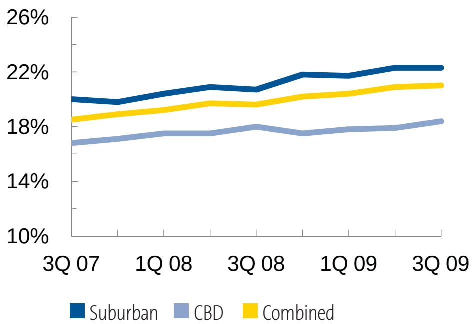
Office Trends Report—Third Quarter 2009
Cincinnati, OH

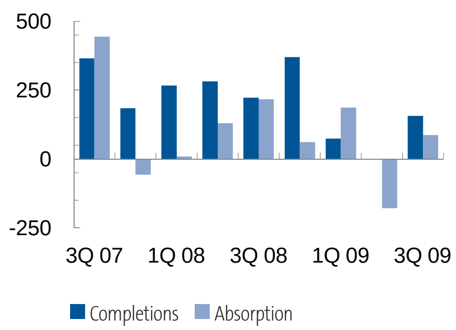
GRUBB & ELLIS
West Shell Commercial

Office Market Shows Modest Gain

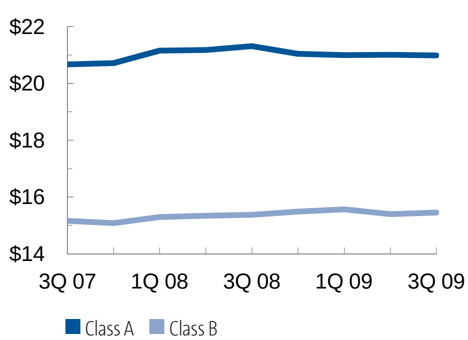
Vacancy Rate
Quarterly



Completion VS Absorption
Quarterly (in Thousands of SF)



Asking Rental Rates
Quarterly ($/SF/Yr. Full Service)



Borrowing the title from the first quarter report, the Cincinnati office market continues to “bounce along the bottom”. The first quarter saw 187,000 square feet of net positive absorption, followed by a decline of 179,000 square feet during the second quarter. The third quarter of the year saw a small gain of 86,909 square feet of net positive absorption. Similar to the first quarter, though, this gain is largely attributable to a few transactions. In the Central Business District, dunnhumbyUSA relocated from 56,000 square feet at 302 West Third Street to a renovated 105,000-square-foot space in a former warehouse at 444 West Third Street. The company has since purchased the building for $17 million from the developer. In Kenwood, UBS Financial Services expanded by 28,000 square feet at Duke Realty’s Towers of Kenwood.

Otherwise, occupancy across all other submarkets was either modestly up or down, indicating a zero sum game where one building owner’s gain is simply another’s loss. The overall vacancy increased by only 10 basis points to 21.0 percent, after increasing by 220 points since late 2007. It is unlikely that this signals the end of rising vacancies, as the availability rate, an indicator of future vacancy, increased once again and now stands at 23.6 percent. Future vacancy will heavily impact the Central Business District, where 550,000 square feet of Class A space will be vacated by Great American Insurance and Frost Brown Todd in 2011 upon completion of Great American Tower at Queen City Square, and the Tri-County submarket as GE Aircraft Engines begins its move to West Chester during the fourth quarter. The I-71 North Corridor also faces a 160,000-square-foot loss at Governor’s Hill due to a consolidation by Procter & Gamble.

Rental rates for Class A buildings declined slightly to $20.99 per square foot while Class B rental rates were flat at $15.45 per square foot. The real story lies behind the deals, though, as effective rental rates have fallen by as much as 10 to 15 percent over the past 18 months.

FORECAST

- Vacancy will continue to rise, but at a reduced pace due to the lack of new speculative construction scheduled for delivery in the near future.
- With effective rental rates steeply discounted, further competitive pressure will push asking rates lower as well.
- Tenants will employ the “blend and extend” strategy to reduce occupancy costs and to hedge against possible rate increases in the future.

KEY TRANSACTIONS

Lessee/Buyer	Lessor/Seller	Property	Size (SF)
Cincom Systems, Inc.	Northstar Realty Finance	Executive Centre II	132,000
Frost Brown Todd, LLC	Western & Southern Life	Queen City Square	105,000
Humana	Corporex Cos.	Grand Baldwin Building	60,000
Standard Insurance Co.	Duke Realty Corp.	312 Elm & 312 Plum*	32,000

Lease   Sales   * Indicates Transactions Represented by Grubb & Ellis

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The overall vacancy rate increased by only 10 basis points to 21.0 percent after rising 220 points since late 2007.

CENTRAL BUSINESS DISTRICT

Downtown bustles with construction activity as the 38-story Great American Tower at Queen City Square, Cincinnati's first skyscraper in 18 years, rises high above the corner of East Third and Sycamore Streets. A couple of blocks to the southwest, the parking decks serving as the base for Phase I of the mixed-use, riverfront development known as The Banks are filling part of the void stretching between the two stadiums. Local brewer Christian Moerlein Brewing Company announced plans to build a 22,000-square-foot restaurant/brewery in the park adjacent to the project, while other entertainment-themed retailers are said to be weighing their options. This excitement, though, comes at a cost. Queen City Square did not attract an out-of-market headquarters, as had been hoped, likely setting in motion another round of musical chairs in the downtown market early in 2011.

Additionally, the fallout from the merger of PNC and National City Bank will finally make itself known over the next few quarters as PNC begins to consolidate National City employees into its existing space. Notable transactions include Standard Insurance's renewal at 312 Plum and expansion into 18,000 square feet at 312 Elm and Barnes Dennig's relocation from Carew Tower to the Federal Reserve Bank Building. The vacancy rate increased by 50 basis points since midyear to 18.4 percent and the average Class A asking rate declined $0.30 per square foot to $21.86. With the prospect of a large volume of space coming to the market, this trend is expected to continue.

Standard Insurance renewed its lease at Duke Realty's 312 Plum Building, who provided an additional 18,000 square feet of expansion space at 312 Elm (above).

SUBURBAN MARKETS

The Kenwood submarket led the suburban markets with 33,775 square feet of positive net absorption. In addition to the UBS expansion, Mass Mutual and The Devine Group moved into Scott Street Partner's Redstone of Kenwood. The Tri-County submarket posted just 18,236 square feet of positive net absorption, despite Miami Jacobs Business College taking occupancy of 32,000 square feet at Crowne Pointe. As GE Aircraft Engines begins moving to its new campus in West Chester in the upcoming weeks, the market welcomed the news that Cincom Systems had renewed its lease of 132,000 square feet at Executive Centre II. However, more than 300,000 square feet of Class A product is expected to be added to the inventory of vacant space over the next 12 months.

Likewise, other suburban markets either posted little to no gain or lost some ground. The East submarket, losing 60,057 square feet, was impacted by the Senco bankruptcy which reduced its leasehold at Ivy Pointe Commerce Park by 50,000 square feet. Insight Media has since signed a lease to backfill 12,500 square feet of the building's vacancy. In the I-71 North Corridor, Procter & Gamble plans to vacate 160,000 square feet at Governor's Hill, moving this group into corporately owned space downtown. The usually active Midtown and I-75 North Corridor submarkets also remained quiet. In Northern Kentucky, Astar Air Cargo took occupancy of 34,000 square feet at Turfway Ridge Office Park in Florence, but this gain was mostly offset by a number of smaller vacancies coming to the market.

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CONSTRUCTION OUTLOOK

The outlook for construction remains grim. The only projects of any significance include the 805,000-square-foot Great American Tower at Queen City Square, the 403,800-square-foot, two-building campus for GE Aircraft Engines in West Chester and a 50,000-square-foot headquarters for the American Red Cross at Keystone Parke in Midtown. The office tower at the Kenwood Towne Place mixed-use development and the 35,000-square-foot Turfway Commons have been removed from the construction totals this quarter as both projects are facing foreclosure and construction truly ceased many months ago. Some smaller projects remain on the drawing board awaiting pre-leasing targets and financing, but construction activity will remain diminished for the next few years.

Procter & Gamble's relocation from Governor's Hill to its downtown headquarters will provide an opportunity for a large user to take occupancy of an entire 200,000 square foot building in the I-71 North Corridor.

SUMMARY

With job losses continuing to mount, albeit at a much reduced pace, a recovery for the office market will be delayed for some time. Increased economic activity, measured by GDP growth, drives demand for labor and demand for office space is predicated on job growth. With no new speculative product scheduled for delivery to the office market, increases in vacancy should moderate, although the availability rate suggests that as much as 900,000 to 1,000,000 square feet may be added to the market over the next 12 to 18 months. The transactions responsible for much of the future availability simply yields net negative absorption as companies either move into new product added to the market, or are consolidated into owner occupied buildings, which are not included in the competitive inventory.

Many analysts believe the recession has ended or is nearing its end, which is certainly good news. Although an upturn in economic activity will eventually benefit commercial real estate, many elements of the economy, primarily job growth, need to appreciably improve before positively impacting the office market.

Third Quarter 2009

	New Speculative Development				New Build-to-Suit Development			New Owner Occupied Development		
	Under Construction	Preleased %	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr	Completed YTD
CBD	805,000	79%	0	0	0	0	0	0	0	0
Suburban	0	0%	38,000	109,712	403,800	0	100,632	50,000	118,000	156,000
Total	**805,000**	**79%**	**38,000**	**109,712**	**403,800**	**0**	**100,632**	**50,000**	**118,000**	**156,000**

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By Submarket	Total SF	Vacant SF	VACANCY % Direct	VACANCY % Total	NET ABSORPTION Current	NET ABSORPTION Year To Date	Under Construction SF	ASKING RENT Class A	ASKING RENT Class B
CBD	12,481,490	2,294,304	17.0%	18.4%	56,078	28,633	805,000	$21.86	$14.76
CBD Total	**12,481,490**	**2,294,304**	**17.0%**	**18.4%**	**56,078**	**28,633**	**805,000**	**$21.86**	**$14.76**
Blue Ash	3,814,104	812,064	19.9%	21.3%	(7,936)	39,578	-	$21.10	$15.47
CBD - Periphery	2,942,497	755,956	25.3%	25.7%	8,332	32,468	-	$22.23	$14.66
East	1,642,750	364,239	22.1%	22.2%	(60,057)	46,841	-	$21.31	$14.11
I-71 Corridor North (of I-275)	3,367,515	874,959	25.7%	26.0%	(10,289)	(69,617)	-	$19.75	$17.00
I-75 Corridor North (of I-275)	1,143,268	140,698	12.1%	12.3%	3,116	(5,833)	403,800	$21.42	$17.24
Kenwood/Montgomery	1,628,979	218,498	13.1%	13.4%	33,775	27,373	-	$23.76	$18.73
Midtown	1,870,493	367,736	19.7%	19.7%	18,859	23,025	-	$23.47	$19.17
Northern KY	4,768,980	1,042,731	21.2%	21.9%	26,748	40,363	-	$20.90	$16.59
Tri-County	3,432,916	909,858	26.4%	26.5%	18,283	(35,626)	-	$18.83	$14.30
West	206,848	42,975	20.8%	20.8%	-	(2,383)	-	-	$15.80
Suburban Total	**24,818,350**	**5,529,714**	**21.8%**	**22.3%**	**30,831**	**96,189**	**403,800**	**$20.64**	**$15.66**
Totals	**37,299,840**	**7,824,018**	**20.2%**	**21.0%**	**86,909**	**124,822**	**1,208,800**	**$20.99**	**$15.45**

By Class								AVAILABLE FOR SUBLEASE CBD	AVAILABLE FOR SUBLEASE Suburban
Class A	18,874,541	3,580,580	18.3%	19.0%	14,968	97,086	1,208,800	98,076	124,601
Class B	14,282,875	3,248,018	21.7%	22.7%	41,555	(16,073)	-	76,912	62,289
Class C	4,121,904	991,793	23.7%	24.1%	34,013	47,436	-	289,900	728
Unclassified	20,520	3,627	17.7%	17.7%	(3,627)	(3,627)	-	-	-
Totals	**37,299,840**	**7,824,018**	**20.2%**	**21.0%**	**86,909**	**124,822**	**1,208,800**	**464,888**	**187,618**

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OFFICE TERMS AND DEFINITIONS

Inventory: Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet. Owner-occupied, government and medical buildings are not included.

Office Building Classifications: Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

Direct Vacant: This is the vacancy rate in space offered on the market directly by the landlord in single and multi-tenant buildings. This excludes vacant space offered for sublease and vacant space that is not offered on the market, for whatever reason.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported full service where all costs of operation are paid for by the landlord up to a base year or expense stop.. The asking rent for each building in the market is weighted by the amount of available space in the building.

** Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*