REPORT

OHIO VALLEY

2ND HALF 2020 / 2021 OUTLOOK

MARKET OVERVIEW

The Ohio Valley region 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, the city has several significant companies headquartered there such as Proctor & Gamble (10,000), The Kroger Company (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 CVG located in NKY. 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.

Columbus is the state capital of Ohio. With a combined population of over 2.1 million, it is the second largest metropolitan area in the state, and boasts a diversified economy and major employment sectors that include education, insurance, banking, retail, defense, aviation, logistics, steel, energy, medical research, healthcare, hospitality, and technology. Several firms headquartered in the area include Nationwide (12,862), L Brands (7,662), Honda (11,077), DHL (2,192), and Big Lots (1,133) Wendy's, White Castle, Alliance Data, American Electric Power, and Huntington Bancshares. The healthcare industry plays a significant part in Columbus' economy with major employers such Cardinal Health, the Ohio State University Medical Center, Nationwide's Children's Hospital, Chemical Abstracts Service, the world's largest clearinghouse of chemical information, and Battelle Memorial Institute the world's largest private research and development foundation.

In Kentucky, Louisville is the largest city in the state with a population of over 1.3 million within an eleven-county metro area, four of which are located in Indiana.

While the city is most commonly known as the home of the University of Louisville and the Kentucky Derby, because of its location along the river and intersection between three major interstates, the shipping and distribution industries are a significant part of the area's economy. Major employers in the area include: UPS (21,333), Ford Motor Company (12,600), Jefferson County Public Schools (14,476), Norton Healthcare (12,247), Humana (12,000), University of Louisville (6,933), Amazon (6,500), Baptist Healthcare Systems (6,159), GE Appliances (6,000), KentuckyOne Health (6,000), Yum! Brands (800), Kentucky Fried Chicken, and Kindred Healthcare.

DEMOGRAPHICS

2,249,913
Population

879,867
Households

$63,025
Median Household Income

28%
Some College

29%
High School

35%
Bach/ Grad+

Education

71,929
Total Businesses

1,133,630
Total Employees

Source: Esri

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INDUSTRIAL OVERVIEW

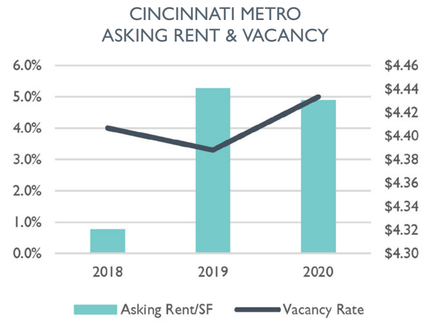
CINCINNATI WILL CONTINUE TO SEE STRONG DEMAND IN THE INDUSTRIAL SECTOR ESPECIALLY IN WAREHOUSE AND DISTRIBUTION

The industrial sector continues to thrive in Cincinnati, not unlike other markets in the Midwest. E-commerce will continue to drive the demand going forward. Despite continuing spec building construction, the market maintains a vacancy rate of around 4%. Approximately 3.3 million square-feet of warehouse and distribution space was completed by the end of Q3 2020, compared with 4.8 million completed in all of 2019. Rents will continue to increase. Available land is becoming harder to come by and developers will be looking further north between the north Cincinnati suburbs and Dayton along I-71 / I-75 corridors.

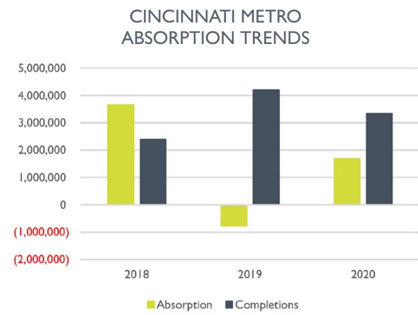
Amazon is building one of the largest projects in the metro, their Air Hub at the Cincinnati/Northern Kentucky International Airport (CVG). Eventually the project will encompass 3 million square-feet. Phase 1, scheduled for completion next year will include 800,000 square-feet. Amazon plans 64 daily flights out of the air hub and when the project is fully complete in 2026, will include 100 aircraft parking positions. The project represents a $1.5 billion investment that will eventually create 2,700 jobs.

Most of the industrial projects in the market have been near the CVG airport in Northern Kentucky. The Amazon Air Hub is driving more projects in the submarket. Developer Al Neyer completed a $65 million, 1 million square-foot distribution facility at the Aero Commerce Center in Q3. Also completed last quarter, A 575,700-square-foot spec building in the Erlanger. The company has several other facilities under construction or planned for 2021. The Riverview Distribution Center will complete construction in Q1 2021 and is 585,800-square-feet. Standard Textile has leased 438,638 square-feet of the facility. The company will vacate their current facilities in Hebron, leaving a 453,320-square-foot vacancy.

In the northern suburbs, Opus Group and Founders Properties LLC, completed construction last year on a 613,000-square-foot warehouse at the 75 Logistics Center in Middletown. Cintas has been announced as the first tenant, leasing 255,000 square-feet. Cintas is headquartered in Mason, Ohio and provides uniforms and various supplies for a number of industries.



Source: Reis & Bradley Company



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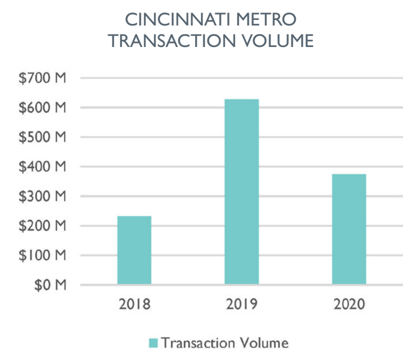

Source: Reis

FORECAST

- Spec building construction will continue in 2021, with several projects already planned.
- The Amazon Air Hub will drive development in the Northern Kentucky airport submarket.
- Availability of land will drive more development into the north Cincinnati suburbs.
- Rents are expected to continue to rise. Rising construction costs will contribute to higher rents.
- Vacancy will largely remain steady, despite the number of new projects, due to high demand.

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OFFICE OVERVIEW

WITH TOO MUCH INVENTORY AVAILABLE THE OFFICE MARKET WILL TAKE TIME TO ABSORB THE CURRENT AMOUNT OF SPACE

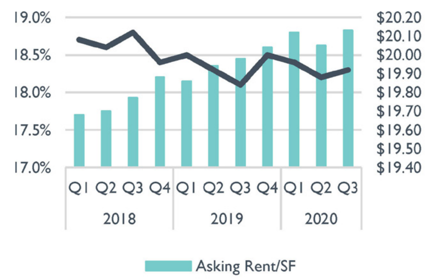
The Cincinnati office market has had substantial sublease space hit the market, over half a million square-feet of Class A and B with 80% of that space on the Cincinnati side of the river. The city had a number of companies consolidate operations within the market and Cincinnati is home to several major corporations with regional offices in the metro. Fifth Third alone contributed 200,000 square-feet of sublease. Due to so much space on the market, the vacancy rate will likely not move downward until sometime in 2022. Class B office will not fare as well as there is simply less demand and too much inventory. The northern Kentucky side of the metro remains stable through Q3.

The suburbs will recover faster than downtown, as downtown workers are only back to about 50% of the pre virus office population, with many still working from home. Companies will likely start to take stock of their space needs and right-size their offices. The suburbs offer greater convenience, amenities, and access to retail and restaurants.

Monthly movement in asking rent during the third quarter was varied, with September's gain of 0.5% bringing the cumulative quarterly total up to 0.4%. Since the same reporting period last year, asking rents have increased by 0.8%, up from $19.98. Since the beginning of Q4 2010, the metro as a whole has recorded an annual average increase of 0.8%. Effective rents, which take into account concessions offered to new lessees, climbed more quickly, up by 0.7% during September. The asking rent growth rate of the metro's nine underlying submarkets over the past 12 months has been mixed, with cumulative change rates ranging from 3.1% (Blue Ash) to -0.2% (Interstate 71 North).[1]

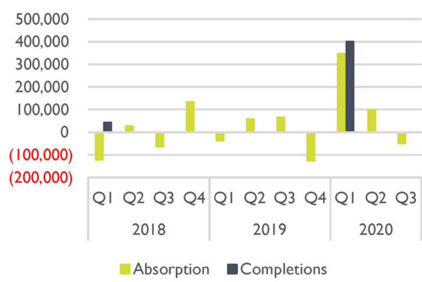
Reis' new construction analysts report that 100,000 square feet of new competitive office inventory will be introduced to the metro by the end of the year, and net total absorption will be negative 104,000 square feet. In response, the vacancy rate will drift upward by 0.5 percentage points to 18.8%. During 2021 and 2022, developers are expected to deliver a total of 330,000 square feet. Office employment growth at the metro level during 2021 and 2022 is projected to average 2.5% annually, a rate of growth that will not shield the metro from net tenant outmigration averaging 81,000 square feet per year. The market vacancy rate is projected to finish 2021 at 20.1% and will decline 0.1 percentage points to 20.0% by year end 2022. Between now and year-end 2020 asking rents are expected to fall -0.8% to a level of $19.96, while effective rents will decline by -2.4% to $15.65. Thereafter, Reis anticipates that asking rent growth will decelerate to an annualized average of -0.6% during 2021 and 2022 to reach a level of $19.74 per square foot.[2]

CINCINNATI METRO
ASKING RENT & VACANCY



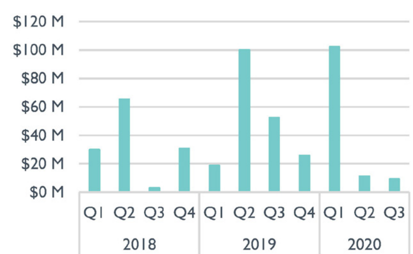
Source: Reis

CINCINNATI METRO
ABSORPTION TRENDS



Source: Reis

CINCINNATI METRO
TRANSACTION VOLUME



Source: Reis

FORECAST

- Cincinnati is forecasted to see a net decline in office jobs of 4.5% in 2020, as well as a gain in office jobs of 2% in 2021 for a net two-year office job decline of 2.6%.
- Cincinnati's office market is expected to see negative absorption in 2020 and 2021.
- Inventory is expected to grow by the end of 2020 and remain flat in 2021.
- Vacancy rates are expected to increase from the current 18.2% to 20.9% at the end of 2021.
- Cincinnati's office asking rents are not expected to surpass the 2019 high until 2023, while effective rents are not expected to hit a new high until 2025.
- Office building sales will see more activity from investors outside the market.

1. *Reis*
2. *Reis*

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RETAIL OVERVIEW

CINCINNATI WAS OVER-RETAILED PRIOR TO THE VIRUS WITH VACANCIES IN MALLS AND BIG BOX; MEDICAL RETAIL GROWING

Prior to COVID-19, the Cincinnati Metro area had a significant amount of retail square footage compared to most markets its size. The restaurant sector has felt the impact of the virus more than any other type of retail space but those that have been able to pivot to carry-out and delivery have fared the best. Strong locals are looking to expand or move locations in the market, since recent vacancies have opened up opportunities in well-located areas. There hasn't been a lot of movement from new market entrants, but quick service restaurants that were already looking in the market are continuing with plans to open. During the summer and fall restaurants received a boost from expanded outside dining opportunities with street closures. Many restaurants are now buying outdoor heaters or weighting the cost and benefit to get through the winter, especially in light of rising virus cases.

The periphery market also has a large amount of vacant big boxes that will take awhile to backfill, many of them will need to be devised into smaller spaces or redeveloped into other uses, such as warehouse / distribution. Quite a few of these are north around the Tri-County Mall retail corridor and inside the I-75 ring.

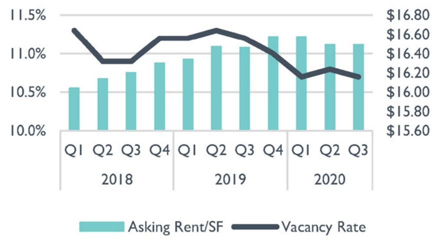
Enclosed malls in the area are also struggling with vacant anchors, store fronts, and restaurants. While Kenwood and lifestyle centers contiue to perform well, enclosed malls such as Eastgate and Florence continue to struggle mightily. Most likely several of the area's malls will have to be redeveloped or torn down for new uses. Open air lifestyle centers are performing better and in a post-COVID world will feel like a safer option for consumers. Newport on Levee is completing a redesign that will be complete in 2021. Some parts of the center were re-imagined by new owners, North American Properties after the loss of some key tenants including anchor, Barnes & Noble. The center will have more open air areas and will have a local vendor component, including a market that will feature revolving tenants.

Some sectors in retail are performing well, including service and especially medical users who are pursuing more space in highly visible and convenient neighborhood locations. Medical will help to fill some of the small to medium vacancies going forward. Grocery is another strong performer and grocery-anchored centers in prime locations will continue to attract tenants.

Another trend in the market is the contraction of some larger banks in the area who look to downsize their footprints or reduce the number of locations in favor of more virtual locations or drive-thrus only. This contraction will lead to opportunities for smaller banks.

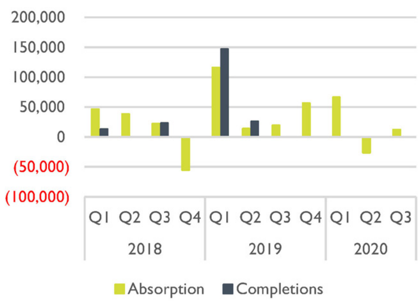
So far, there hasn't been a major change in rents as landlords take a "wait and see" approach to the market.

CINCINNATI METRO
ASKING RENT & VACANCY



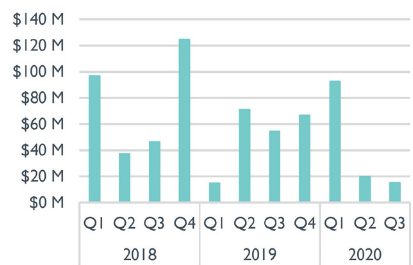
Source: Reis

CINCINNATI METRO
ABSORPTION TRENDS



Source: Reis

CINCINNATI METRO
TRANSACTION VOLUME



Source: Reis

TRENDS

- Vacancies will rise into 2021. Without another stimulus plan, more businesses are under threat of closures, especially restaurants as the virus will effect their capacity through the winter.
- The market has too many vacant big boxes and it will be years until most of these properties getting absorbed or redeveloped into other uses.
- Rents have been mainly steady, but they will likely start to fall in 2021 as more vacancies become available, especially in B and C class properties.
- Sales transactions will remain low as investors shy away from retail and hotel properties.
- Medical users will continue to grow and seek more non traditional spaces in high quality retail centers.

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