

# Multifamily, investment fueling Cincinnati's CRE growth

By Susan Branscome



Encore Apartments in downtown is an example of the high-end multifamily projects rising in Cincinnati.

The amount of private and public capital investment in the city of Cincinnati during the last 10 years has been unprecedented.

Cincinnati has experienced a resurgence unlike any time in the city's recent history given an incredible amount of capital invested during the last 10 years. Cincinnati is one of the top cities in the country for millennial migration and ranked in the top 10 by fDi Magazine as an "American City for the Future." CNBC's Disruptor 50 List ranked Cincinnati in the top eight cities in the country for business startups.

With a 3.7 percent unemployment rate, strong supply and demand fundamentals in all real estate sectors, Cincinnati is poised to be one of the top cities in the Midwest for investment and remains competitive for companies to expanding or relocating. However, with long a strong unemployment rate along comes the challenge of companies to hire and fill positions with qualified people.

Today, the Cincinnati story is not unlike that in other cities. Class-B downtown office space is converting to apartments while retail is in part becoming industrial. The pro-business focus, collaborative work and economic commitment to the region has never been stronger. Helping with

this effort are government-sponsored entities and non-profits such as 3CDC, The Greater Cincinnati Redevelopment Authority, REDI Cincinnati, Northern Kentucky Tri-Ed and the Greater Cincinnati Chamber of Commerce.

Some of the following major developments have recently been completed or in the planning phases:

Amazon is expanding its Global Prime Air Hub in Northern Kentucky and announced a \$1.5 billion investment at the Cincinnati/Northern Kentucky International Airport (CVG) to include 3 million square feet of buildings and office space. The projections include the addition of 15,000 jobs over the course of 30 years. DHL has invested more than \$280 million in the last year and employs 3,500 people, contributing to CVG's ranking as the eighth largest cargo airport in the country.

Currently being developed by a joint venture between North American Properties, Kroger Co., 3CDC, City of Cincinnati, Northpointe and Rookwood Properties is a \$91 million project in the CBD at Court and Walnut Streets. The project will include the first true downtown Cincinnati Kroger grocery store, a 550-space parking garage, and 139 luxury residential housing units.

Cincinnati Children's Hospital began development of a \$650 million expansion to the Avondale campus, which will add 600 jobs.

The recently opened MLK/I-71 interchange has allowed much better access to 670 underutilized properties near the UC Medical Center and the University of Cincinnati in an area known as Uptown. The expectation is to create an additional 7,000 jobs with the investment by local developers.

Terrex Development in a joint venture with Messer Construction have grand plans to develop soon in this immediate area. Terrex recently signed a lease with the University of Cincinnati for 180,000 square feet for half of the office complex at the new interchange. The development will also include a 200-room hotel atop a 1,450-space parking garage. Additionally, a joint venture between Neyer Properties and Kulkarni Properties has plans for a \$500 million mixed-use development for research and development, office, retail housing and hospitality at this underutilized area.

The Rookwood Exchange is a \$100 million mixed-use development by Jeffrey R. Anderson Real Estate Inc. and is completely built out in Norwood/Hyde Park off I-71 and includes a 230,000-square-foot class-A office

building, retail space, restaurants, apartments and two hotels.

FC Cincinnati, Cincinnati's professional soccer team, began as a vision by manager Jeff Berding. With the financial support of the Lindner family the team was accepted into the MLS for the 2019 season. The club has record attendance, averaging 25,000 per game and plans to develop new stadium in 2021 just west of the Cincinnati CBD.

The Cincinnati/Northern Kentucky International Airport is the fastest-growing airport in the country with an 18 percent increase in passenger travel last year.

The land between the Reds stadium and Bengals stadium, known as The Banks, is nearly fully developed with the recent addition of an AC Marriott, additional apartments and plans for a concert venue. There are 15 restaurants and bars located at the Banks. General Electric occupies a 338,000-square-foot office building at The Banks housing its Global Operations Center. Orchestra Park is projected to open in the fall of 2019 and will host 170 events and attract 250,000 attendees annually.

The district immediately north of the CBD known as Over-The-Rhine ("OTR") has undergone a renaissance

with the addition of many multifamily developments and redevelopments, condo units, a variety of restaurants and dozens of bars. The American Planning Association has named OTR as one of five Great Neighborhoods in America in its annual Great Places in America list. The \$143 million renovation of Music Hall and \$48 million renovation and expansion of Washington Park are key projects here.

**MULTIFAMILY**

The Cincinnati MSA has a multifamily market with many new developments in both downtown and the suburbs. Vacancies are beginning to increase slightly with the year-end vacancy expected to be 4.6 percent. Rental rates have continued to rise each quarter, having increased since the first quarter of 2010.

According to Kurt Schoemaker with CBRE's multifamily division, activity and absorption of newly completed units continues to be strong.

Under construction or recently delivered

- 139 luxury residential housing units currently under development at Court and Walnut Streets by North American Properties and Rookwood Properties.
- Encore Apartments was a \$52 million, 17-story luxury, 133-unit apartment building downtown at 8th and Sycamore Streets developed by North American Properties.
- 49Hundred, a 266-unit luxury property in Blue Ash has stabilized and was developed by Hills Development.
- City Club Apartments a developer based in Detroit has redeveloped a class-A office building at 309 Vine Street into a nearly \$67 million transformation of 294 apartments.
- Flaherty and Collins and 3CDC have made progress on the approvals to develop a \$116 million, 14-story mixed-use development with six floors of 264 apartment's downtown at Fourth and Race Streets.
- Circle Development is beginning phase II of a \$30 million development including 104-unit units in Madisonville.
- Just announced, Charles Street Development Co., a Denver-based developer is planning to build a \$40 million

mixed-use project in Pendleton area of downtown. This mixed-use project would include 150 apartments with parking and retail.

- NorthPoint Group completed \$17 million development, Duveneck Square, 110-unit project in Covington, Kentucky.
- Neyer Properties and Casto Development converted Baldwin Office into \$100 million development of 190 loft apartments north of the city in midtown.
- Capital Investment Group developed the \$80 million Aqua on the levee in Newport, Kentucky which includes 239 apartments including retail space and a parking garage as well as a hotel.
- Construction has begun on The Academy is a 202-unit, \$37 million multi-family development in Newport sponsored by the Carmel, Indiana developer, CRG Residential.
- Jeffrey R. Anderson Real Estate and Miller-Valentine Group are developing \$30 million development to include 200 units in Silverton.
- PLK is developing Echelon Apartments, a 191-unit, \$30 million project on the east side of Cincinnati on Glen Este-Withamsville Road.
- The District at Summit Park in Blue Ash is a joint venture between Al Neyer Inc. and Fortus Group based in Fort Wayne, Indiana which includes a 290-unit multi-family development.
- Anderson Birkla, based in Indianapolis converted a class-B office building into a \$61 million conversion to include 179 apartments, known as @580.
- Riverhaus, a 192-unit development is being developed by Flaherty & Collins Properties, a \$40 million development in Covington, Kentucky.
- Continental Properties based in Milwaukee, Wisconsin developed a 308-unit multi-family development in West Chester, a northern Cincinnati suburb.
- Schottenstein based in Columbus is developing a 236-unit property in Florence, Kentucky known as the Grand at Florence

**PLANNED**

- One41 Wellington is a \$30 million multi-family development by Uptown Rental Properties LLC and North American Properties. The project includes a 202-unit apartment building near the University of Cincinnati.
- Hills Development was recently approved to develop a \$40 million, 200-unit new project in Anderson Township.
- Capital Investment Group is working toward getting zoning approval for a \$90 million mixed-use project in Kenwood known as Gallery of Kenwood. The property will include 266 apartments, a 130-room hotel,

180,000 square feet of office and to include restaurants and parking.

Besides the Summit Park development mentioned earlier, The Fortus Group also has plans to develop two additional new multi-family properties---

1. A new mixed-use \$55 million, 285-unit in East Walnut Hills will break ground in the summer of 2018 in the neighborhood of East Walnut Hills.
2. Freeport Row has been planned as a new building on vacant land as well as four historic buildings and once restored will include 110 apartments.

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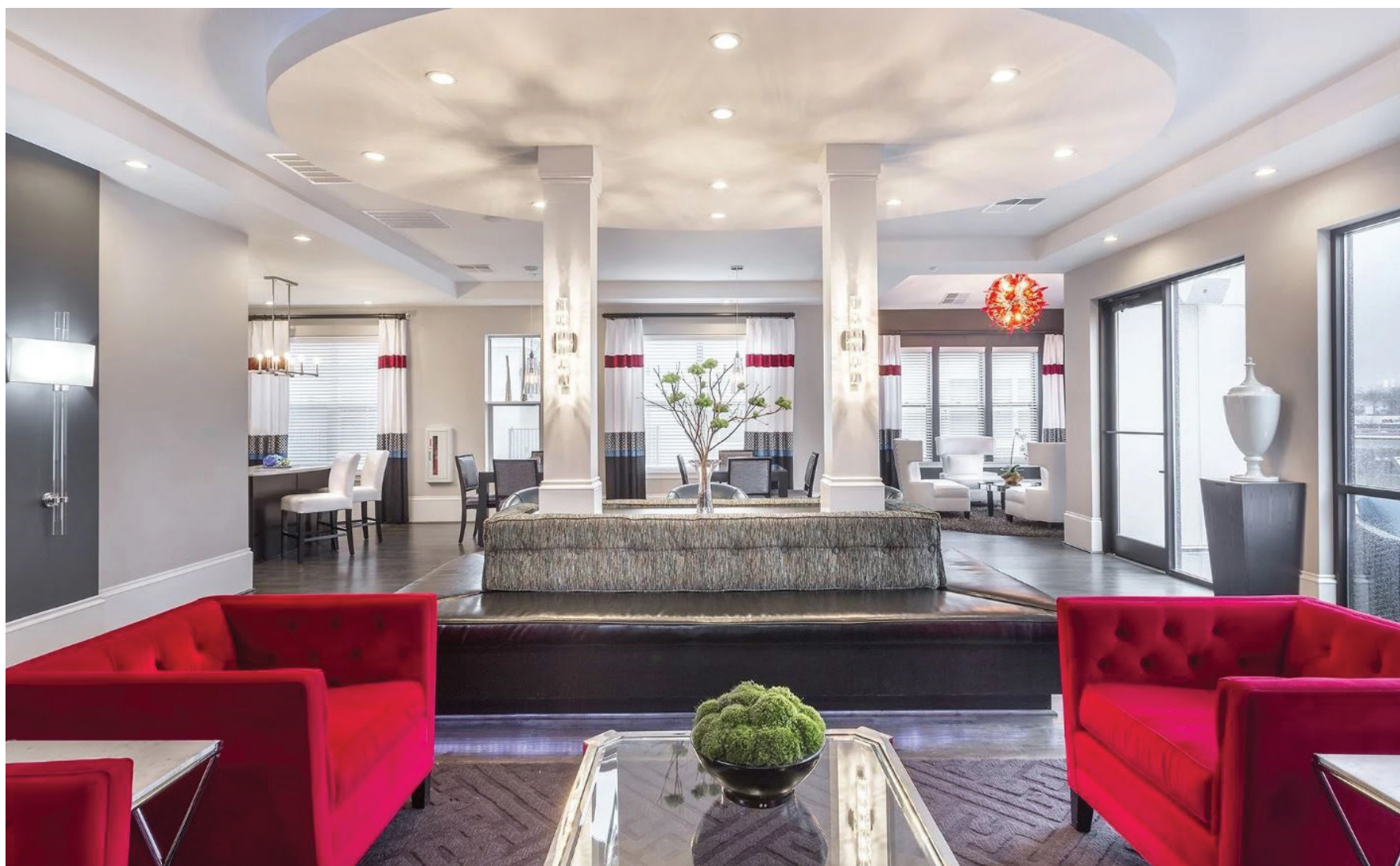
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49Hundred in Blue Ash is a 266-unit luxury apartment project.

## INDUSTRIAL

Cincinnati is well-located at the convergence of two interstates, I-71 and I-75, providing a centralized transportation region serving the Midwest with a total industrial inventory of around 300 million square feet. Much of the new industrial development is occurring at or just outside the I-275 outer belt, south around the airport as well as north of the City.

According to REIS, there is more than 14 million square feet of planned or proposed new warehouse and distribution industrial space. According to Dave Noonan of Lakota Commercial Realty, “The market is vibrant with much activity in response to the demand.”

The vacancy reported by REIS in all sectors is 7.2 percent and rents are up year-over-year by 3.6 percent.

Some of the larger industrial Developments recently completed or planned projects are:

n’s Global Air Hub is spurring land acquisition and development with Northern Kentucky. Amazon has a

1.3-million-square-foot building just built, not yet occupied, in IDI’s Park North. According to Dave Noonan of Lakota Commercial Realty, “Amazon has made Kentucky a large, big-box, cross-dock speculative market, yet the savvy developers to the north are building medium-sized rear load products and only secondarily big cross-docks.”

The Opus Group has announced plans to construct a speculative industrial development in Middletown, Ohio. The development is 612,730 square feet on Todhunter Road, near the I-75 corridor. This project is expected to finish in May 2019. Duke Realty completed a 450,000-square-foot industrial space in 2016 that added its first tenant in late 2017, CompuCom. The development is in Fairfield, Ohio.

IDI Logistics, which just completed a spec 756,000-square-foot building in Monroe, plans to develop a seventh industrial building at 61 Logistics Blvd in Walton, Kentucky. This building will be more than 1.06 million square feet.

VanTrust Real Estate recently de-

veloped a 541,000-square-foot speculative distribution center near the Cincinnati/Northern Kentucky International Airport, in Florence, Kentucky. It will also develop a 264,000-square-foot spec building across the street. Both were leased well before completion.

Springdale Commerce Park is a joint venture development between developer Strategic Capital Partners LLC and real estate finance firm PCCP LLC. The partners purchased the former GE Park golf course in Springdale and will convert the property into Springdale Commerce Park, which will include four buildings designed to include more than 1.1 million square feet of class-A industrial space.

KP Development, a St. Louis-based company, will be developing a 900,000-square-foot speculative bulk distribution building at Logistics Park 75 near the Interstate I-71/I-75 split in Walton in Northern Kentucky. The development could eventually include more than 3.5 million square feet of industrial development.

Al Neyer in joint venture with Hill-

wood Development is developing the former Showcase Cinema site in Erlanger, Kentucky. Candy maker Perfetti Van Melle USA Inc. has signed a lease for half of the 780,000-square-foot building, Erlanger Commerce Center I, where the company will relocate its warehousing operations. Coca-Cola Bottling Co. will also bring more than 400 new jobs to its \$30 million sales and distribution center here. Neyer/Hillwood has already started building II, a 575,000-square-foot speculative building.

Developer Ridgeline, new to the market, has just completed a speculative 216,000-square-foot building in Florence. The Paul Hemmer company, in conjunction with Chicago-based Molto, also new to the market, is underway on a 142,000-square-foot speculative building near the airport. An additional 162,000-square-foot building will soon follow.

Duke Realty purchased 47 acres in Clermont County and is developing a 617,000-square-foot facility for home accessories company Design within Reach at South Afton Industrial Park. This development is expect-

ed to create 3,500 new jobs.

Duke Realty Corp. also broke ground in March on the Fairfield Logistics Center on Seward Road. The company purchased a vacant 22.8-acre parcel of land and is developing a 284,000-square-foot warehouse.

ProLogis is developing a \$33 million, 827,000-square-foot leased facility for Bed Bath and Beyond in Monroe, Ohio, on I-75. Bed Bath and Beyond is expected to bring 900 new jobs to the area. In addition, Prologis has started a new 156,000-square-foot speculative building in Hamilton.

Becknell completed a spec 176,000-square-foot building in Fairfield.

Northpoint Development developed two spec buildings on Seward Road in Fairfield, a 476,500-square-foot cross-dock building and a 130,000-square-foot rear-load. A first new tenant at this park is Hollar, Inc., which will lease 125,000 square feet. Both buildings are just about full.

In addition, Northpoint purchased two farms totaling 106 acres in West Chester in a planned \$75 million development at Union Centre Boulevard and Seward Road that could bring 1,000 new jobs. The industrial office park will eventually include 1.8 million square feet of space in six buildings on more than 100 acres.

## OFFICE

The overall office market vacancy in the region is 19.5 percent, according to Peter Snow of Cushman & Wakefield with overall average rents at \$17.94 per square foot and \$21.82 per square foot for Class-A space.

While activity is strong, there is still softness in downtown, Blue Ash and West Chester. VanTrust purchased Landings I and II in Blue Ash and is speculatively developed Landings III, a 140,000-square-foot building in Blue Ash.

Also in Blue Ash, Summit Park is being developed by Al Neyer and Vandercar Holdings. The first phase of this development is Class-A multifamily, yet plans call for office development.

According to Snow, there is little availability for 20,000-square-foot-plus tenants along the 1-71 corridor

between I-275 and downtown, so larger tenants will have fewer choices other than downtown and Blue Ash for the eastern submarkets.

West Chester, Mason-Montgomery and Northern Kentucky have reported among the highest vacancies with Kenwood being the tightest and most expensive office market. Northern Kentucky's office market is improving with Corporex renovating Rivercenter I and II. Leasing in the two buildings on the river have struggled for years yet with the renovation leasing has improved to an overall 75 percent, according to Nick Heekin of Corporex.

One of the positive shifts in downtown has been the ongoing conversion of Class-B office buildings into multifamily and hotel. This has contributed to the trend of downtown rental dwellers and a need for more hotel rooms, leading to more activity and vibrancy downtown.

Snow says there is a trend of tenants desiring for their employees a "live-work-play" environment. An example is the master plan of Neighborhoods at Summit Park, which includes plans for a significant office development being developed by a joint venture between Al. Neyer, Vandercaar Holdings and the Fortus Group.

Another example of live-work-play is Montgomery Gateway, the development of 12 acres in downtown Montgomery. The city of Montgomery selected Gateway Partners, a consortium of five development partners, to develop this \$100 million development with a mix of office, restaurants, hospitality, retail and residential.

The opening of the MLK interchange on I-71 north of the city in 2017 has already spurred growth for undeveloped areas in the Uptown area. There are 670 acres of unused properties in this area and the potential to create 7000 new jobs. Terrex Development and Messer Construction have plans to develop a 360,000-square-foot office complex anchored by 180,000 square feet to University of Cincinnati. Neyer Properties in partnership with Kulkarni Properties also have plans to develop office at this location.

The major healthcare providers of Christ Hospital, Mercy Health, Tri-Health, Children's Hospital and St.

Elizabeth in Northern Kentucky have all made major investments in development and lease commitments throughout the region as the need increases.

## RETAIL

According to Cushman & Wakefield, the retail vacancy at the end of the second quarter in the Cincinnati region was 8.4 percent. There are few new retail developments in the area as developers are taking a wait-and-see approach. Given the acceleration of ecommerce and a higher retail inventory than necessary, Cincinnati, like most other U.S. cities, will experience a shift in which tenants will occupy retail space in the future.

According to Terry Ohnmeis, a retail specialist with Cushman & Wakefield, the spaces where big-box tenants have vacated are being replaced generally by three users, discount stores, fitness places or furniture and home goods stores. Restaurants are among the most successful retailers in this economy and paying among the highest.

As Garrick Brown, vice president of retail intelligence with Cushman & Wakefield, says, retailers must integrate their ecommerce platform with their physical stores. Some retailers are doing this well and others are not.

Brown says the media have overblown the retail buying shift with mostly negative news being reported. The fact is there were 14,000 stores opened in 2017 and 10,000 closed, with a net 4,000 positive growth in store openings.

The Cincinnati region has enjoyed a long yet slow recovery from the great recession. There is uncertainty of where we are in the cycle, when the next recession will occur and where interest rates will be in the future. Despite the uncertainty, with the commitment to the region, development and growth, the Cincinnati and Northern Kentucky region should fare well.

*Susan Branscome is senior vice president and managing director with the Cincinnati office of NorthMarq Capital.*



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