# MarketView

# Toledo Office

www.rkgcommercial.com

**Endyear 2013**

## Quick Stats

| | Current | Change from End 12 | Change from Mid 13 |
|---|---|---|---|
| Vacancy | 15.4% | ↘ | ↘ |
| Lease Rates | $15.04 | ↘ | ↘ |
| Net Absorption* | 40,774 | → | ↑ |
| Construction | 0 | → | → |

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

## Hot Topics

- Office-space market maintains slow, steady march toward recovery
- Vacancy rate drops to 15.4%, the lowest level since 2006
- Class A buildings outperforming rest of market
- Effective rents firming up as landlords concede less free rent and tenant-improvement allowances to secure tenants
- No new construction for third consecutive reporting period

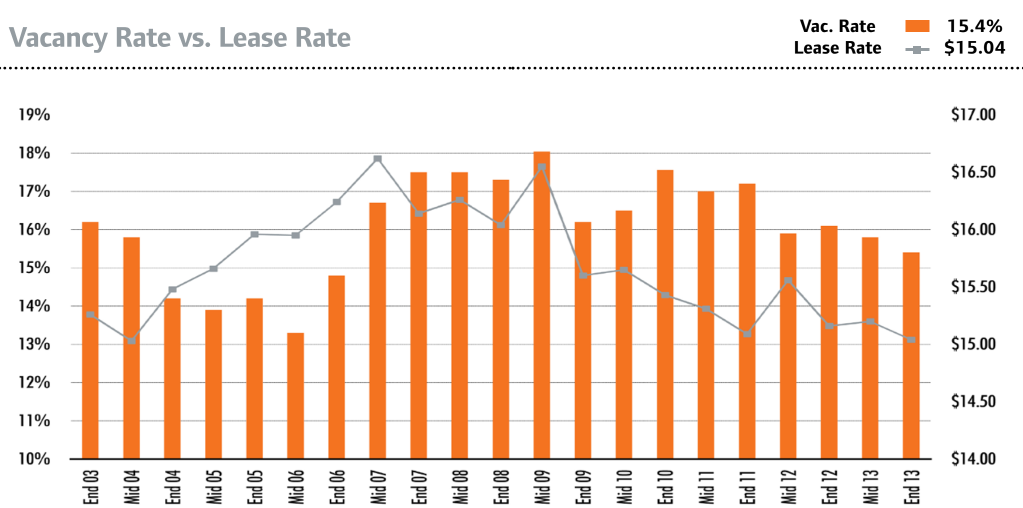
In the second half of 2013, the Toledo region's office-space market continued its slow, steady march toward recovery. Gains were made in reducing overall vacancy, which declined 40-basis points to 15.4% and is now at its lowest level since mid 2006. Even the CBD, a perennially underperforming submarket, saw a big decline in vacancy, falling 110-basis points to 21.3%. There is a continuing flight to quality by tenants and, as a result, Class A buildings are far outperforming the rest of the market, particularly those in the suburbs. Vacancy in Class A buildings in the western and southern suburbs is currently a remarkable 7.3%. In total, the market absorbed a net 40,774 SF in the period, most of which was within Class A buildings — with the majority of that absorption in CBD Class A buildings.

The average asking rental rate fell from midyear, a fall which is a bit deceptive in that it reflects the growing portion of the vacant inventory that is comprised of less expensive Class B and Class C space rather than an indication asking rents are falling. In fact, at the top of the market among Class A buildings, the average asking rent has increased in most submarkets. Further, but not captured in this metric, effective rents are continuing to firm up as landlords concede less free rent and tenant-improvement allowances to secure tenants. We expect owners of suburban buildings to continue to gain leverage as the market recovery advances.

Improving metrics are the result of steady demand and positive net absorption of space combined with a lack of new construction. For the third consecutive reporting period, and the sixth out of the last seven dating back to the end of 2010, there is no space under construction. We know of no imminent ground breakings, so this trend is not likely to change in the near term. One reason is that asking rates for Class A space are not yet high enough to support new construction. But, the tightening Class A market and decreasing options in that segment, particularly for large blocks of space, will create upward pressure on rates and, over time, close the gap between existing space rates and those required for new construction. Other factors which might prompt some construction would be an owner/occupier or a large user who could not find a satisfactory option from within the existing inventory and therefore builds or has a building built.

An ongoing feature of the recovery to date has been the persistently sporadic leasing activity. The activity level has moved in fits and spurts. When there is activity, much of it is driven by impending lease expirations so there are a lot of shoppers, but fewer relocations. Many of these shoppers express dissatisfaction with the inventory of available spaces or buildings, but cannot justify the cost of new construction. We would hope to see a more consistent volume and velocity of user activity as this recovery further takes hold.

### Vacancy Rate vs. Lease Rate

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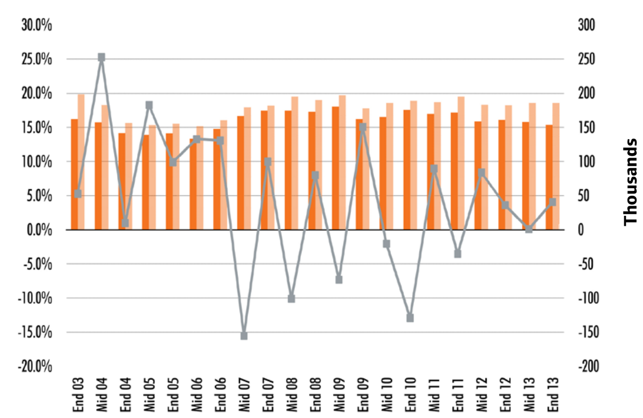
## Market Statistics

| Market | Submarket | Rentable Area | Vacancy Rate % | Net Absorption SF | Under Construction SF | Average Asking Lease Rate SF/YR | Availability Rate % |
|---|---|---|---|---|---|---|---|
| **CBD** | Class A | 2,285,101 | 17.2% | 43,564 | — | $18.19 | 17.4% |
| | B | 1,430,206 | 22.1% | 2,040 | — | $14.79 | 22.7% |
| | C | 1,516,913 | 26.6% | -5,851 | — | $11.66 | 29.8% |
| | **Total** | **5,232,220** | **21.3%** | **39,753** | **—** | **$14.96** | **22.4%** |
| **North/East** | Class A | 38,704 | 17.6% | 2,485 | — | $14.09 | 17.6% |
| | B | 16,998 | — | — | — | — | — |
| | C | 57,828 | 68.3% | — | — | $9.55 | 68.3% |
| | Flex | 48,000 | 25.0% | — | — | $8.05 | 25.0% |
| | **Total** | **161,530** | **36.1%** | **2,485** | **—** | **$9.86** | **36.1%** |
| **Perrysburg/ Northwood** | Class A | 361,772 | 7.8% | 1,103 | — | $21.05 | 10.4% |
| | B | 318,709 | 10.9% | -7,040 | — | $16.64 | 59.1% |
| | C | 56,260 | 7.8% | 4,086 | — | $10.96 | 7.8% |
| | Flex | 36,381 | 21.0% | — | — | $12.82 | 21.0% |
| | **Total** | **773,122** | **9.7%** | **-1,851** | **—** | **$17.57** | **30.8%** |
| **South/Southwest** | Class A | 1,909,326 | 6.9% | -5,204 | — | $18.36 | 11.6% |
| | B | 707,907 | 16.0% | 5,837 | — | $14.57 | 17.7% |
| | C | 661,286 | 22.1% | -791 | — | $11.19 | 26.5% |
| | Flex | 994,981 | 11.0% | -11,501 | — | $13.92 | 12.5% |
| | **Total** | **4,273,500** | **11.7%** | **-11,659** | **—** | **$14.47** | **15.1%** |
| **W. Toledo/ Sylvania** | Class A | 1,126,746 | 7.7% | 9,789 | — | $19.37 | 9.1% |
| | B | 1,044,653 | 9.9% | 3,357 | — | $16.85 | 10.9% |
| | C | 367,019 | 19.1% | -1,100 | — | $12.75 | 21.7% |
| | Flex | 25,600 | — | — | — | — | 48.8% |
| | **Total** | **2,564,018** | **10.2%** | 12,046 | — | **$16.59** | **12.0%** |
| **Market Total** | | **13,004,390** | **15.4%** | **40,774** | — | **$15.04** | **18.6%** |

## Vacancy/Availability/ Net Absorption

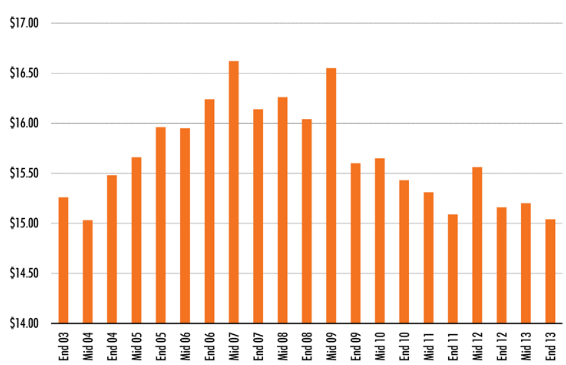
Vacancy 15.4%
Availability 18.6%
Absorption 44,774 SF




CBD vacancy dropped in all classes of space while performance in the suburban submarkets was more mixed. West Toledo/Sylvania is doing particularly well, with the exception of Class C properties among which vacancy stands at 19.1%. On the other hand, Class C buildings make up only 14% of this submarket's total square footage. The CBD and West Toledo/Sylvania also led in net absorption with most occurring within Class A buildings.

## Rental Rates

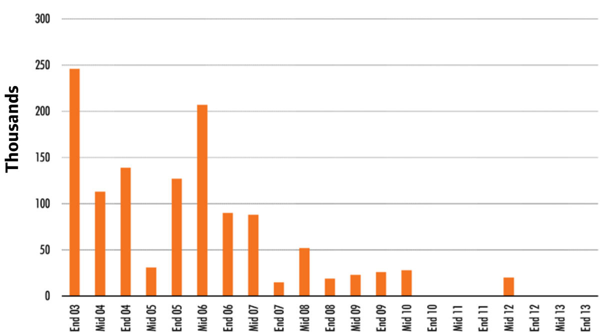
Rental Rate $15.04




The overall average asking rental rate declined. However, this decline masked an increase among suburban Class A buildings. Effective rents at the top end of the market are also firming as landlords are under less pressure to offer concessions to land tenants.

## New Construction

New Construction 0 SF




No space is currently under construction and there are no immediate plans for new buildings.

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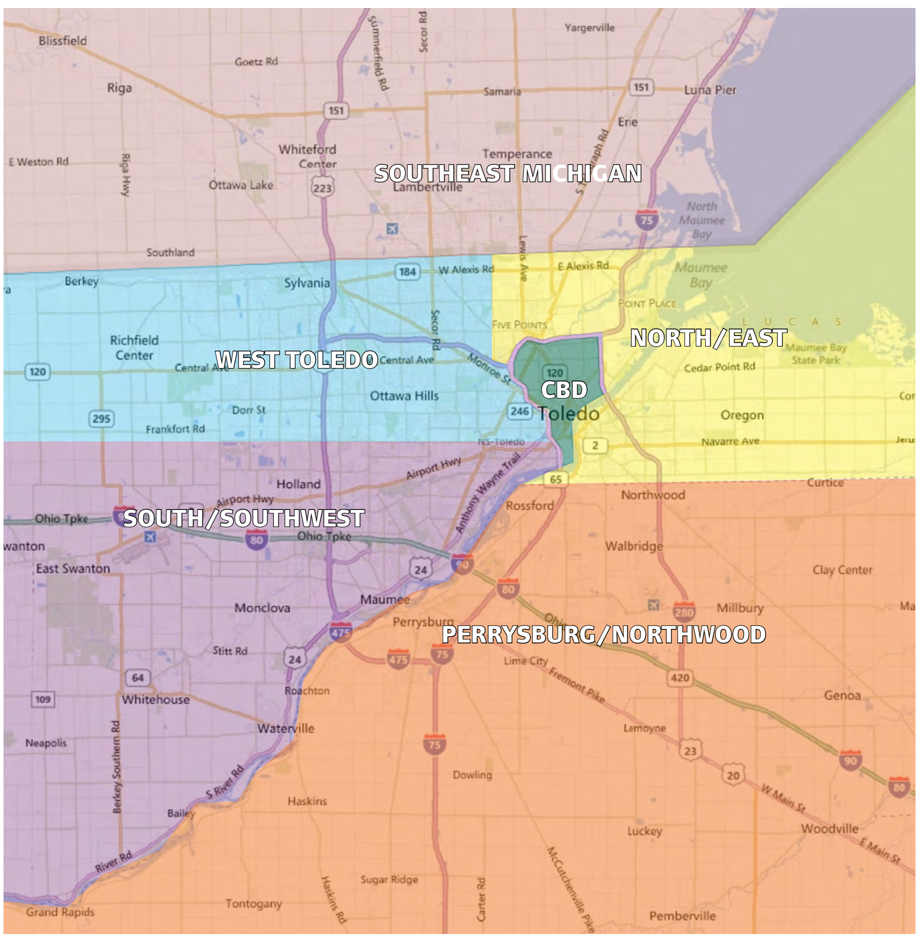
## Top Transactions

| Size (Sq. Ft.) | Buyer/Tenant | Address | Sale/ Lease |
|---|---|---|---|
| 129,786 | Arrowhead Toledo Realty, LP. | 1695, 1705, 1715 Indian Wood Circle | Sale |
| 39,904 | J & J Properties of NW Ohio | 3425 Executive Parkway | Sale |
| 13,600 | Sun Realty | 2900 Carskaddon Avenue | Sale |
| 12,327 | Regus RGN-Maumee, LLC. | 1715 Indian Wood Circle | Lease |
| 9,462 | The Applied Group | 1722 Indian Wood Circle | Lease |
| 6,509 | Toledo Community Foundation | 300 Madison Avenue | Lease |

## Submarket Map




### Average Asking Lease Rate
Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with full-service gross leases for all buildings in the summary.

### Net Leases
Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

### Market Coverage
Includes all competitive office buildings 5,000 square feet and greater in size.

### Net Absorption
The change in occupied square feet from one period to the next.

### Net Rentable Area
The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas.

### Occupied Area (Square Feet)
Building area not considered vacant.

### Under Construction
Buildings which have begun construction as evidenced by site excavation or foundation work.

### Available Area (Square Feet)
Available Building Area which is either physically vacant or occupied.

### Availability Rate
Available Square Feet divided by the Net Rentable Area.

### Vacant Area (Square Feet)
Existing Building Area which is physically vacant or immediately available.

### Vacancy Rate
Vacant Building Feet divided by the Net Rentable Area.

### Normalization
Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

**For more information regarding the MarketView, please contact:**
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