MarketView

Toledo Office

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Midyear 2014

Quick Stats

	Current	Change from Mid 13	Change from End 13
Vacancy	16.1%	↗	↗
Lease Rates	$14.48	↓	↗
Net Absorption*	-53,953	↓	↑
Construction	5,000	↑	↑

* 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

- First half of 2014 brings mixed results
- Average asking rental rate rebounds as landlords gain pricing power
- Tenant activity picks up in second quarter
- Changing CBD perceptions and tight suburban market proves to be good news for downtown
- Overall market vacancy increases on the heels of a few significant suburban tenant contractions

Mixed results in the first half of 2014 were observed in the Toledo-area office market. Tenant activity has picked up in the second quarter after a slow period stretching back to the third and fourth quarters of 2013, reaching its low point during the harsh winter months. There are currently some rather substantial transactions in play which promise better results in coming months. Perhaps the best news is that the average asking rental rate rebounded in the first half as landlords came to understand they have regained some pricing power. On the other hand, the market suffered some setbacks with the loss of significant tenants or contractions in space usage by several large tenants, notably in the suburbs. Consequently, overall market vacancy increased as there was negative net absorption of space in the first half.

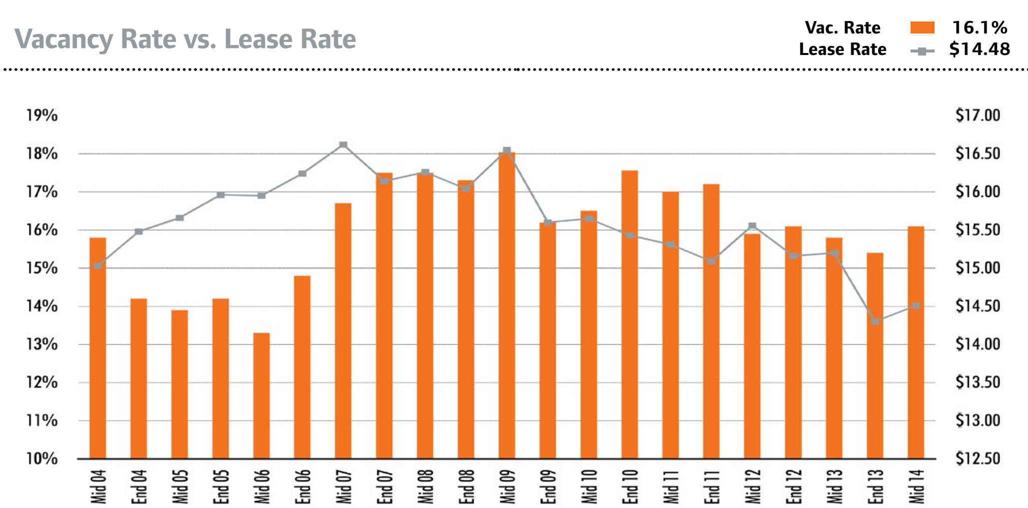
Tenants considering new space are moving at a particularly deliberate pace and are slower than normal to make decisions. This action seems to be driven by two factors. The first issue seems to be the continuing economic uncertainty underscored by the significant GDP contraction in the first quarter. Clearly the severity of the winter only made matters worse. Under these circumstances it is not surprising business leaders are inclined to procrastination in decisions about financially significant, long-term commitments such as leases.

We also see some disconnect of user perception of the market balance of power between landlords, tenants and reality if the tenant is focused on a suburban location. Many tenants are coming to the market with the expectations that the market is soft, there are a lot of space options and the landlords are desperate. Some of these users are being advised by out-of-town tenant-rep firms relying on dated market information or false impressions about the condition of the Toledo market. These misaligned expectations are particularly pronounced when the tenant requires a large block of space. Time and again, these tenants are surprised to find far fewer available options than they expect and far less leverage than they anticipate. The result can be a bit of the Goldilocks syndrome as tenants refuse to accept the limited options and keep searching.

Changing perceptions of the CBD and the relatively tight suburban market has proven to be good news for the downtown, generally, and for downtown office buildings, in particular. While it is not yet showing up in the market metrics, tenants are reconsidering the downtown, and leasing activity there is increasing. ProMedica's announcement earlier this year that they would relocate its headquarters and 700 jobs to the former Toledo Edison Steam Plant and Three Seagate is a huge boost to this trend. We are aware of several users who have now added the downtown to the list of areas that they will consider for offices as a direct result of the ProMedica announcement.

While this report is typically focused on the leasing market, it is worth noting there are very few office buildings currently available for purchase. Perhaps it is prompted by the low-interest-rate environment, but interest by user/buyers is increasing.

Vacancy Rate vs. Lease Rate



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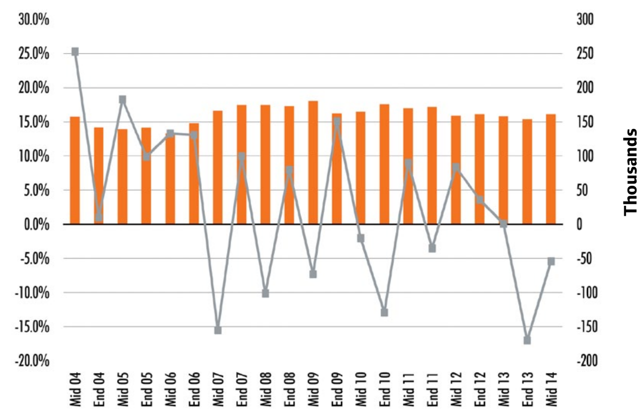
Market Statistics

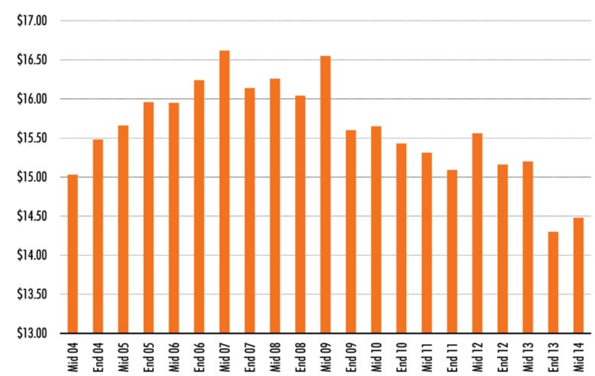
Market	Submarket	Rentable Area	Vacancy Rate %	Net Absorption SF	Under Construction SF	Average Asking Lease Rate SF/YR
CBD	Class A	2,285,101	19.9%	—	—	$18.27
	B	1,485,688	20.4%	6,000	—	$14.43
	C	1,470,951	27.3%	—	—	$9.92
	Total	**5,241,740**	**22.1%**	**6,000**	**—**	**$14.37**
North/East	Class A	38,704	17.6%	-20	—	$14.10
	B	9,798	—	—	—	—
	C	65,028	61.2%	-2,357	—	$10.77
	Flex	48,000	25.0%	—	—	$8.05
	Total	**161,530**	**36.3%**	**-2,377**	**—**	**$10.60**
Perrysburg/ Northwood	Class A	356,973	8.3%	—	—	$21.61
	B	318,709	10.2%	-2,286	—	$16.55
	C	49,880	14.4%	—	—	$11.81
	Flex	36,381	21.0%	—	—	$12.82
	Total	**757,943**	**10.1%**	**-2,286**	**—**	**$17.67**
South/Southwest	Class A	2,316,945	9.9%	-33,200	—	$16.44
	B	662,675	14.6%	-9,934	—	$14.26
	C	677,274	23.6%	-6,109	—	$10.72
	Flex	583,387	9.3%	-2,250	—	$12.44
	Total	**4,240,281**	**12.7%**	**-51,493**	**—**	**$13.96**
W. Toledo/ Sylvania	Class A	1,156,367	8.0%	-9,192	5,000	$18.94
	B	969,857	10.0%	2,550	—	$15.49
	C	359,332	14.7%	2,845	—	$12.28
	Flex	25,547	7.8%	—	—	$13.30
	Total	**2,511,103**	**9.8%**	-3,797	5,000	**$16.09**
Market Total		**12,912,597**	**16.1%**	**-53,953**	**5,000**	**$14.48**

Vacancy/Net Absorption



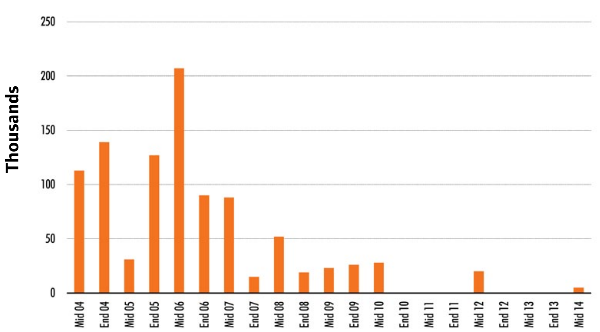
Overall market vacancy increased to 16.1% in the first half on the heels of a few significant suburban tenant contractions that lead to negative net absorption. There was no real trend with many of the submarkets and class segments moving in opposite directions.

Rental Rates



The average asking rental rate finally rebounded a bit in the first half of 2014 as landlords recognized the market leverage they have regained in the past 12 to 24 months and began to push asking rents back up.

New Construction

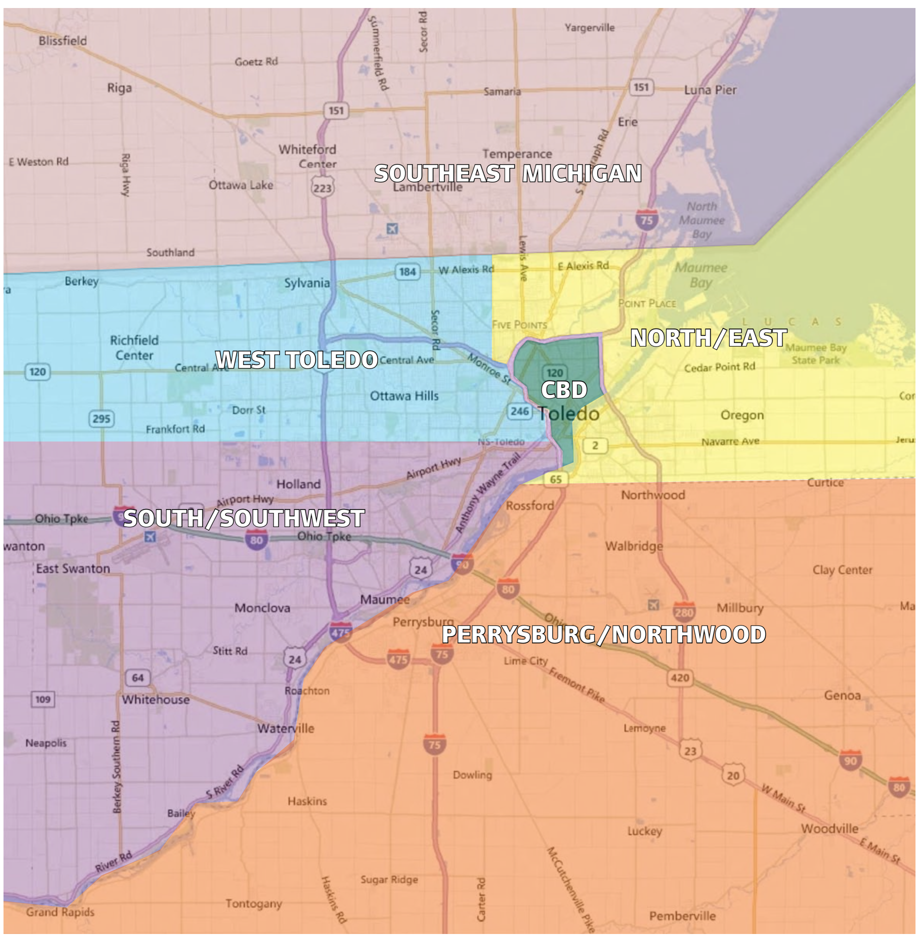


New construction remains nearly nonexistent, though both The Andersons and Dana Corporation have headquarters office building projects in the works in the South/Southwest submarket.

Top Transactions

Size (Sq. Ft.)	Buyer/Tenant	Address	Sale/ Lease
12,000 SF	Ohio Virtual Academy	1690 Woodlands Drive, Maumee	Lease
7,231 SF	Northwestern Ohio Administrators, Inc.	7142 Nightingale Drive, Holland	Lease
24,000 SF	Tolson Investments, LLC	3661 Briarfield Boulevard, Maumee	Sale

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.

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