

Market Report

OFFICE | FIRST QUARTER | 2009



MARKET INDICATORS

Q1 '09 Q2 '09

Vacancy... ↑ ↑

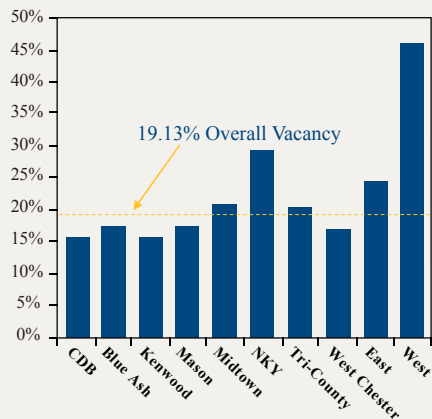
Net Absorption... ↓ ↓

Construction... ↔ ↓

Rental Rate... ↓ ↔

UPDATE

Greater Cincinnati Office Market Vacancy
By Submarket First Quarter 2009


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Commercial Real Estate Services

Economy and Construction Challenge the Cincinnati Office Market

In the face of the economic evolution the U.S. is experiencing, the greater Cincinnati market has shared some of the pain. Companies are reacting to these uncertain times by shoring up their bottom lines through cutbacks ranging from employee count reduction to wage freezes. The unemployment rate (not seasonally adjusted) for the Cincinnati MSA stood at 8.9% in February which is a significant increase from the 5.3% seen a year ago. The national unemployment rate (not seasonally adjusted) is also at 8.9%. Although the unemployment rate for the greater Cincinnati area has ticked upward, the region has not experienced any spikes due to related sector closures.

The overall vacancy rate for the greater Cincinnati office market is 19.13%, which is just slightly higher than the 18.56% seen at the end of 2008. In Q1 2008 the vacancy rate was 16.90%. The Q1 2009 net absorption is a negative 116,000 SF. The amount of sublease space seen on the market in the first quarter of 2009, 435,000 SF, is essentially the same amount on the market a year ago (see graph on page 2). We anticipate this may rise as the year progresses.

The economy, however, is not the only factor affecting the office market. Construction on several major projects will significantly impact future vacancy. Sencorp's 100,000 SF office building in Ivy Pointe Commerce Park along I-275 and Ferguson Drive in Eastgate will be completed next quarter. The company will merge operations currently in Newport, Anderson Township and Clermont County into the new facility. In the third quarter of 2009, Duke Realty will complete the 403,800 SF office campus at I-75 and Union Centre Boulevard in West Chester for GE Aviation. This will consolidate over 1,400 employees from three other sites in the area. The Tri-County market will feel the effect when the Executive 1 and 3 buildings are vacated, adding over 300,000 SF of available space to this market. Medpace will begin construction this year on a 350,000 SF facility on Red Bank Road Expressway in the Midtown

UPDATE

GREATER CINCINNATI OFFICE MARKET SUMMARY FIRST QUARTER 2009

TYPE	INVENTORY Q1 2009	VACANCY Q1 2009	VACANCY Q4 2008	NET ABSORPTION YTD	NEW DELIVERIES YTD	UNDER CONSTRUCTION
CBD	12,707,000	15.87%	15.85%	(3,000)	0	825,000
Blue Ash	4,018,000	17.21%	15.59%	(47,000)	0	0
Kenwood	986,000	15.73%	16.27%	5,000	0	270,000
Mason	2,675,000	17.15%	17.70%	15,000	0	0
Midtown	3,512,000	21.09%	20.98%	(4,000)	0	75,000
NKY	3,057,000	29.55%	27.39%	(66,000)	0	35,000
Tri-County	2,667,000	20.58%	19.58%	(27,000)	0	0
East	1,019,000	23.91%	20.96%	(26,000)	0	100,000
West	466,000	45.78%	43.71%	(10,000)	0	0
West Chester	936,000	16.91%	17.45%	46,000	50,000	404,000
Total	32,043,000	19.13%	18.56%	(116,000)	50,000	1,709,000



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UPDATE
GREATER CINCINNATI OFFICE HISTORIC SUBLEASE TRENDS



Crossing development of the former Nutone site. Occupancy would begin in 2010 as the company transitions from its current Norwood site. It is expected that ground will be broken shortly for the 50,000 SF building for the Cincinnati Chapter of the American Red Cross in the Keystone Parke development on Dana Avenue. They will be relocating in 2010 from a 37,500 SF building downtown. The CBD submarket has seen progress made on the construction of the 825,000 SF Class A Great American Tower at Queen City Square on Sycamore between Third and Fourth Streets. Great American Insurance will occupy 540,000 SF when it is completed in 2011. However, 285,000 SF currently remains to be leased. This vacant space along with over 400,000 SF that will be vacated by Great American Insurance in 2012 will have a major impact on the CBD in the coming years.

It is expected that the number of future expansions and relocations of companies and the backfilling of vacated space will be a challenge under the current business fiscal restraints. The \$787 billion Stimulus Plan, along with the \$75 billion

Cincinnati market, timing will be a crucial factor in alleviating future increases in vacancy.

The question remains, will Cincinnati be able to forestall any further contraction in the local economy and stem the tide of rising vacancy? How long it takes to feel the effects of the federal stimulus plan pumping life into the declining economy remains to be seen.

CBD Market

The overall vacancy rate of 15.9% for the CBD market in Q1 2009 remains unchanged from the end of 2008. Class A vacancy is 12.8%, while Class B is 18.5%.

C+RA leased 21,000 SF in the 578,892 SF The Center at 600 Vine building.

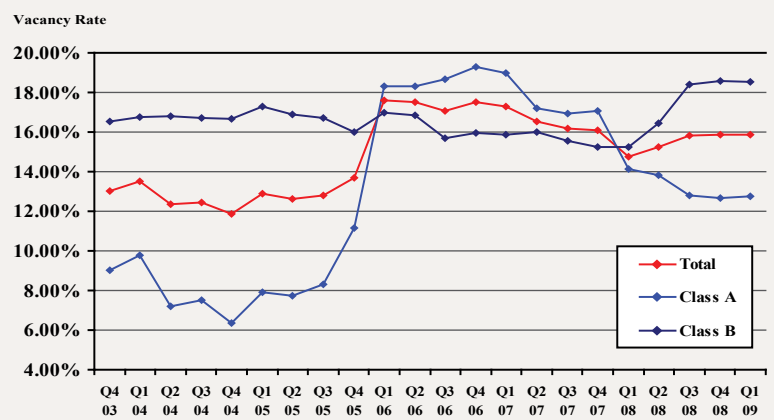
Homeowner Affordability and Stability Plan, could be the medicine to jumpstart the economy. The combination of stabilizing the housing market and job creation could lead to positive effects in the commercial real estate market. For the

However, there is still over 200,000 SF vacant in the building as the result of the Convergys move to the Atrium One building in 2004. The US Bank Tower saw the completion of The Taft Center, a 7,000 SF corporate event space on the second floor overlooking Fountain Square. Jackson, Rolfes, Spurgeon & Co. leased 18,800 SF in the 125,000 SF Midland Building at 537 East Pete Rose Way and will be relocating in the fall.

Renovations have begun on the 150,000 SF office building at 444 West Third Street downtown in anticipation of dunnhumby USA's relocation to it in the fall. dunnhumby USA will be moving out of 57,000 SF of Class B space in the 187,600 SF building at 302 W. Third Street. In June 2010 the relocation of Burke Inc. from the Centennial II building at 805-813 Central Avenue to the 78,000 SF building it purchased at 500 W. Seventh Street in Queensgate will add 52,000 SF to the available vacant Class B space.

PNC's acquisition of National City may add significant amounts of Class B space

UPDATE
HISTORICAL CBD VACANCY BY CLASS

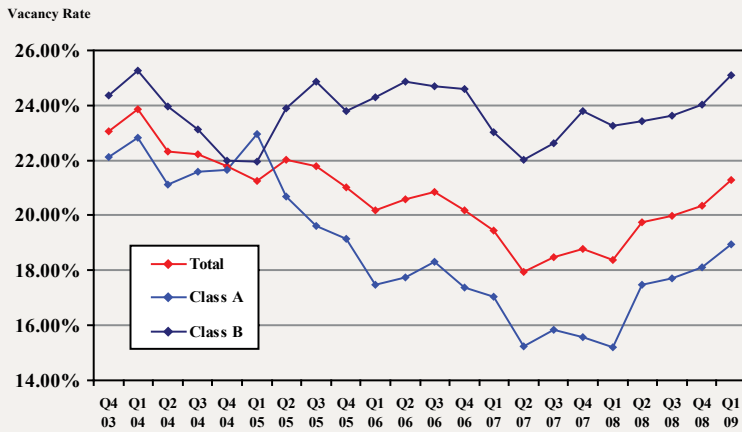


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UPDATE HISTORICAL SUBURBAN VACANCY BY CLASS



to the CBD market. The timing of the results of the merger is unknown.

Suburban Market

The overall vacancy rate for the Suburban office market is 21.3%, up from 20.3% at the end of 2008. There is a negative net absorption of 113,000 SF at the end of the first quarter. Class A vacancy is 19.0%, while Class B vacancy is 25.1%.

The overall vacancy rate for the Midtown market remains at 21.1%. Lawriter LLC leased 5,400 SF in the Holiday Office Park Tower at 644 Linn Street, while Cincinnati Area Senior Services relocated from the building to 7,546 SF in the Victory Parkway Executive Building at 2368 Victory Parkway. Lighthouse Youth Services relocated from 1501 Madison Road into the 42,160 SF former Union Institute building at 401 East McMillan Street in Walnut Hills it acquired for \$2.7 million. The Greater Cincinnati Behavioral Health Services then expanded into the vacated space and now occupies the entire 42,000 SF building it acquired for \$2.7 million at the end of 2008.

475,000 SF 16-story office building and 120,000 SF medical office building as well as retail and residential components. No timeframe for beginning construction has been determined as the developers are gauging the length of the economic downturn. Ridge Pointe is a \$21 million redevelopment of the site at 5500 Ridge Avenue in Columbia Township. The 68,000 SF former Kmart will become a 62,000 SF office building with some warehouse space. A 2-story 30,500 SF office building will also be erected as part of this mixed-use project. Construction will begin in the summer and be completed by the end of 2009. The Urology Group acquired 4 acres on Section Avenue at the old American Laundry site in Norwood. Under consideration is a 60,000 SF headquarters or a surgical hospital.

The Kenwood market experienced a slight downward trend in its vacancy rate to 15.7% from 16.3% at the end of 2008. A victim to the economic times is the 270,000 SF office component of Kenwood Towne Place. Construction has been halted until the owner and lenders can

Future projects in the works may cause the vacancy rate to trend upward. The dust has settled on the eminent domain issues for the 12 acres at Edwards Road off I-71 North. Preliminary plans for the first phase of the mixed-use project include a

come to terms with the contractors who are owed money. However, Kenwood Crossings III, a 40,000 SF medical office building, will break ground near the corner of Kenwood and Galbraith Roads in mid-2009.

The Blue Ash market has an overall vacancy rate of 17.2% at the end of the first quarter. CIBER, Inc. leased 7,000 SF in the 175,000 SF The Landings of Blue Ash II building at 9987 Carver Road. The building was constructed in 2007 and is now at two-thirds occupancy. Further gains in tenancy will be the impetus to the construction of The Landings of Blue Ash III building. Michigan-based Bravata Financial Group is expanding into the Cincinnati area with its 10,169 SF office in the Pfeiffer Place building at 10300 Alliance Road. LAN Solutions leased 3,500 SF in the 85,555 SF Fountain Pointe II at 4675 Cornell Road. London Computer Systems Inc. expanded its 5,421 SF building at 1007 Cottonwood Drive in Loveland by an additional 15,000 SF. At the end of 2008 Ethicon Endo-Surgery, Inc. purchased the 120,853 SF One Ashview Place building at 10560 Ashview Place from Duke Realty for \$16.7 million. Because of the building's transition from leased to owner-occupied, it will no longer be included in the survey buildings for the Blue Ash Class A market.

The Mason market saw a slight decrease in its overall vacancy rate from 17.7% at the end of 2008 to 17.1% in the first quarter of 2009. Strayer University leased 15,000 SF in the 178,725 SF Governor's Pointe building at 4605 Duke Drive. Steel Quest Inc. took 3,073 SF in the 34,000 SF office building at 8180 Corporate Park Drive. Construction has been completed on the first 9,000 SF building in the

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EAST POINTE BUILDING 200

The recently completed 50,000 SF Class A East Pointe Building 200 in the Renaissance District in Middletown is already 60% occupied.



4-building 39,000 SF condo complex, The Commons at Landen Office Park. Dr. William Renz DDS moved into 2,100 SF at 8193 Corporate Way. A second 9,000 SF building, under construction at 8181 Corporate Way for Children of America, will be finished in July. It is expected ground will break on the final two buildings of 11,999 SF and 9,000 SF in early 2010.

Because of the increased level of development activity on the I-75 corridor between West Chester and Middletown, Colliers Turley Martin Tucker has decided to separate West Chester into its own market. These statistics will be kept separate from the traditional Tri-County market. Because of the relative youth and quality of its buildings, the West Chester market consists of Class A properties. The current vacancy rate for the West Chester market is 16.9%. The recently completed 50,000 SF East Pointe Building 200 in the Renaissance District in Middletown has seen leasing success. Paychex preleased 25,000 SF and State Farm Insurance has taken 5,200 SF. Recently 24 acres at the southwest corner of the intersection of Cincinnati-Dayton Road and I-75 in West Chester were acquired by Butler Technology and Career Development Schools from Highway Development Properties LLC for \$1.8

million. A new Greentree Health Sciences Academy will be constructed on the site within the next three to five years.

Northern Kentucky remains the market

with one of the highest vacancy rates. It was 29.6% at the end of the first quarter of 2009. Credit Counselors took 6,700 SF at RiverCenter I at 50 East Rivercenter Boulevard in Covington. Strayer University preleased 16,068 SF in the 34,968 SF 3-story building, Turfway Commons, under construction at 410 Meijer Drive in Florence. It is scheduled for completion in July.

Some predictions for the Greater Cincinnati market:

- The vacancy rate will increase. How high it will go depends on the correlation of timing with construction completions and the ability of the economic stimulus plan to positively affect the future of businesses.
- This is a great time for tenants to negotiate favorable leasing concessions. Tenants in Class B properties may find opportunities to move into Class A properties.
- The "true value" of properties will remain uncertain until signs of an economic recovery are seen. The number of sales transactions will continue to be minimal until credit liquidity returns.

COLLIERS INTERNATIONAL

**293 OFFICES IN 61 COUNTRIES
ON 6 CONTINENTS**

136 (United States, Canada, Latin America)

95 EMEA

62 Greater Asia

\$73 billion in transactions

868 million SF under management

11,048 professionals

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