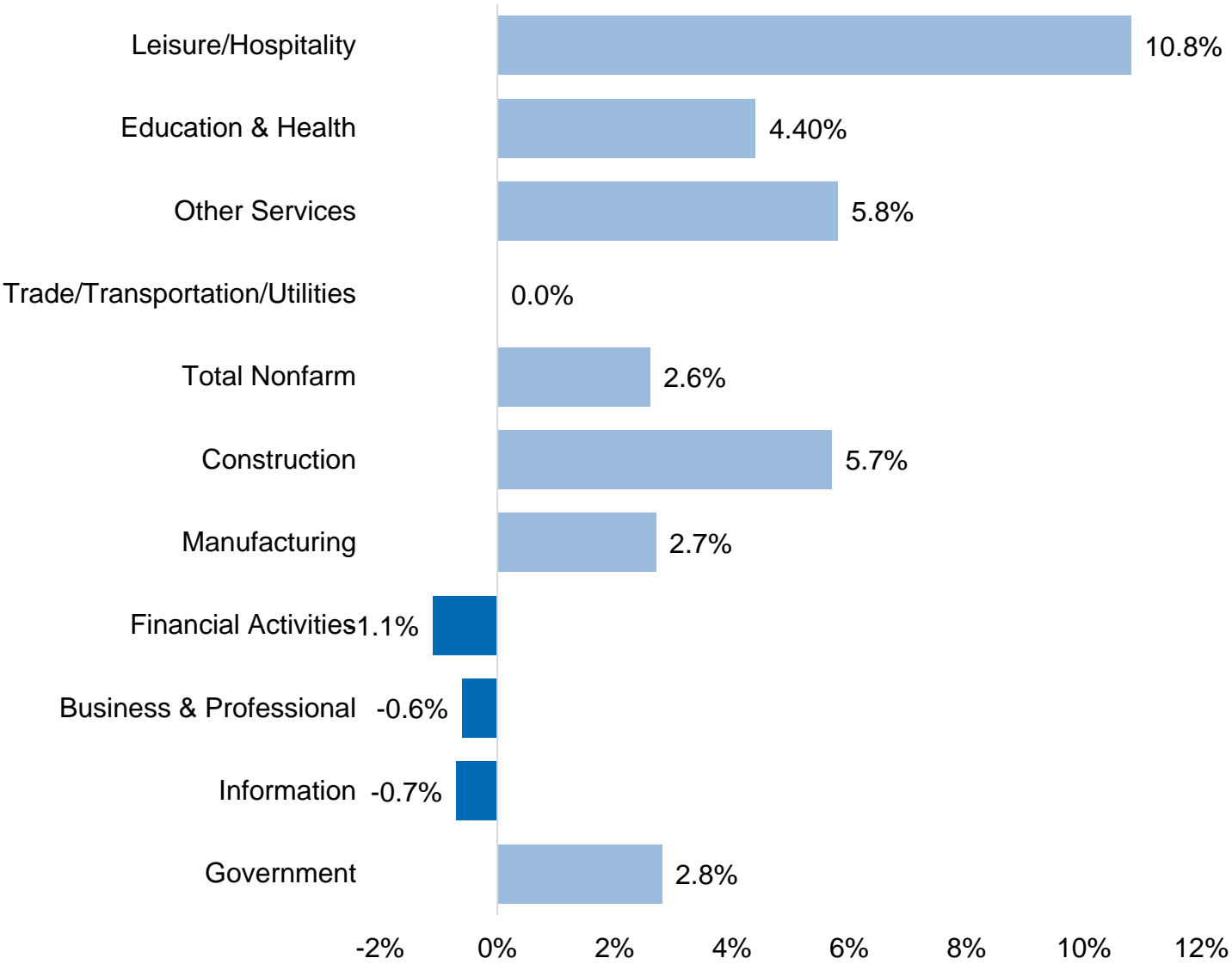
Trade/Transportation/Utilities Leading Employment Sector

The leisure/hospitality sector led all industries in regional annual job growth at 10.8%, while the other services sector followed next behind at 5.8%. The financial activities sector saw the greatest loss at -1.1%.

Employment by Industry, August 2023



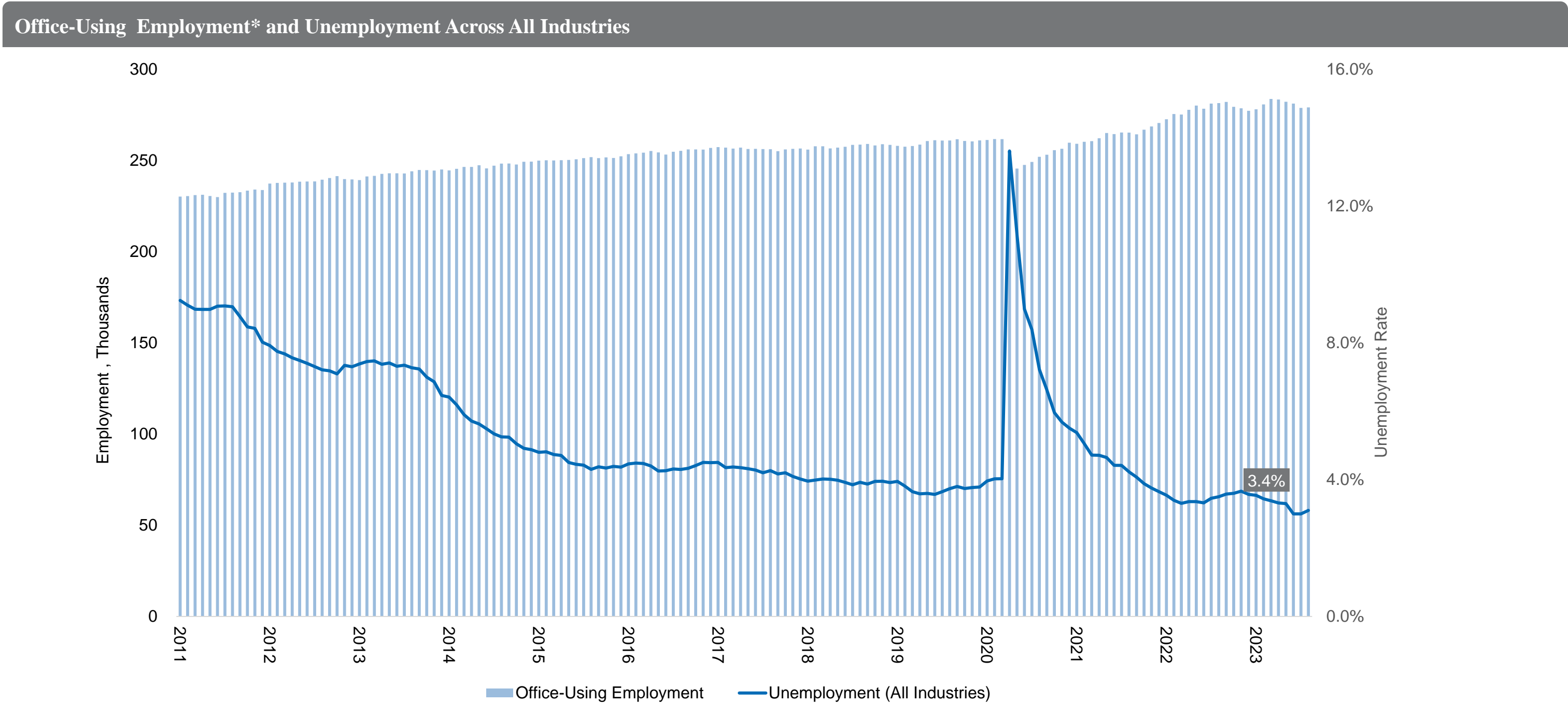
Employment Growth by Industry, 12-Month % Change, August 2023



Source: U.S. Bureau of Labor Statistics, Cincinnati, OH-KY-IN

Overall Office-Using Unemployment at 3.1%

The number of office jobs is up to 279.1 thousand. Unemployment for overall office-using across all industries is down to 3.1%. Numbers continue to improve year-over-year for both office-using employment and unemployment.



Source: U.S. Bureau of Labor Statistics, Cincinnati, OH-KY-IN
Note: February 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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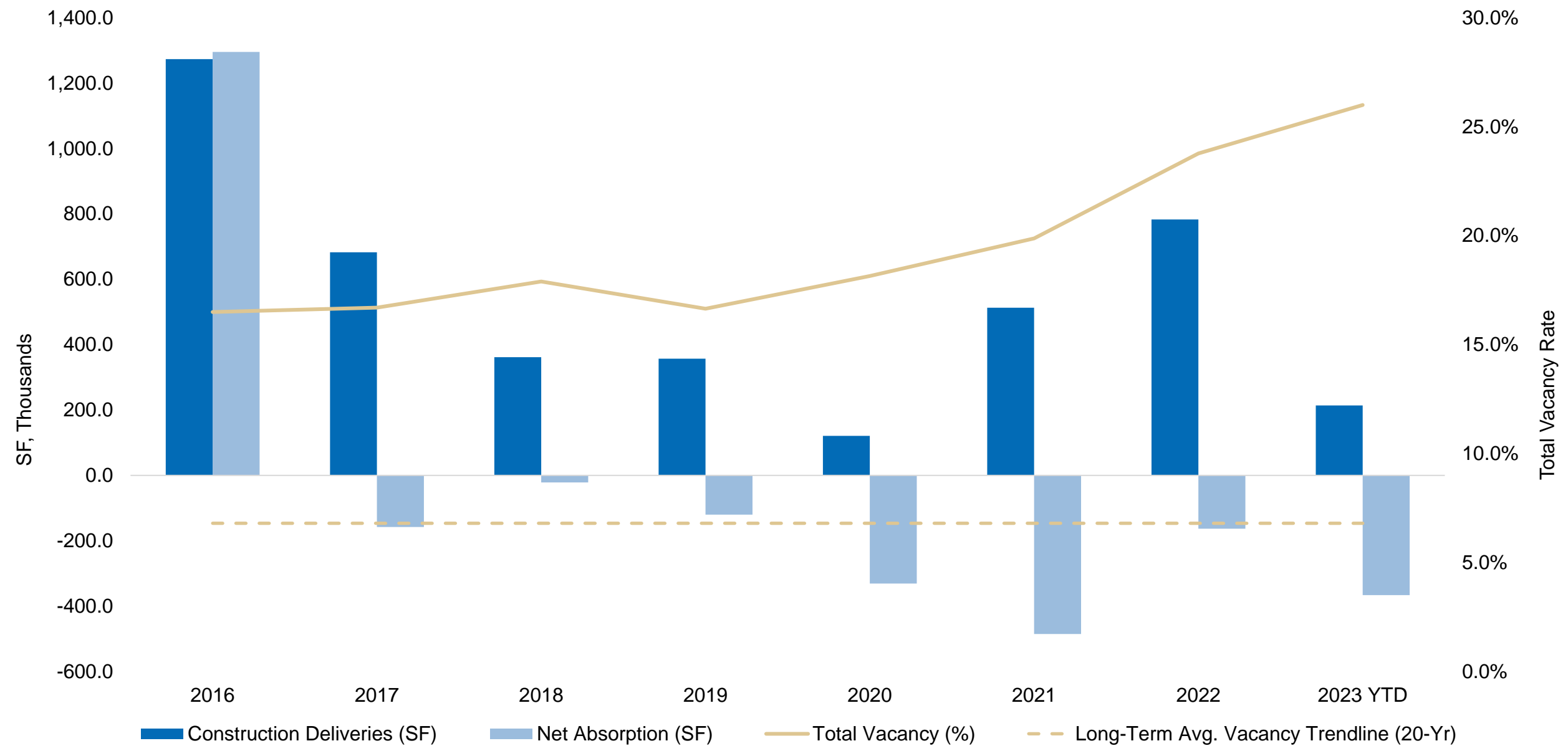
Leasing Market Fundamentals



Vacancy Remains the Same as Construction Deliveries Outpace Net Absorption

The vacancy rate slightly increased from 25.5% in the second quarter of 2023 to 26.0% in the third quarter of 2023. Vacancy is expected to continue to rise over the next few quarters as the economy slows. Year-to-date absorption is currently at negative 366,555 SF in the third quarter of 2023.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Class A Submarket Statistics Overview

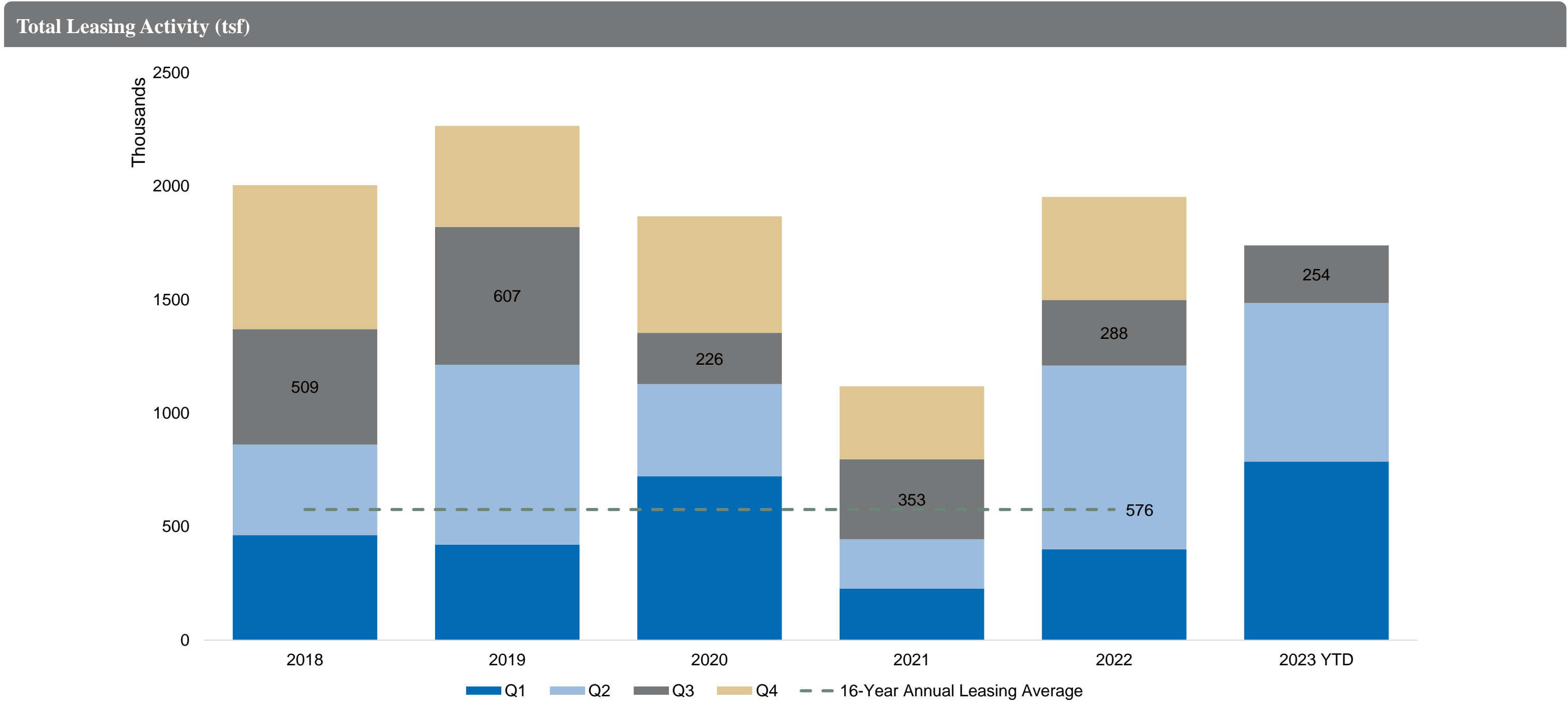
Please reach out to your
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Class B Submarket Statistics Overview

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Leasing Activity Slightly Lower in the 3Q23 than 2Q23

In the third quarter of 2023 there was 253,853 SF of leasing activity. This is significantly less than in second quarter of 2023 which had 699,002 SF of leasing activity.

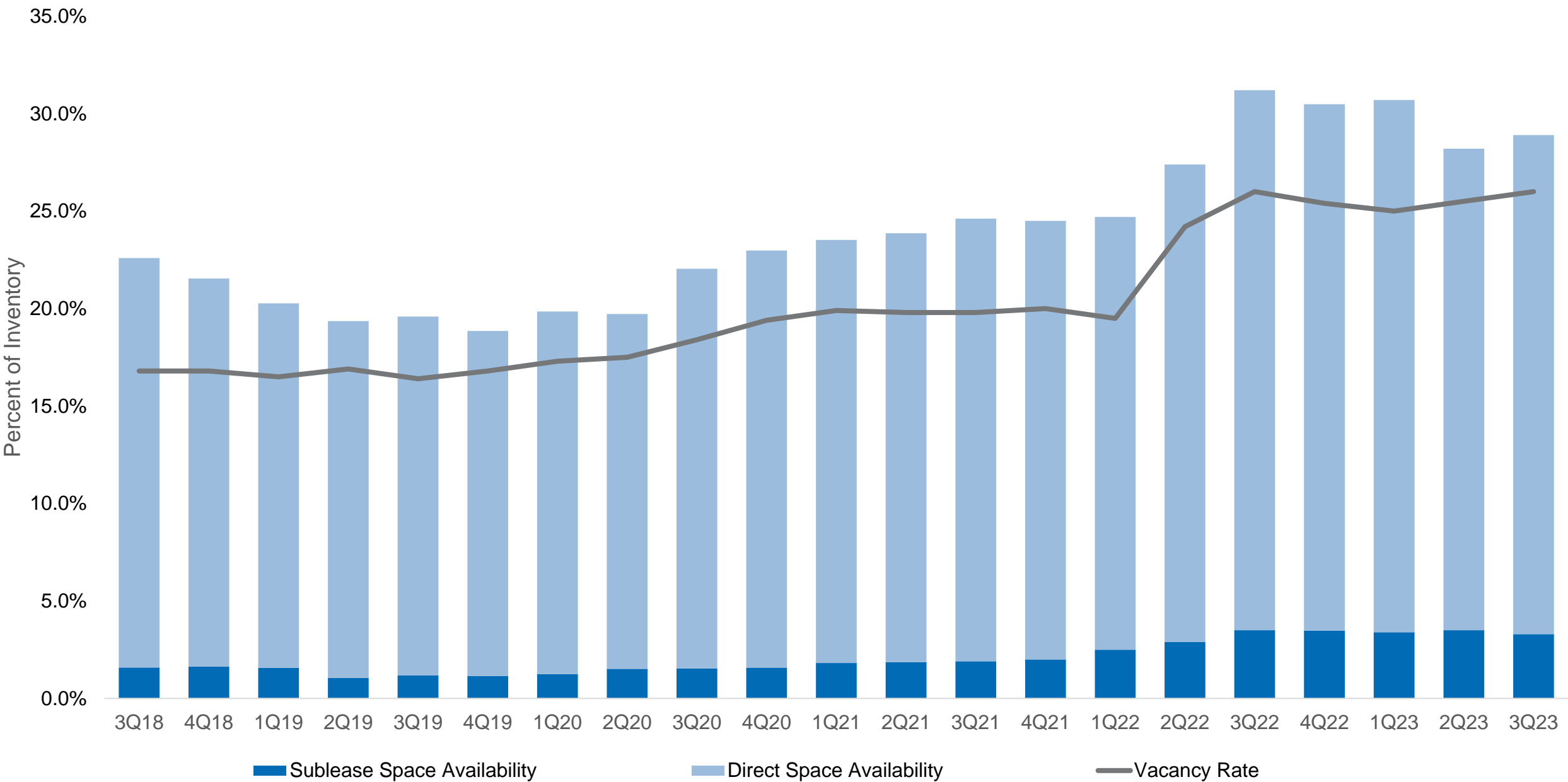


Source: Newmark Research, CoStar

Overall Availability and Vacancy Continue to Slightly Increase

Direct space availability increased from 24.7% in the second quarter of 2023 to 25.6% in the third quarter of 2023. Sublease space availability saw a slight decrease, going from 3.5% in the second quarter of 2023 to 3.3% in the third quarter of 2023.

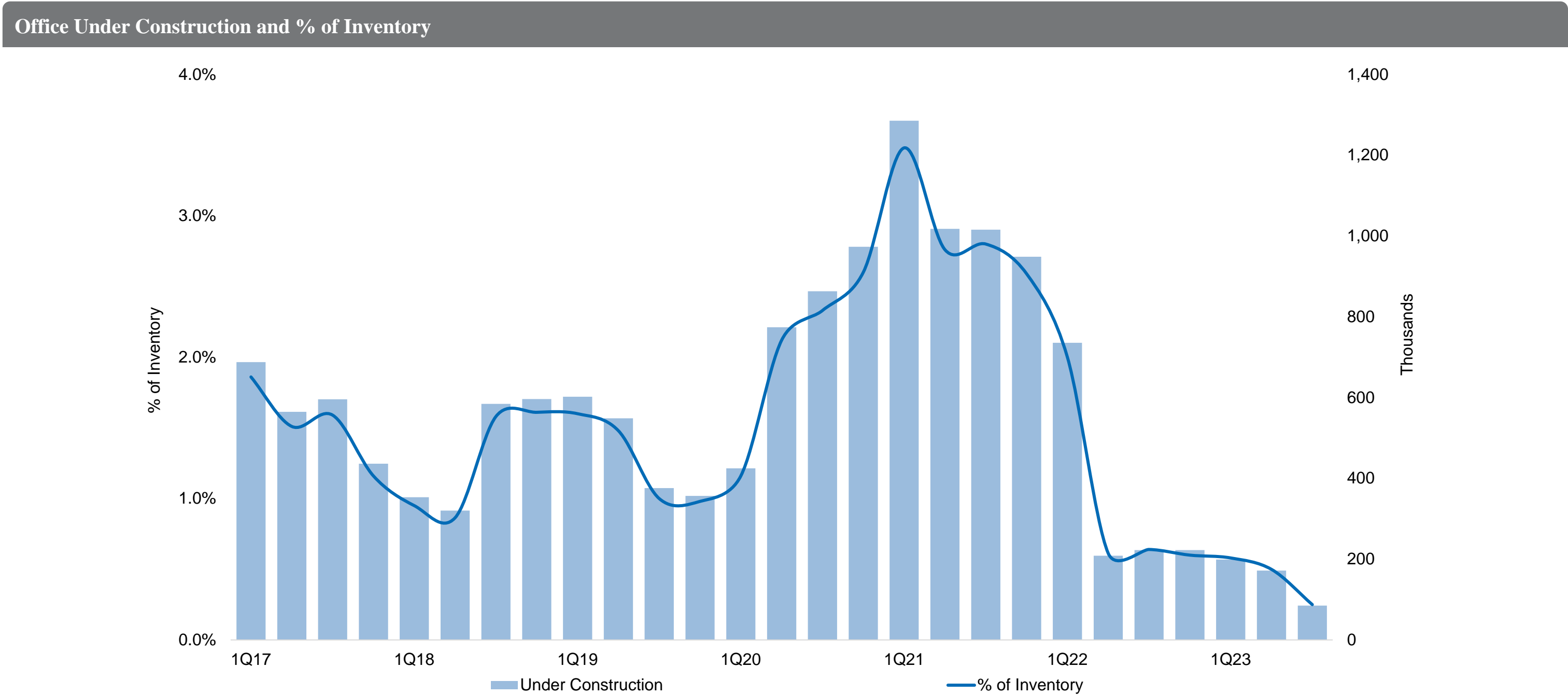
Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

Minimal Overall Construction in Greater Cincinnati

There are only a small number of buildings under construction in Greater Cincinnati with most of the square footage coming from OneNKY Center which broke ground this quarter in the Northern Kentucky submarket. This is a 43,000-SF spec building located at the foot of the Roebling Suspension Bridge planning to house several economic development agencies.

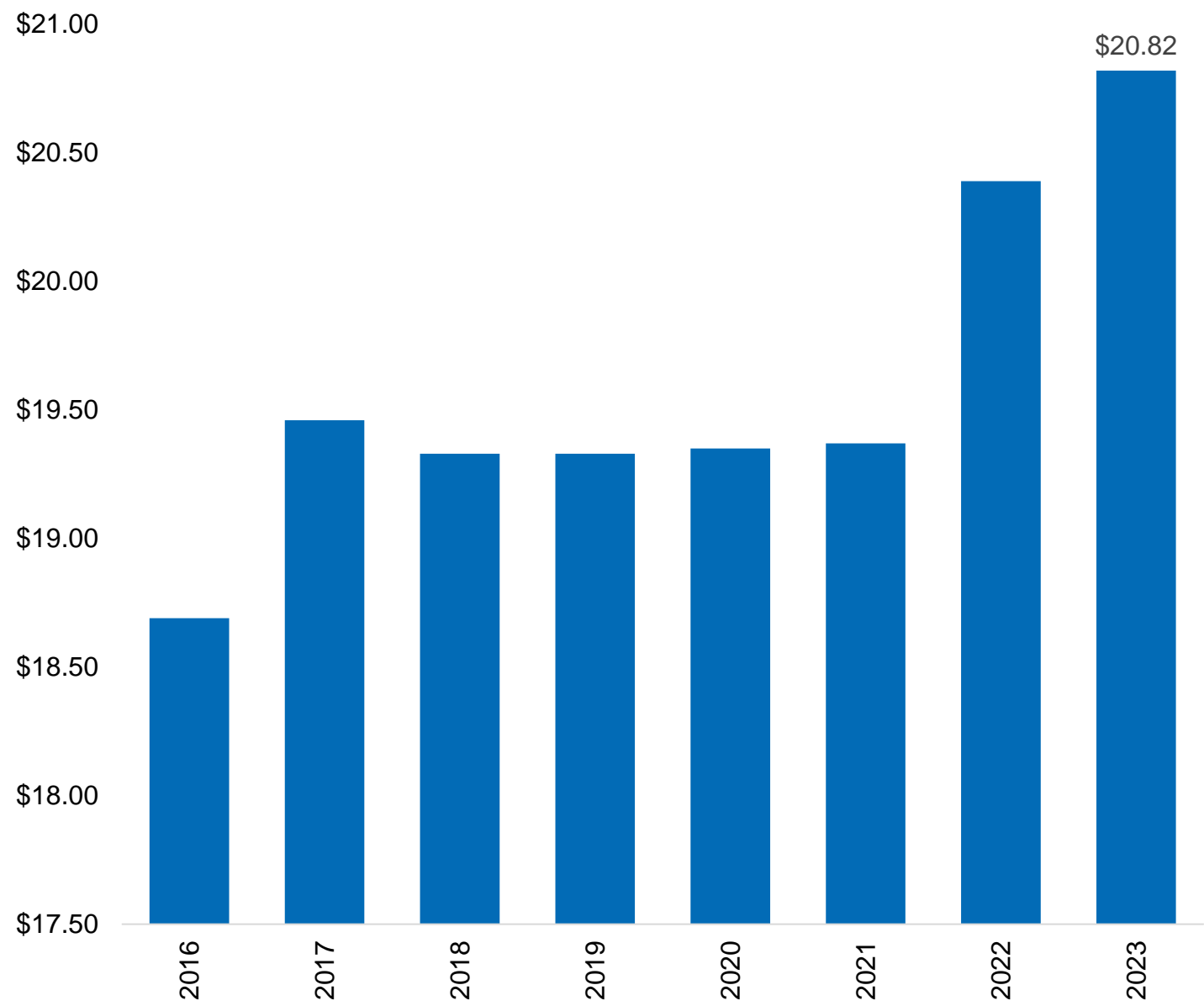


Source: Newmark Research, CoStar, City of Cincinnati

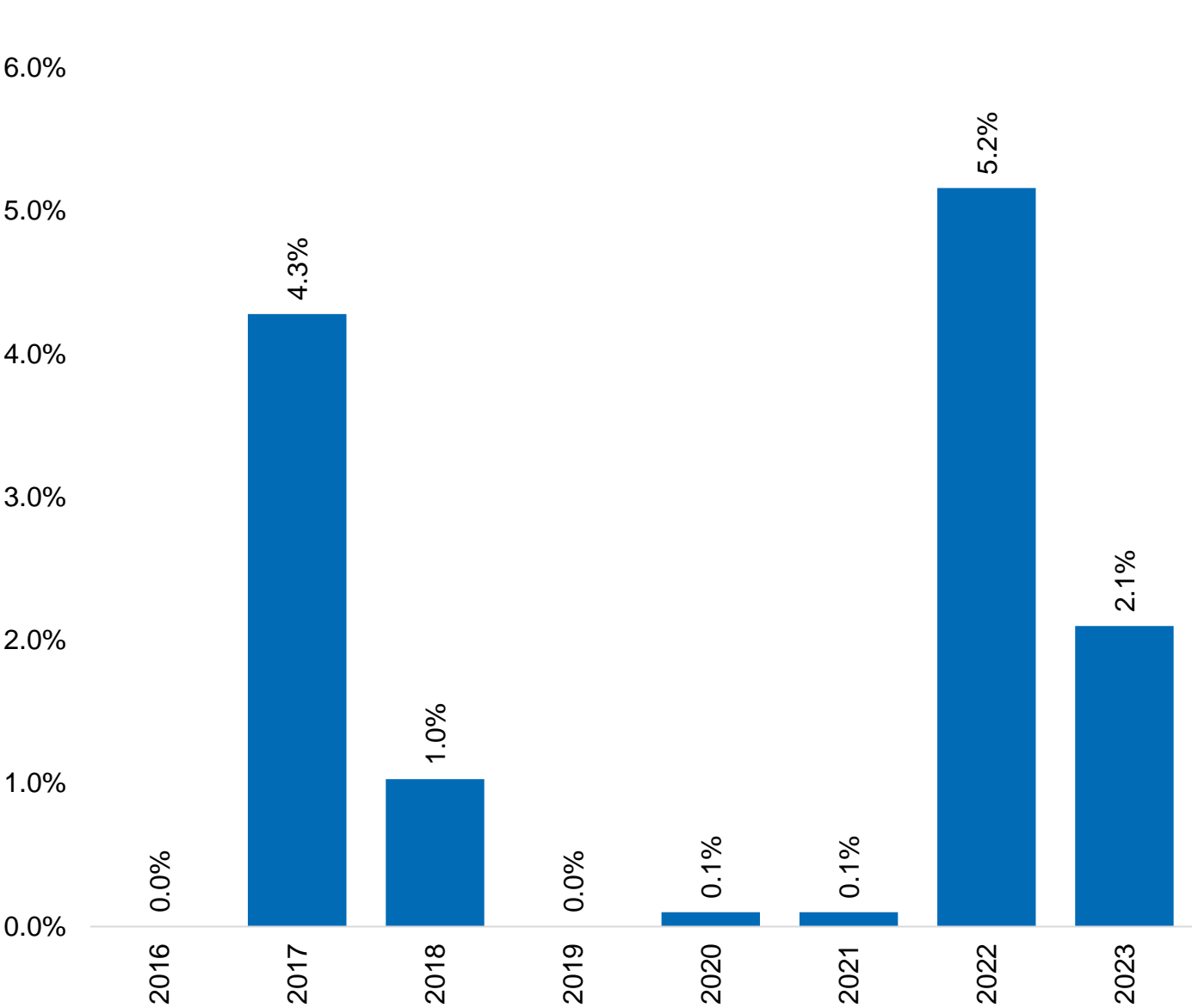
Rents Continue to Climb

Overall asking rates increased this quarter, putting the year-over-year rent growth rate at 2.1%.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

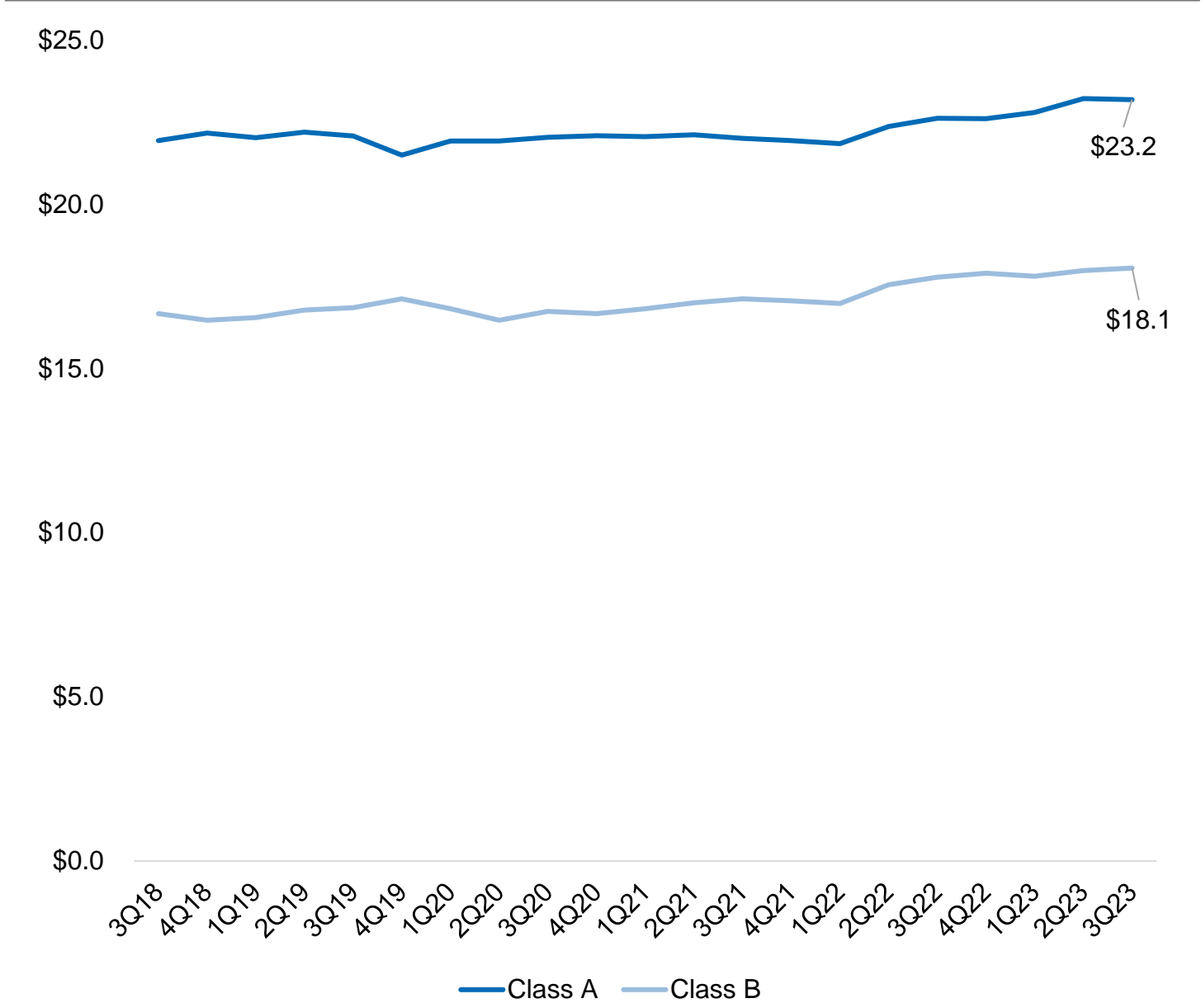


Source: Newmark Research, CoStar

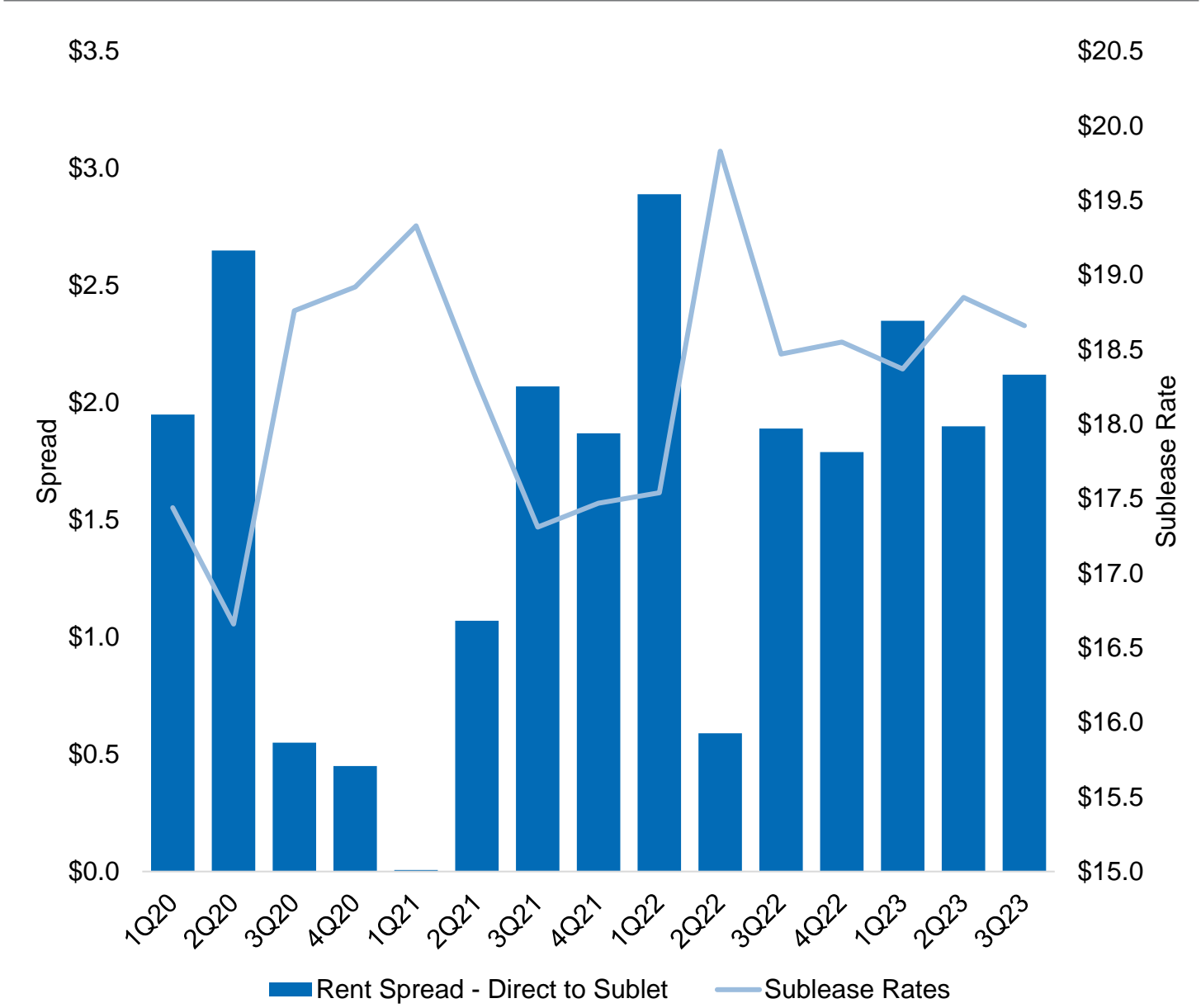
Asking Rents Continue to Increase Over Time

Class A and Class B asking rates both continue to increase over time. Sublease rates decreased slightly from \$18.9/SF to \$18.7/SF quarter- over- quarter.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Continues to Slow

There were several noteworthy leases that stood out this past quarter as well as a large move-out. The Greater Cincinnati market leasing activity continued to slow in the third quarter of 2023, posting negative 366,555 SF of absorption. This brings year-to-date net absorption to negative 460,093 SF.

Notable 2Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
MegaCorp	200 W 3 rd St.	Northern Kentucky	Direct Lease	40,000
Department of Veteran Affairs	4605 Duke Dr.	Fields Ertel/Mason	Direct Lease	19,412
ElitAire	4270 Glendale Milford Rd.	Blue Ash/Montgomery	Direct Lease	15,587
Azelis	9025 Centre Pointe Dr.	West Chester	Direct Lease	13,668
Alphabet of Mason	7288 Central Parke Blvd.	Fields Ertel/Mason	Direct Lease	13,316

Source: Newmark Research

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