

# OHIO VALLEY

Q1 2021

## MARKET OVERVIEW

The Cincinnati metropolitan area includes parts of southwest Ohio, southeast Indiana, and northern Kentucky. This region is known for its tourism, agriculture, manufacturing, and healthcare industries.

Cincinnati is Ohio's largest metropolitan area with a population of over 2.2 million, represented by sixteen counties; four of which are located in Indiana and seven that are located in Northern Kentucky. The area is also listed among the top five fastest growing cities in the Midwest.

Home to three major sports teams and the University of Cincinnati, Xavier University and Northern Kentucky University, the city has several significant companies headquartered there such as Procter & Gamble (10,000), and Kroger (21,263) which is the largest employer in the city. Other major employers include: General Electric (10,500), University of Cincinnati (10,551), and Fifth Third Bank (7,496). The most recent addition is the Amazon Air Hub at Cincinnati/Northern Kentucky International Airport (CVG) located in Hebron Kentucky. Cincinnati also has 63,376 healthcare workers across six health networks, including Cincinnati Children's Hospital which ranks as the third best children's hospital by U.S. News & World Report 2019-20. According to REDI Cincinnati, the city also has more Fortune 500 companies per capita than New York, Los Angeles or Chicago and boasts the lowest business operating costs among US metro areas.

The city made it to the top 10 category of The New York Times list of 52 Best Places to Go. This list considers destinations around the world, making it a prestigious list to be a part of. The city has a host of amenities, including five entertainment districts. These districts include: Over-the-Rhine, The Banks Entertainment District, Fountain Square, Arts & Backstage District, and JACK Casino. Multiple award-winning hotels. The 21c Museum Hotel was listed as the #1 Hotel in America in Condé Nast Traveler's "Reader's Choice Awards" and The Cincinnati Hotel was ranked as Travel + Leisure's World's Best Business Hotel with a AAA 4 diamond rating (Cincinnati USA). The city's 5,000 acres of parkland and 16 scenic overlooks add to its enchantment along with its hiking and bridle trails comprising 65 miles (Cincinnati USA). Cincinnati is also home to multiple museums, including the Cincinnati Museum Center at Union Terminal. The Center houses the Cincinnati History Museum, Museum of Natural History & Science, Due Energy Children's Museum, Robert D. Lindner Family OMNIMAX Theater, and Nancy and David Wolf Holocaust and Humanity Center.

According to REIS, like other cities such as Cleveland, Detroit and Chicago, Cincinnati was among the top ten places losing residents due to COVID. Cincinnati lost close to 180,000 jobs at the beginning of the pandemic which were primarily within the leisure and hospitality sector. Job growth improved in Q4 2020 by 1.9% compared to 1.4% nationwide and has gained back roughly 120,000 jobs. Looking forward into 2021, Moody's Analytics forecast anticipates a 2% increase in jobs in 2021 and 2.3% into 2022. Household income is also forecast to grow by 1.79% in 2021 and 3.93% in 2022 which is on trend with the national average.

## DEMOGRAPHICS

2,249,913

Population



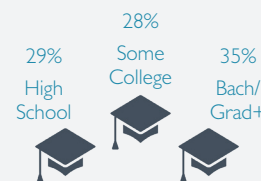
879,867

Households

\$63,025



Median Household Income



Education

71,929



Total Businesses

1,133,630



Total Employees

Source: Esri

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### INDUSTRIAL OVERVIEW

**MORE SUPPLY IS NEEDED TO MEET DEMAND IN THIS HOT INDUSTRIAL MARKET**

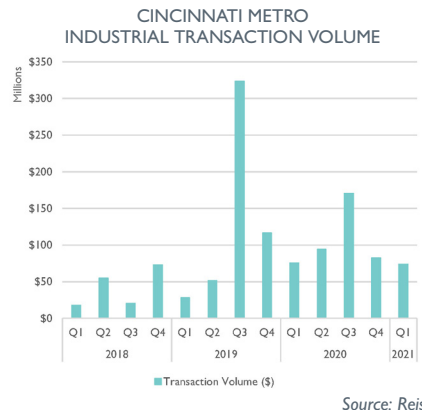
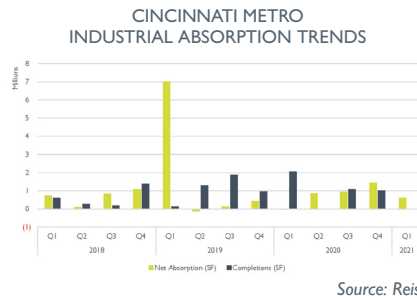
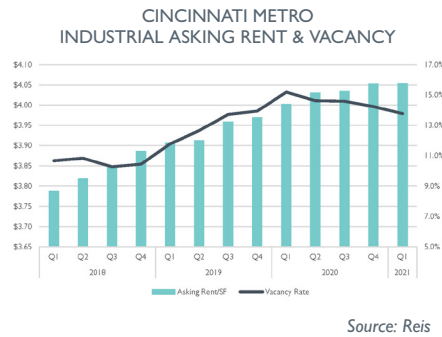
The industrial sector in Cincinnati continues to thrive with most of the industrial projects being located near the CVG airport in Northern Kentucky. Land along the I-71 / I-75 corridors remains among the most sought after and there does not appear to be a slow down any time soon among developers looking for sites to build new properties.

As noted in a previous report, despite continuing speculative building construction, the market maintains a vacancy rate of roughly 5.5%. Current estimates from REIS indicate that approximately 922,00 square feet of warehouse and distribution space has been completed through 1Q 2021. Data also indicates that over 3 million square feet is still under construction with close to 9 million in the pipeline for planned and proposed projects. Looking at the market from 2Q 2020 – 1Q 2021, Cincinnati ranks 15th across the nation in terms of the dollar value of construction starts during this period<sup>1</sup>.

Recently announced new projects of note include:

- The purchase of more than 119 acres of land at 5506 Kennel Road by Carvana from Trenton Community Improvement Corp. for nearly \$4.1 million in January 2021. The company plans to develop a service and distribution facility and build a 200,000-square-foot facility in Trenton Industrial Park. The facility is expected to create 400 jobs and be a total investment of \$24 million.
- A ground-breaking by Hamilton Security, a producer of safes, vaults and other security equipment, on a new 180,000 square-foot facility that will sit on 14 acres of land and is slated to open in fall 2021.
- Plans are underway by VanTrust Real Estate LLC to build a 1.2 million square foot industrial property on a 108-acre property along state Route 536. The total investment for the project is estimated to be about \$70 million.
- An upcoming groundbreaking by Schueler Group for a 50,000-square-foot flex building located on about 4.5 acres in Harrison Township. The total investment is estimated to be roughly \$3.3 million for the shell alone and does not include any build-out for future tenants. The building will be a flex industrial building, which could accommodate warehouse or production space, as well as some office space.

While sales volumes for industrial properties declined in 1Q 2021 by 26% compared to 1Q 2020, rental rates have continued to rise and averaged \$4.50 per square foot as of 1Q 2021.



### FORECAST

- Rising prices of materials, such as steel, will cause construction costs to rise and price out some developers and some renters who may not be able to afford higher rents as a result of higher construction costs.
- Vacancy will likely decline as demand is increasing for space. More inventory is needed to meet demand.
- The industrial market near the CVG airport will continue to thrive into the near future due to its competitive location.

<sup>1</sup>. Real Capital Analytics (RCA)

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## Q1 2021

### OFFICE OVERVIEW

#### COMPANIES HAVE YET TO FILL OFFICE SPACES IN THE METRO AREA WITH THE CBD HARDEST HIT.

During the second half of 2020, the Cincinnati office market noted a significant amount of sublease space available in the market. Fast forward to Q1 2021 and hundreds of thousands of square feet of office space that was available for sublease has either been absorbed or has been taken off the market. There are still pockets around the metro with large amounts of sublease space available for lease.

As larger companies begin reopening, the downtown office market is benefitting the most with a vacancy rate of roughly 12.3% compared to the Blue Ash office market which has a vacancy rate of roughly 25.9% and a larger base of vacant buildings and subleases. The Blue Ash market has approximately 650,000 square feet of office space available for sublease.

Large leases signed in Q1 2021 include: OfficeKey in Blue Ash at 19,023 square feet, River City Mortgage in Blue Ash at 7,734 square feet and Insight Global in the Cincy CBD at 14,776 square feet.<sup>1</sup>

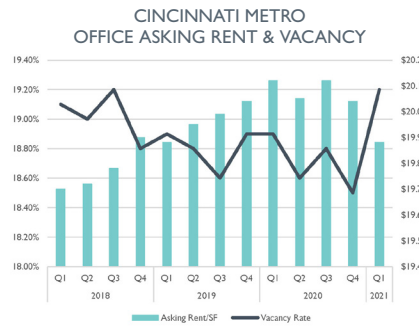
Well-capitalized developers are also taking advantage of vacant or abandoned buildings in the urban core and finding ways to repurpose them as more people are looking to move downtown. Examples of this include:

- **Former Kenton County Administration Building – 303 Court Street.** Al Neyer and Urban Sites Capital Investors are proposing to convert the office and jail into an apartment building with retail space. The redevelopment is priced at \$31.4 Million with 133 apartments and 6,000 square feet of retail / restaurant space.<sup>2</sup>
- **Mercantile Library Building – 414 Walnut Street - Model Group** is planning to use \$33.5 Million convert 9 floors into apartments from offices. It is also planning to double the size of the Mercantile Library by expanding it to the 12th floor.<sup>3</sup>

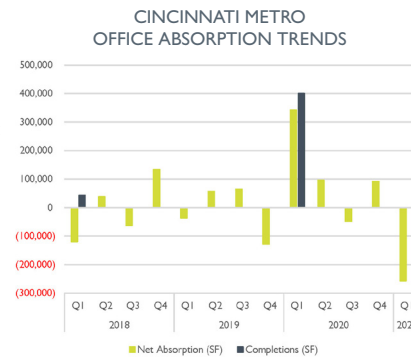
Space in the northern Kentucky market is also drawing businesses to the area as companies follow Amazon in hopes of working with them. In the suburban markets, landlords are also open to signing shorter term leases and business continue to “wait and see” what life after COVID looks like.

Asking rents have fallen over the past 12-months and as a whole are averaging \$20 a square foot. The I-71 submarket has the highest rate at \$20.86 per square foot while the West Hamilton submarket is \$16.13 according to REIS. According to CompStak, 24.7% of all current leases will expire in 2022. The year 2022 will be the peak of lease expirations between 2021 and 2025. The number of lease expirations will tail off as 2025 approaches. As these leases expire, the market will see even more shifts in the way companies use office space because companies will be freer in choosing what they want and not be bogged down with a lease they don't want.

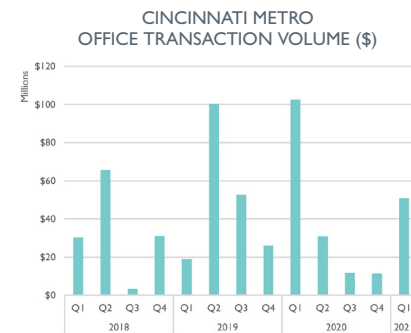
Office property owners are offering higher tenant improvement allowances to try and keep their rents high because this will help keep their property value higher. In the CBD, CompStak reports that tenant improvement allowances are at \$46 per square foot. These high tenant improvement rates incentivize companies to upgrade their spaces to meet their new space use standards post-COVID.



Source: Reis



Source: Reis



Source: Reis

### FORECAST

- Sublease space is still available as well as direct lease space. More concessions may be made by property owners to bring tenants into their buildings. As leases expire, the market should see more movement of tenants into spaces that suit their needs.
- The metro may see more office buildings converted to other uses, such as apartments, due to decreased demand for office space and the ability to work from home.
- Industries such as Health Care Equipment & Services, Banks, and Financial Services lease the greatest amount of space in the metro and will continue to be the leaders in the near-to-mid-future.<sup>1</sup>

1. CompStak
2. <https://www.wcpo.com/news/local-news/kenton-county/covington/developers-ask-covington-to-help-close-funding-gap-for-luxury-apartments-at-former-kenton-co-building>
3. <https://www.bizjournals.com/cincinnati/news/2021/05/19/mercantile-library-to-double.html>

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### RETAIL OVERVIEW

*SOME RETAILERS ARE WEATHERING THE STORM WHILE OTHERS ARE HARD HIT AND LOOKING FOR A DOWNTOWN REVIVAL*

It is no surprise that the retail sector in Cincinnati continues to struggle. Space absorption through Q1 2021 is the lowest it has been since 2009.<sup>2</sup> Soft good retailers continue to decline but there are some hopeful signs in the market as small mom and pop service-based retailers have begun opening up businesses in neighborhood commercial centers.

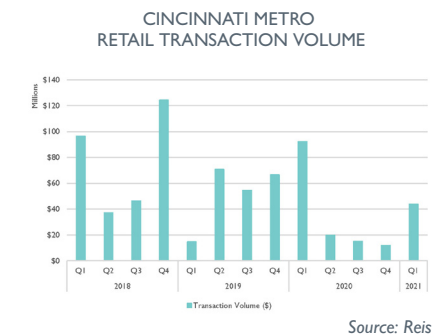
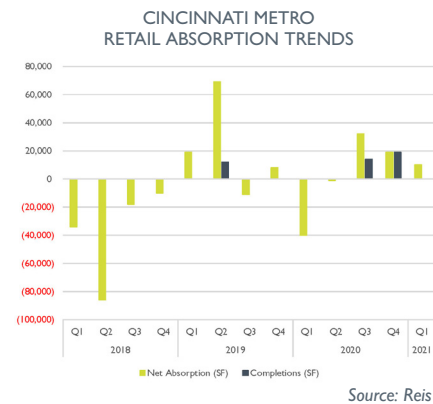
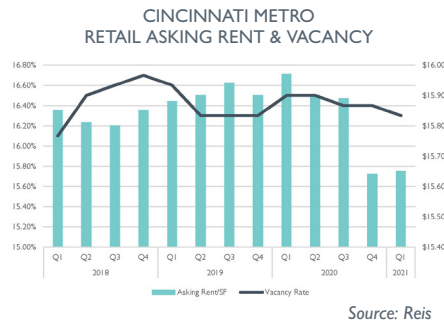
Looking at the market from a geographic perspective, recent REIS data for the Cincinnati retail market suggests that the primary concentrations of competitive retail space are located in the Outer Counties submarket, representing 6.9 million square feet and 30.3% of the metropolitan inventory, followed by West and Northwest Hamilton, with a 24.1% share, and Northeast Hamilton/Blue Ash (15.5%). Rental rates across these submarkets range from as low as \$9.47 a square foot for anchor properties in the Outer Counties to as high as \$24.94 a square foot for the non-anchor properties in the Downtown/ SE Hamilton area.<sup>2</sup> Collectively, vacancy rates for the area averaged 16.3% as of 1Q 2021 compared to 16.5% as of Q1 2020.

As noted in previous reports, enclosed malls such as Eastgate and Florence have been hit the hardest. With vacant anchors, store fronts, and restaurants, the owners of the Florence Mall, Brookfield Properties, was unable to maintain payments on its \$90 million commercial mortgage-backed securities (CMBS) loan and handed the 384,000 square foot property back over to the bank. Conversely, open air lifestyle centers such as Northgate, Kenwood, Liberty Center are expected to continue to perform better in a post-COVID world. Nevertheless, the market continues to be in a wait and see mode and will monitor the trends closely beginning in 2Q 2021 as this could be a good predictor of how the second half of the year will perform across all retail types.

Another trend in the market is a shift among larger banks to reduce their footprint. Within the past six months alone, U.S. Bank announced the closing of 171 locations nationally with seven offices being located in and around Cincinnati. In early Q1 2021, Fifth Third Bank announced it would close 41 locations nationally that included three offices in the greater Cincinnati area.

While banks look to shrink their footprint in the market, grocery chains offer the prospect of being a solid tenant in the retail sector as many have announced plans for expansion.

- In January 2021, interior demolition began at the site of a new 90,298 square foot Kroger store located at the Springboro Plaza Shopping Center on Ohio 73 in Warren County.
- In February 2021, Aldi Inc. announced plans to open 100 stores nationwide as well as another Greater Cincinnati store.
- In March 2021, Trader Joe's ran a legal announcement indicating that it intends to open a second location in the area.



### TRENDS

- Downtown retail has declined due to lack of demand from office workers. As more people head back to the office, retail should pick back up, but this may happen slowly and cause more retailers to close up shop.
- Retail will continue to be transformed into other uses, such as medical offices as property owners are looking to keep up their cash flows.
- Retail tenants have more leverage due to soft market fundamentals and will have a better chance at negotiating favorable terms.

I. Real Capital Analytics (RCA)

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