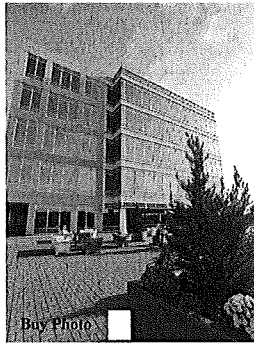


What's fueling Cincinnati's office market rebound



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4:19 p.m. EST November 7, 2015

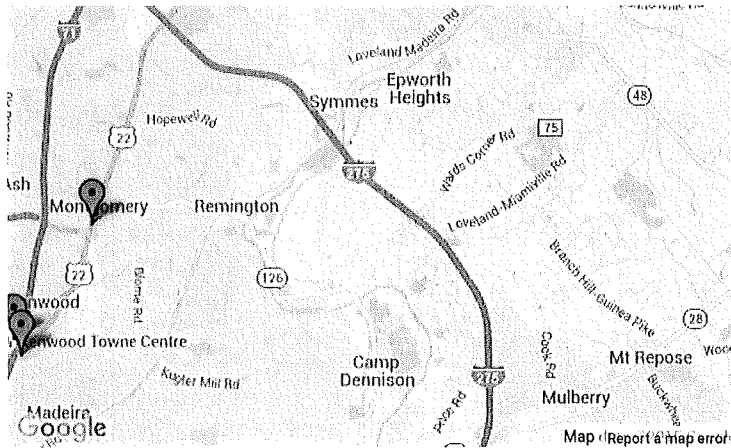


(Photo: The Enquirer/Cara Owsley)

The local office market, so dormant in the wake of the Great Recession that it almost looked dead, is alive and well, both in new construction and sales of existing structures.

The region is now seeing:

- New buildings sprout up inside the largest office markets of Downtown Cincinnati and Blue Ash, but also outside of them as well. Some of these buildings are being built on speculation, an indication that investors see a growing market.
- Out-of-town investors gobble up land and buildings in Cincinnati, because they think space here can offer better financial returns than similar properties on the U.S. coasts.
- Declines in available office inventory, as newer property pushes older space that's seen better days toward alternate uses.



What's driving the activity now?

The region's office vacancy rate is at its lowest level since 2011. It's still hovering around 21 percent, but the rate is actually lower in Downtown Cincinnati and around West Chester, Blue Ash and Kenwood.

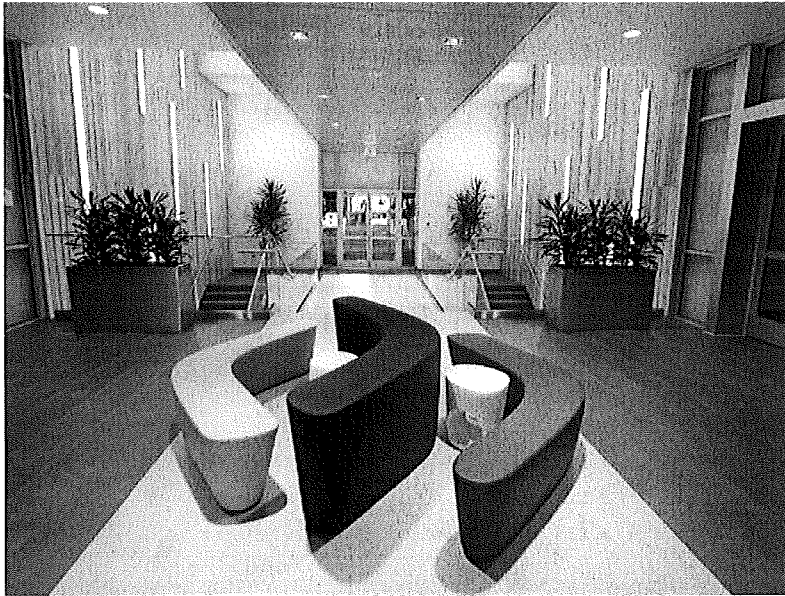
Cincinnati's economy has grown at a faster rate than the national average in three of the last five years. That trend has supported job growth among the region's diverse employers and driven the region's unemployment rate down to 3.9 percent, said Susan Branscome, managing director and senior vice president at NorthMarq Capital in Oakley.

All of these factors are helping push rents up, a much welcome development for landlords. And now, economic conditions are still the best the office sector has seen in several years.

"We've still got some runway in front of us," said Bill Poffenberger, manager and executive vice president of Jones Lang LaSalle's Cincinnati office.

Within the last year, at least six new buildings – adding more than 1 million square feet of office space – have been completed. About 1 million square feet of office space is under construction now, adding to the region's inventory of 33.5 million square feet of space.

While significant, industry observers part of deals in the late 1980s and early 1990s say that period had a bigger construction rush. And while the office market may be in the spotlight now, investments have lagged other categories since the recession such as multifamily and industrial, according to Shaun Bond, director of the University of Cincinnati Real Estate Center.



The lobby area at Jeffrey R. Anderson's new office tower at Rookwood Exchange (Photo: The Enquirer/Cara Owsley)

Desire for cool places drives new office spots

Real estate developer J.R. Anderson wants office tenants to brag about being located at 3825 Edwards Road.

In an eight-story structure completed earlier this year in Norwood, Anderson's firm spent tens of millions of dollars to create open floor plans, install high-end flooring and fixtures while designing office spaces to allow maximum exposure to natural light.

A gym that rivals small fitness studios, a near rooftop outdoor terrace and a garage that allows drivers to park cars on the same level as their office are among the 250,000-square-foot building's selling points too.

The office's main entrance is less than 100 steps from several sit-down restaurants (with more being added at street level) and a short car trip to shops such as Banana Republic and Nordstrom Rack. Apartments opened in March located due east of the office building are essentially full. Soon, construction will launch on a second hotel at the Rookwood Exchange site, a 118-room Residence Inn.



J.R. Anderson at his new office tower at Rookwood Exchange. (Photo: The Enquirer/Cara Owsley)

"Office buildings are a commodity, so I wanted to make sure I could have all the bells and whistles to make you want to be here," Anderson said. "If you're going live there eight to 10 hours a day," you might as well enjoy your surroundings.

Plans for Rookwood Exchange were drawn up more than three years ago, long before there were committed tenants. And what's happening in Norwood reflects growing confidence companies are showing in the economy with their willingness to upgrade their digs. General Electric Co. and Mercy Health have opted to have new office buildings built in Cincinnati to meet their needs.

Jeff Gayonski, managing director of Northwestern Mutual's West Chester office, told The Enquirer last month employees are excited about moving to new Liberty Township office space at the \$350 million Liberty Center development. The office space overlooks a mall building and a small park and sits atop Victoria Secret, Lane Bryant and the Limited. It is also walking distance from about a dozen dining options.

Retail tenants are being sought to fill space at the Tower at Kenwood Collection, a 260,000-square-foot building at Interstate 71 and Galbraith Road that's adjacent to the region's most popular shopping mall Kenwood Towne

Centre.

"Employers are really interested in attracting millennials," Bond said. "They're thinking about their workforce. There's a belief that millennials want to live work and play in the same area. People want to plug into these areas."

Even in Blue Ash – which has the region's lowest office vacancy rates – city officials see the appeal of mixed-use destinations. People want to be around amenities, but like many suburban markets that grew into prominence in the 1980s and early 1990s, the office, retail and restaurants, and residential areas tend to be in completely separate areas.

"That's not the mix that we need to remain relevant," said Neil Hensley, Blue Ash's economic development director.

Officials are mulling the investments needed to make the city more attractive for employers and workers, he said. That includes making sure owners of older commercial spaces keep them updated.

But it means rethinking what can be done with spaces yet to be built. Riding a bike to work isn't easy to do in Blue Ash now. Getting to a restaurant after leaving the office is difficult without a car. Hensley wants that to change. The \$70 million development of Summit Park and Al. Neyer's plan for a mixed-use project on 98 acres of former Blue Ash airport land could be "game changers" for the city, he said.

Buy Photo



Construction is underway at Radius at The Banks, which is expected to be completed in March 2016. (Photo: The Enquirer/Amanda Rossmann)

Investors now seeing Cincinnati in a different light

They wouldn't take no for an answer.

That's what happened a few months ago when Keith Yearout tried to whittle down a list of potential buyers of a high-profile block of office buildings in Blue Ash and Deerfield Township. A bidding war emerged as multiple buyers wanted to gobble up Duke Realty Corp. property put on the market in March.

"Literally a year ago, I was begging people to make offers on quality office investment opportunities and having a hard time doing so," said Yearout, a vice president at CBRE's Cincinnati office and leader of the office's Investment Properties Group.

A year later, the properties sold in August for \$103 million, the largest deal in the region this year, to one of the world's largest private equity firms.

The purchases were the first equity play that New York City-based Apollo Global Management has made in Greater Cincinnati's real estate market. It later sold two properties it acquired in Blue Ash to Evanston-based Neyer Properties for more than \$7.5 million.

Apollo also was the lead lender for \$165 million in construction financing for Steiner and Associates' Liberty Center project, which opened last month.

Apollo representatives declined comment for this story. But they are not alone; other outside companies are seeing dollar signs in the Queen City, including international real estate firm Hines Interests LP; Kansas City, Missouri-based VanTrust Real Estate; and Nashville-based Smith/Halleman Partners.

Here's another way to look to it: Investors are buying what Cincinnati is selling.

More than \$502 million was spent to acquire office properties in Greater Cincinnati last year, which was the highest total in the last 15 years, according to estimates from Real Capital Analytics. About \$215 million has been spent on office market deals through the first six months of 2015.

Years ago, Yearout said local brokers would have to "invent" reasons why people and firms should want to invest in Cincinnati. Now, prospects can see proof of the region's dynamism by walking through neighborhoods such as Over-the-Rhine and along Ohio's riverfront.

"It doesn't look like the same city it did 10 years ago," Branscome said.

Local real estate officials say these entities find Cincinnati attractive because they can get larger returns from investments than large markets such as San Francisco and New York.

"We are finding a tangible desire to place a rising share of investment capital in attractive markets outside the 24-hour gateway cities," the Urban Land Institute said in its 2016 Emerging Trends in Real Estate report.

Smith/Hallermann has completed more than \$170 million of commercial office purchases in the region since January 2010. Its most recent purchase closed in late October for Kemper Pointe, a 10-year-old, 96,500-square-foot Sycamore Township building. It spent \$8.75 million in the deal.

"Cincinnati continues to undergo its unprecedented renaissance," said Tom Smith, Smith/Hallermann chairman in a statement. "We've enjoyed tremendous success with our other commitments there and we have no doubt this wonderful building will be just as successful."



Kemper Pointe office building (Photo: Provided/NorthMarq Capital)

Rob Wildermuth, a local real estate developer and investor, quipped he gets calls every few weeks from lenders and investors who want to find out what projects he's chasing. He said that's because they are confident in his ability to spot undervalued real estate and turn it into a solid investment.

Once the high-profile and prime office space gets full, Wildermuth said tenants will be driven to Class B, or slightly older office buildings. His firm has owned a property on Century Boulevard in Springdale for more than a year, but facility upgrades and other improvements have helped attract and retain tenants such as Ross Education, Staples and UC Health.

His firm is looking to acquire more office properties in Greater Cincinnati.

Repurposing outdated space is also creating big opportunities in Downtown Cincinnati. As of June 30, building conversions have pulled nearly 1 million square feet of space from the office inventory since 2012, according to Cushman & Wakefield's Cincinnati office.

Conversions at the 580 Building, 617 Vine St. and Bartlett buildings are key factors in reducing the available office space. 617 Vine is now home to two hotels. New residences are scheduled to open soon at the 580 Building. The Bartlett Building now holds the Renaissance Hotel.

Industry watchers said this isn't all bad for the market. Great American Tower, when it was built a few years ago in Downtown Cincinnati, helped spur the conversion of multiple buildings emptied out of tenants in the city's central business district. That activity is likely to continue as property owners determine office space isn't the best use as the city's central business district continues to add residents.

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