



All property sectors in the Cincinnati area are seeing weakening fundamentals, and most prices in Cincinnati are lower than national averages. If Cincinnati as a market can remain steady in the face of marginal fundamental performance, while achieving the population growth that is forecasted, then the difficulties may not be as severe as expected.

Demographics & Economy

Population:

2006 (est.): 2.1 million

2011 (proj.): 2.2 million

Unemployment Rate:

Cincinnati - 4.8%

Ohio - 5.4%

National - 4.5%

Office

- The Cincinnati office market fundamentals were quite weak during fourth quarter 2006. Vacancy was 20.6 percent, according to Torto Wheaton Research. Absorption was negative, and asking rents decreased slightly from the previous quarter.
- RERC's transaction analysis indicates Cincinnati office properties are selling for an average price of \$90 per square foot, slightly lower than the Midwest regional average of \$111 per square foot, but considerably lower than the national average of \$167 per square foot.
- The average transaction-based capitalization rate for the Cincinnati office market is 7.7 percent, higher than either the regional or national averages of 7.6 percent and 7.2 percent, respectively.

While the office market in Cincinnati is steady, certain indicators are displaying signs of difficulty. Rising vacancy rates signify either excess supply or falling demand. The lower-than-average sale prices show that the market is weak, and investors may be able to acquire some buildings at attractive prices. Finally, higher capitalization rates are signaling the possibility of higher risk.

Industrial

- The availability rate for the Cincinnati industrial market was slightly higher for fourth quarter 2006 than third quarter, but it still has one of the lower availability rates in the Midwest region. Net absorption decreased, but rental rates went up slightly, with returns fairly consistent with third quarter performance.
- RERC's transaction analysis indicates Cincinnati industrial properties are selling for an average price of \$50 per square foot, in line with the regional average of \$49 per square foot, but quite a bit lower than the national average of \$83 per square foot.
- The average capitalization rate for the Cincinnati industrial market is 8.3 percent, much higher than the Midwest average of 7.8 percent and the national rate of 7.4 percent.

Like the Cincinnati office market, the industrial market is not performing as well as it could. Slightly increasing rental rates and average prices that are in line with the national average put Cincinnati on par with the other major markets in Ohio. Somewhat higher capitalization rates may suggest higher investment risk.

Retail

- RERC's transaction analysis shows that retail space in the Cincinnati area is selling for an average price of \$86 per square foot, lower than the regional average of \$126 per square foot, and about half the national average of \$169 per square foot.
- The transaction-based capitalization rate for Cincinnati area retail properties is 6.8 percent, slightly lower than the Midwest regional and national rates of 7.2 percent and 6.9 percent, respectively.

Cincinnati retail properties are selling for far less than regional and national averages. However, the capitalization rate is similar to national and regional levels, possibly signaling some resiliency in the market.

Apartment

- The average sale price for apartment properties in the Cincinnati area is \$39,195 per unit, substantially lower than the regional average of \$67,913 per unit, and less than half the national average of \$107,833 per unit.
- The capitalization rate for the Cincinnati apartment market is 7.0 percent, slightly higher than the regional and national rates

National Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$2,307	\$4,047	\$4,070	\$5,669	\$220	\$16,312
\$2-5 million	\$3,910	\$5,701	\$6,222	\$5,910	\$926	\$22,668
>\$5 million	\$155,131	\$32,581	\$50,896	\$87,663	\$33,689	\$359,961
All	\$161,348	\$42,328	\$61,188	\$99,242	\$34,835	\$398,942
Unit Price Averages						
<\$2 million	\$103	\$68	\$103	\$92,566	\$53,998	–
\$2-5 million	\$167	\$96	\$216	\$128,810	\$59,767	–
>\$5 million	\$209	\$104	\$250	\$126,410	\$137,649	–
All	\$167	\$83	\$169	\$107,833	\$110,713	–
Median of all	\$137	\$66	\$123	\$86,170	\$82,776	–
Capitalization Rates (All)						
Range	4.7 - 10.5	4.8 - 11	4.4 - 10.4	3.8 - 10.6	5.7 - 12.3	3.8 - 12.3
Average	7.2	7.4	6.9	6.3	8.7	7.3

of 6.9 percent and 6.3 percent, respectively.

One thing we are seeing in the Cincinnati apartment market is consistency. The apartment sector has an average sale price far below regional and national averages, and the higher capitalization rate signals a higher level of risk in the area.

Midwest Region Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$366	\$734	\$802	\$793	\$27	\$2,721
\$2-5 million	\$511	\$1,012	\$1,071	\$559	\$173	\$3,325
>\$5 million	\$20,592	\$3,963	\$8,580	\$5,780	\$3,268	\$42,183
All	\$21,449	\$5,669	\$10,417	\$7,097	\$3,463	\$48,095
Unit Price Averages						
<\$2 million	\$72	\$43	\$80	\$67,512	\$26,791	–
\$2-5 million	\$125	\$61	\$196	\$56,865	\$38,901	–
>\$5 million	\$146	\$60	\$199	\$74,944	\$106,884	–
All	\$111	\$49	\$126	\$67,913	\$77,324	–
Median of all	\$95	\$41	\$89	\$53,063	\$57,292	–
Capitalization Rates (All)						
Range	5.3 - 10.5	5.3 - 11	5 - 9.5	4.1 - 10.6	6.3 - 12.3	4.1 - 12.3
Average	7.6	7.8	7.2	6.9	9.1	7.7

Cincinnati Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume						
<\$5 million	\$31	\$46	\$72	\$59	-	\$207
>\$5 million	\$528	\$136	\$137	\$190	-	\$991
All	\$559	\$182	\$209	\$249	-	\$1,198
Unit Price Averages						
<\$5 million	\$78	\$38	\$74	\$33,043	-	-
>\$5 million	\$108	\$82	\$151	\$69,006	-	-
All	\$90	\$50	\$86	\$39,195	-	-
Median of all	\$80	\$42	\$60	\$31,231	-	-
Capitalization rates (all)						
Range	5.8 - 9.6	6.2 - 10.4	5.1 - 8.5	5.3 - 8.8	-	5.3 - 11.4
Average	7.7	8.3	6.8	7.0	-	7.8

NCREIF Real Estate Index Returns - 4Q 2006

	Office	Industrial	Retail	Apartment	Average
Total Returns:					
1-Year Rate	-	15.80%	6.60%	16.50%	8.90%
3-Year Rate	-	9.50%	-	14.30%	10.50%
5-Year Rate	-	8.40%	-	11.40%	8.00%
10-Year Rate	-	9.00%	-	-	7.90%
15-Year Rate	-	8.20%	-	-	6.70%
Income Return					
1-Year Rate	-	7.60%	6.50%	5.60%	6.30%
3-Year Rate	-	8.00%	-	6.30%	7.70%
5-Year Rate	-	8.50%	-	6.90%	8.30%
10-Year Rate	-	9.30%	-	-	8.30%
15-Year Rate	-	9.30%	-	-	8.40%
Allocation					
	Office	Industrial	Retail	Apartment	Other
1-Year Average	0%	25%	51%	8%	16%
3-Year Average	0%	34%	22%	11%	33%
5-Year Average	0%	32%	13%	10%	44%
10-Year Average	0%	23%	6%	8%	63%
15-Year Average	0%	22%	4%	5%	68%

Sources: RERC and National Council of Real Estate Investment Fiduciaries

Noteworthy Transactions

- The 537,400-square-foot office property located at 250 East Fifth St. sold for approximately \$92.7 million, or around \$170 per square foot, well above the area average of \$108 per square foot for office properties selling over \$5 million.
- Century Lake Apartments, a 224-unit apartment property located at 51 Bishopsgate Drive, sold for \$15.4 million, or \$68,750 per unit, comparable to the area average of \$69,006 per unit for apartment properties selling in excess of \$5 million.
- The 198,600-square-foot industrial property located at 1770-1800 Worldwide Blvd. sold for slightly under \$11 million, or \$55 per square foot, considerably less than the average price of \$82 per square foot for area industrial properties selling in this category.
- The 12-unit apartment property located at 210 Hearne Ave. sold for \$270,000, or \$22,500 per unit, about a third less than the area average for apartment properties selling for less than \$5 million.
- One Northlake Place, an office property that contains 176,896 square feet, sold for \$17 million, or about \$95 per square foot, similar to the area average for office properties selling over \$5 million.