

Greater Cincinnati/Northern Kentucky

Overview

2009 saw the unemployment rate for Southwest Ohio and Northern Kentucky reach approximately 10%, the highest unemployment figures in over 25 years for the region. This number is largely due to the loss of jobs in manufacturing and the distribution sectors of the economy, which directly correlate to industrial real estate occupancy. The vacancy rate for leased industrial properties in 2009 ended the year at 8%. And though the 4th quarter showed a positive spike of almost 500,000 SF of absorption, the year end numbers total 1.5 million SF of negative of absorption. It is likely that Southwest Ohio and Northern Kentucky are at, or near, the bottom of the real estate cycle, but a recovery to pre-recession leasing and sales activity is still years away.

Market Trends

As corporate revenues have stagnated, companies continue to focus their efforts on reducing expenses to positively impact the bottom line. This has resulted in consolidation of facilities and decreased expansion activity. Many supply chains are looking for additional efficiencies to not only stem the short-term deficits, but to create leaner processes once the economy recovers. To this end, there is a flight to higher quality properties because of the aggressive terms being offered by landlords and the benefits of operating in more functional facilities, with better locations. And though the lending market is not what it once was, interest rates and asking prices are ideal for buyers and investors with the cash and credit to purchase properties. Additionally, some landlords are willing to be as creative as possible to land deals. Seller financing of a portion, or the entire, project are very real options. But as the economy has impacted real estate, it has also limited companies in their real estate decisions. In a time where tenants should be lining up for long-term leases to lock in rental rates significantly below market, they are unable to fully take advantage of the market because of the uncertainty of their business. This is especially true in the industrial property sector where space translates directly to profit or expense.

Tenant's Perspective

With landlords and developers in "survival" mode, tenants continue to maintain leverage in the commercial real estate market. As evidence of the buyer's market, Kost USA acquired a 111,000 SF facility out of receivership for \$11.00 psf. Mueller Roofing and Recycling Express also benefitted from the soft market with purchases of a 138,000 SF building and a 250,000 SF building for \$15.00 psf and \$10.00 psf, respectively. Leasing activity saw Smurfit sign for 321,000 SF and Kutol Products inking a deal for 150,000 SF. Other notable leases include Amazon renewing 448,000 SF, Eagle Manufacturing renewing 329,000 SF, and GAIAM, Inc. down-sizing and renewing 208,000 SF. Flex market vacancy should increase because of the tenant flight to traditional office properties, but it continues to remain stable because of the low basis and aggressive deal structures of many owners. However, as leases roll over the next 24 months, expect this trend to reverse itself back in favor of traditional office product, with better parking and curb appeal.

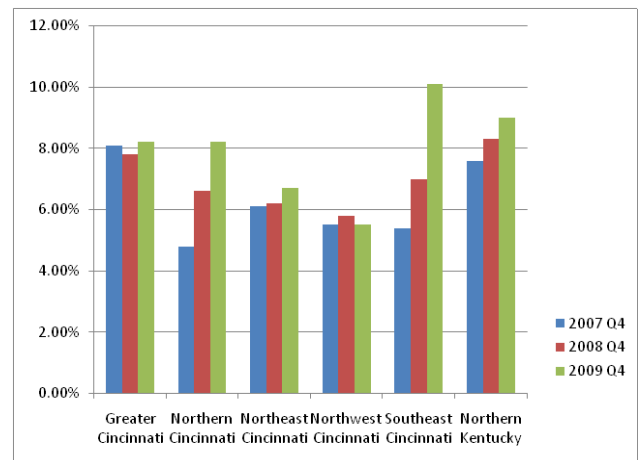
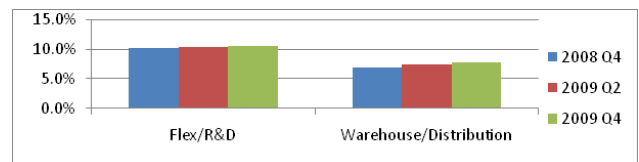


Industrial Product Availability

PROPERTY TYPE	VACANCY RATE	TOTAL MARKET SF	SPACE AVAILABLE	QUOTED RENT PSF
Flex-R&D	10.6%	7,389,047	779,298	\$7.60
Warehouse/Distribution	7.8%	291,483,531	22,685,903	\$3.55

SUBMARKET	VACANCY RATE	AVERAGE RENT PSF
Greater Cincinnati	8.2%	\$3.40
Northern Cincinnati	8.2%	\$3.64
Northeast Cincinnati	6.7%	\$4.66
Northwest Cincinnati	5.5%	\$3.36
Southeast Cincinnati	10.1%	\$4.20
Northern Kentucky	9.0%	\$3.49

Historical Industrial Vacancy



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