MarketView

Toledo Retail

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Midyear 2014

Quick Stats

	Current	Change from Mid 13	Change from End 13
Vacancy	12.9%	↘	↘
Lease Rates	$7.43	↘	↘
Net Absorption*	11,276	↓	↓
Construction	217,018	→	↑

* 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

- Continuing market improvements in first half of 2014
- Vacancy falls to 12.9% from 13.2% at endyear
- Giant Eagle closes its two Toledo-area stores
- Anchor vacancy increase offset by a larger decline in inline vacancy
- New construction activity increases as all space to be delivered occupied
- Mid- to big-box retailers looking at Toledo market

Reichle | Klein Group
Commercial Property Brokers, Managers & Investment Advisors

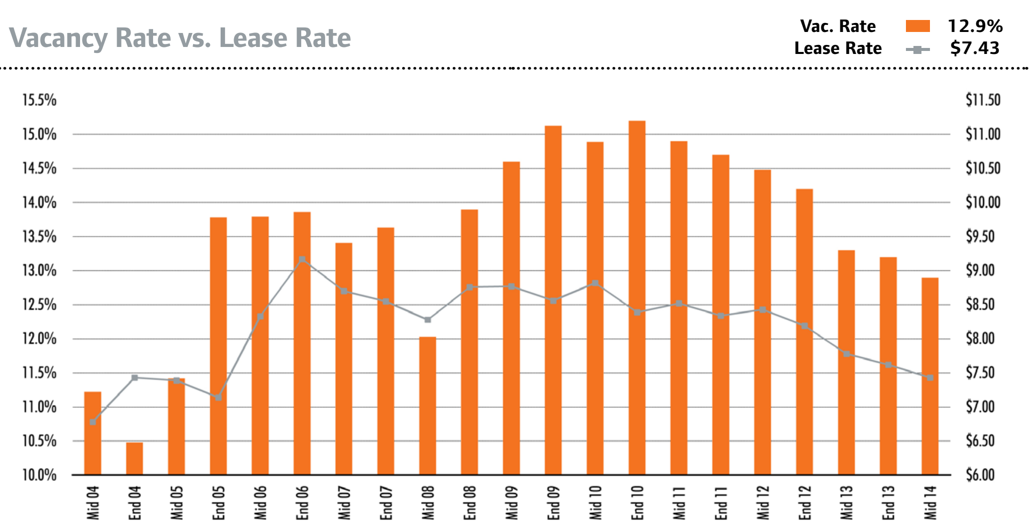
Improvements continued through the first half of 2014 in the Toledo-area retail real estate market. The high-level summary of key metrics is as follows: At midyear, overall market vacancy stands at 12.9%, down from 13.2% at endyear 2013. This drop occurred in spite of two large blocks of anchor space going dark as Giant Eagle closed its two stores in the market and anchor vacancy increased nearly two percentage points to 11.7%. Fortunately, the increase in anchor vacancy was offset by a larger decline in inline vacancy, which dropped 110 basis points to 14.7%, and by sale transactions for two former Kmart properties (At Home and Kroger). A modest 11,276 SF was absorbed in the first half while the average asking rental rate is down owing to the fact that higher-value space is leasing, leaving less-expensive spaces on the market. Finally, new construction activity increased with most of the activity concentrated in West Toledo/Sylvania and Perrysburg/Northwood. None of the space under construction is being built speculatively and all will be delivered occupied.

Tenant activity is as strong as we have seen it since before the recession as the market is getting looks from tenants who heretofore have not considered the Toledo area, notably, some of them mid- to big-box retailers. We see opportunities for quality infill and repositioning of centers like Alexis Park backfilling spaces that have sat vacant for a long, long time. There are also some new-to-market, larger-scale, casual-dining restaurants focused on Toledo. Conversely, a few of the tenant categories which have been most active through the past several years are actually slowing down, namely dollar stores, auto parts and fitness centers.

Retailers have spent the period since the recession tweaking and redesigning their operating and retailing models, including store size and target demographics, to better position themselves for a changed post-recession retail environment. As the retail market slowly recovered following the recession, these retailers first focused on implementing their new strategies in primary markets. It seems like they are finally getting around to secondary and tertiary markets such as Toledo. While this process was going on within the retailers' operations, on the ground there has been something of a realignment or redefinition of the natural market areas within the Toledo market due to all the changes resulting from the many centers which have undergone significant repositioning and repurposing over the last several years.

Emerging from this cycle, retailers who already had a presence in the Toledo area are reassessing their market coverages, their footprints and their sense of where opportunities exist for additional growth within the market. In Giant Eagle's case, the decision is to leave the market. For many others, it seems likely to lead to shifting locations, changing space requirements and possibly new stores in niches in the market where they did not operate previously. This same reassessment process seems to be inclining some retailers who have not previously operated stores in the Toledo market to consider the opportunities the market might provide. If not the equal of the pre-recession glory days, the market is certainly entering an exciting phase after a protracted period of disruption.

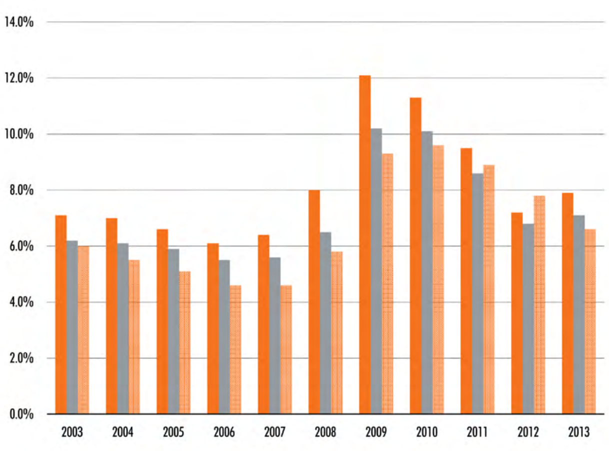
Vacancy Rate vs. Lease Rate



Market Statistics

Market	Submarket	Rentable Area	Vacancy Rate %	Net Absorption SF	Under Construction SF	Average Asking Lease Rate SF/YR
CBD	**Anchor**		46.2%			$ 4.26
	Strip Inline		15.5%			$7.79
	Total	**703,466**	**30.7%**	**18,644**	**—**	**$5.16**
E. Toledo/Oregon	**Anchor**		8.0%			$5.06
	Strip Inline		6.3%			$11.89
	Total	**1,582,457**	**7.3%**	**-4,323**	**—**	**$6.66**
North Toledo	**Anchor**		22.8%			$5.77
	Strip Inline		27.3%			$7.80
	Total	**2,737,984**	**24.4%**	**-105,391**	**—**	**$6.39**
Perrysburg/ Northwood	**Anchor**		18.9%			$5.57
	Strip Inline		15.7%			$13.45
	Total	**2,910,045**	**17.9%**	**37,818**	**—**	**$6.69**
South/ Southwest	**Anchor**		4.3%			$7.41
	Strip Inline		15.3%			$10.06
	Total	**6,491,807**	**9.0%**	**140,311**	**152,500**	**$8.99**
West Toledo/ Sylvania	**Anchor**		6.6%			$6.77
	Strip Inline		11.8%			$ 9.81
	Total	**6,814,905**	**9.1%**	**-76,365**	**64,518**	**$8.61**
Market Total	**Anchor**		11.5%			$5.93
	Strip Inline		14.7%			$9.91
	Total	**21,240,664**	**12.9%**	**11,276**	**217,018**	**$7.43**

2013 Annual Unemployment Rate



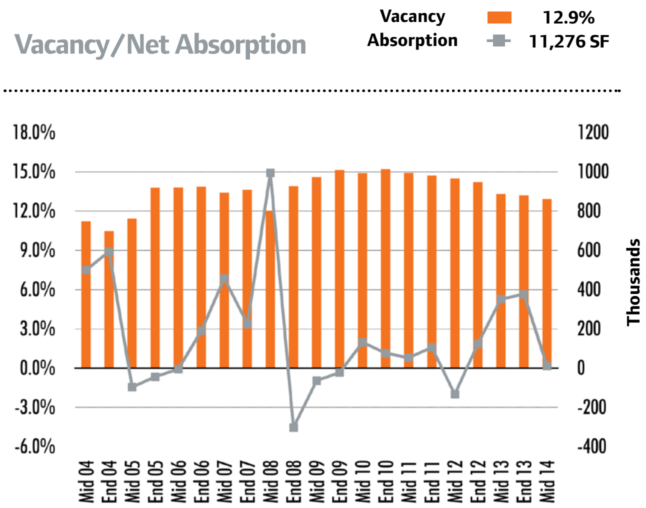
For these estimates: Toledo MSA consists of Lucas, Fulton, Ottawa and Wood counties.
Source: Regional Growth Partnership

As of November 2013, the most recent information states the unemployment rate for the Toledo MSA is 7.9%, slightly higher than the last month's recorded rate of 7.7%. Ohio's unemployment rate of 7.1% is slightly higher than the last month's rate of 7.0%. The U.S. unemployment rate of 6.6% is lower than last month's rate of 7.0%.

The average sale price for a home in the Toledo MSA, as of November 2013, is $108,953, a decrease of 0.4% from the previous month's price of $109,419. The current average home sale price increased by 5.6% from last year's price of $103,150.

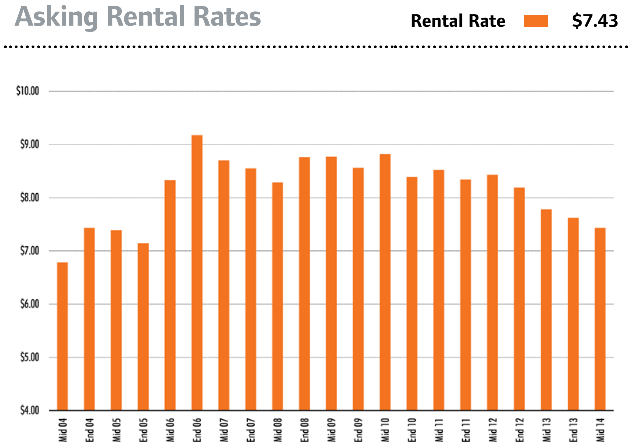
Manufacturing employment for the Toledo MSA, as of November 2013, is 41,500, a decrease of 0.9% from last year's manufacturing employment of 41,900.

Vacancy/Net Absorption



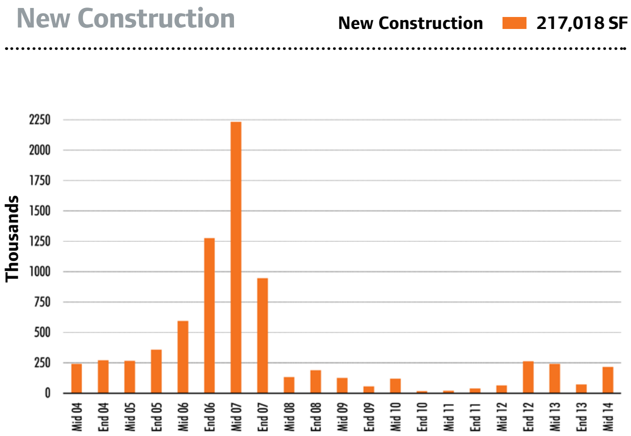
Overall market vacancy declined again and now stands at 12.9%, a vacancy rate for the entire Toledo market dropping below 13% for the first time since mid-2008. Vacancy declined in the West Toledo/ Sylvania, Perrysburg/Northwood and South/Southwest submarkets. Vacancies increased in North Toledo. An increase in anchor vacancy was offset by a decline in vacancy among inline spaces. West Toledo/Sylvania and North Toledo both recorded material negative net absorptions, all of which was offset by absorption in South/Southwest and Perrysburg/Northwood. Although modestly, absorption remained positive for the fourth reporting period in a row.

Asking Rental Rates



Overall average asking rental rate declined by $0.19 from the end of 2013 to $7.43/SF. The average asking rate for anchor space actually increased with the addition of the two Giant Eagle store locations to the inventory. Both of these stores were located in strong submarkets and have a higher asking rental rate than the typical vacant box space. Additionally, the sale of two former Kmart boxes to At Home and Kroger removed two large boxes with lower asking rates. The average asking rent for inline space declined as better-quality, higher-value spaces were absorbed, leaving lower-quality spaces at lower asking rents.

New Construction

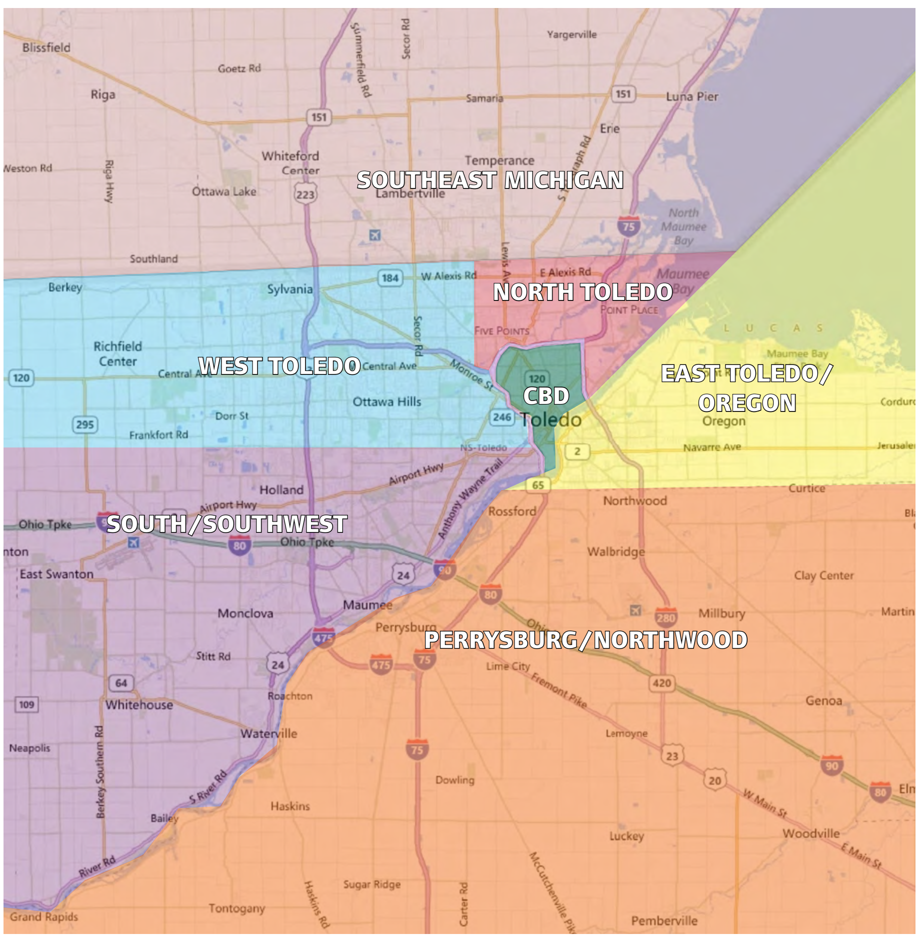


New construction is largely being driven by drug stores and Kroger as well as new department-store construction on Monroe Street. None of the space under construction is being done speculatively.

Top Transactions

Size (SF)	Buyer/Tenant	Submarket
111,761	At Home (Garden Ridge)	South/Southwest
90,586	Kroger	Perrysburg/Northwood
52,514	Gabe's	West Toledo/Sylvania
30,000	Planet Fitness	Perrysburg/Northwood
22,792	Marshall's	West Toledo/Sylvania
22,792	Home Goods	West Toledo/Sylvania
18,000	Save-A-Lot	West Toledo/Sylvania
13,000	CVS	West Toledo/Sylvania

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 net 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 retail 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:
Harlan Reichle, CCIM, SIOR
President and CEO
Reichle | Klein Group
One SeaGate, Toledo, OH 43402
419.794.1122 t   419.794.6060 f
hreichle@rkgcommercial.com

Reichle | Klein Group
Commercial Property Brokers, Managers & Investment Advisors