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Cover Story

Why national money loves our real estate

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Tom Smith can't get enough of the Queen City.

As chairman of active Nashville-based real estate investment firm Smith/Hallemann Partners, he's recently acquired three class A office buildings in downtown Cincinnati: 312 Elm and 312 Plum in 2011 and Atrium One, now Omnicare Center. Since 2011, his company has invested as much as anyone in Cincinnati commercial real estate, about $120 million. And he's looking for more.

"We're very bullish on the city," Smith said. "I've been preaching it the last three years. Cincinnati is a wonderful city. Cincinnati is on a roll."

In the first six months of 2014, more than $1 billion in Cincinnati commercial real estate has been acquired. That's on pace to match, or possibly beat, the pre-recession high of $2.2 billion sold in 2007.

Today's deals aren't being done by bargain shoppers. They're from big-time investors, national players and investment trusts looking for solid performing assets.

Investors believe they'll make money here. Why? Because they are projecting rental rate growth, stable occupancy and decreasing vacancy, all signs that Cincinnati's economy is moving in the right direction.

And commercial real estate makes up a huge portion of the region's economy. It touches everyone, whether they know it or not.

"When real estate values rise, people start to feel better about themselves and their net worth," Smith said. Because a homeowner is feeling more confident, he or she may invest in an addition or renovation project. That same mentality happens with commercial real estate.

If landlords feel their property values are increasing, they're going to boost spending on the property, Smith said. Apartment owners will improve their amenities, retail centers will improve signage and common areas.

"They'll fix up the facades, pave the parking lot and make it a more pleasant environment," he said.

Smith's firm is putting $5 million in upgrades into Omnicare Center because he's bullish on the value of the 20-story office tower. There are three prospective tenants looking at space that would completely fill the 570,000-square-foot building.

Outsider looking in

The state of Cincinnati's commercial real estate market has rebounded sharply in the past five years. Investors stopped buying after the recession, in 2009 and 2010 in particular, because they weren't sure values were finished sliding, said Jim O'Connell, executive managing director and principal with **Cassidy Turley Commercial Real Estate Services**. Sales started to rebound in 2011, when nearly $950 million in commercial real estate was sold.

During the depths of the recession, nearly all of the commercial real estate buyers were local. Cincinnati developers would buy buildings that could be improved and then sold at a profit, but there was even some hesitation there because they didn't know what the market would be for that upgraded product.

But sales like the **Duke Realty** Corp. portfolio to **Hines Interests LP** on July 3 shows there is now a market for solid performing office products.

"The fact that they're plopping down $150 million is a big vote of confidence in our market," said Keith Yearout, an investment broker with **CBRE**.

In fact, most buyers now are from outside the Cincinnati market.

One of the reasons is the availability of debt. Recession-era deals were mostly financed by local banks, which typically don't like to lend outside their footprint. But with large banks, life insurance companies and others getting back into real estate, that's opened the floodgates.

O'Connell and his team marketed the sale of Duke Realty's suburban office portfolio to Hines for more than $150 million, one of the largest deals of the year. Hines, with its U.S. headquarters in Houston, controls assets around the globe valued at more than $28 billion. Affiliates of **American Realty Capital**, the largest U.S. owner of single-tenant properties, snatched up the Streets of West Chester and Gateway Center in Covington this year.

"They're not afraid to take a look at a lesser-known market," O'Connell said. "A rising tide lifts all boats."

Chicago-based **Inland Real Estate** Corp., which owns 15 million square feet of real estate, partnered on its joint venture with Dutch pension fund adviser PGGM to buy Newport Pavilion this summer. Scott Carr, chief investment officer with Inland, wanted to buy the retail power center back in 2011. He wanted the property even more after a group of investors led by principals of

Anchor Associates purchased and completed building out the massive project. And he's looking for more here, too.

"We see what's happening with urban migration and redevelopment in (Cincinnati), that will move out to the suburbs," Carr said.

'They can sleep at night'

Institutional buyers, such as the ones that purchased Newport Pavilion, want to make sure their investment is safe, first and foremost.

"They can sleep at night knowing the risk isn't as high as in other markets," said Chris Prosser, brokerage senior vice president with **Colliers International**.

Cincinnati isn't the only market seeing an increase in commercial real estate sales. Competition, and prices, are rising in top tier markets such as Boston, New York City and Washington, D.C. Potential buyers can't win deals in markets like Chicago, where they're just one in a big group of bidders.

And now it's not just national investors. Foreign investors are asking about Cincinnati, too.

Yearout said he was talking with an investor from Moscow, who told him he's been reading about the city's streetcar and **General Electric** bringing its global operations center to the Banks.

"People are saying, 'I'm hearing about Cincinnati, tell me what's going on,'" Yearout said.

A group of investors he was recently touring the market with said they were blown away by the city. They were looking at real estate opportunities across the U.S. but Cincinnati piqued their interest.

"'There's more going on in Cincinnati than we would have imagined,'" Yearout said the investors told him. "It reminds them of Nashville or Austin."

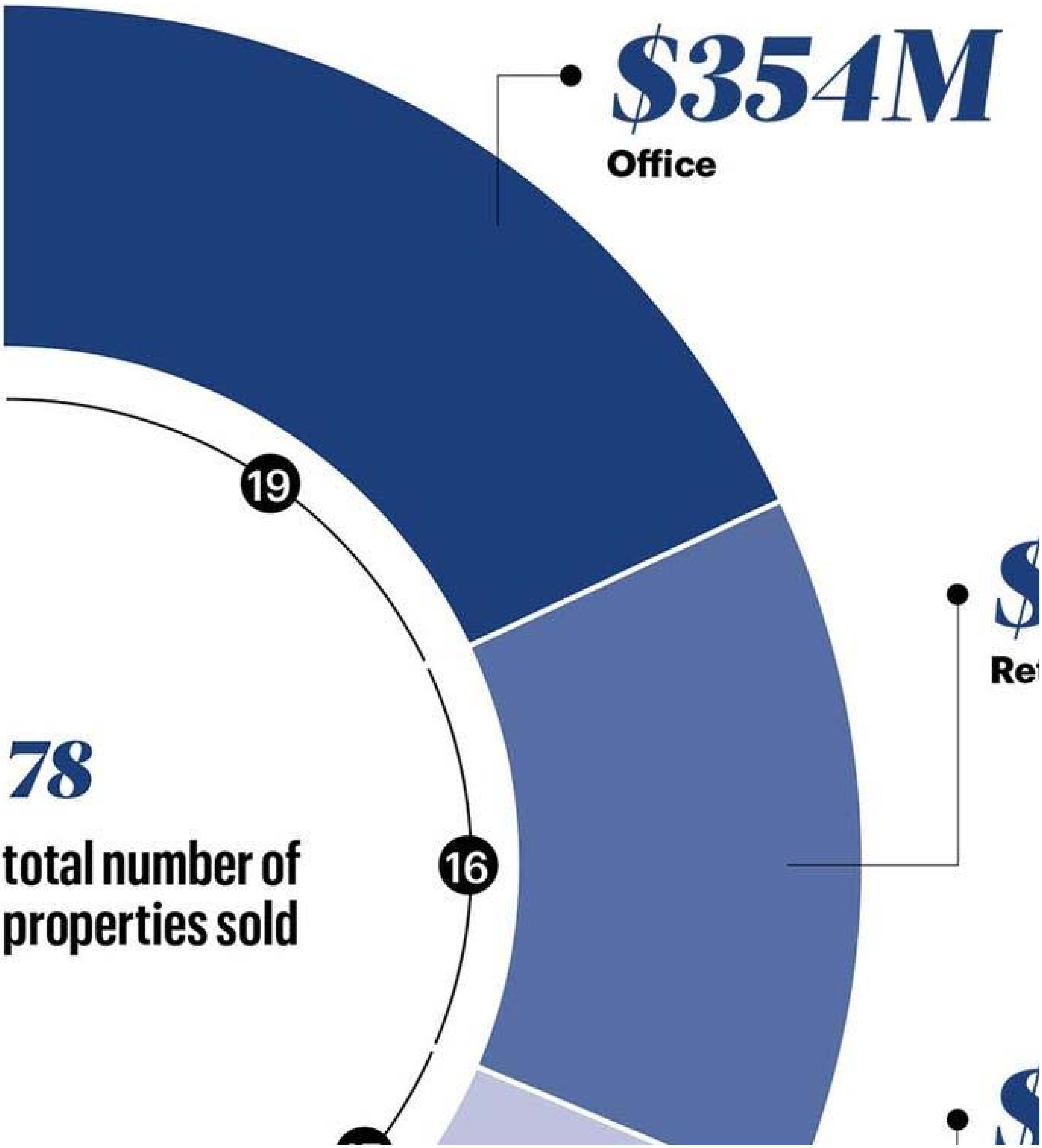
Cincinnati is an attractive city because it has a comparatively stable city government, low cost of doing business, massive transportation investments and a good climate. (Remember, everything is relative. A lot of other companies already have their headquarters here.)

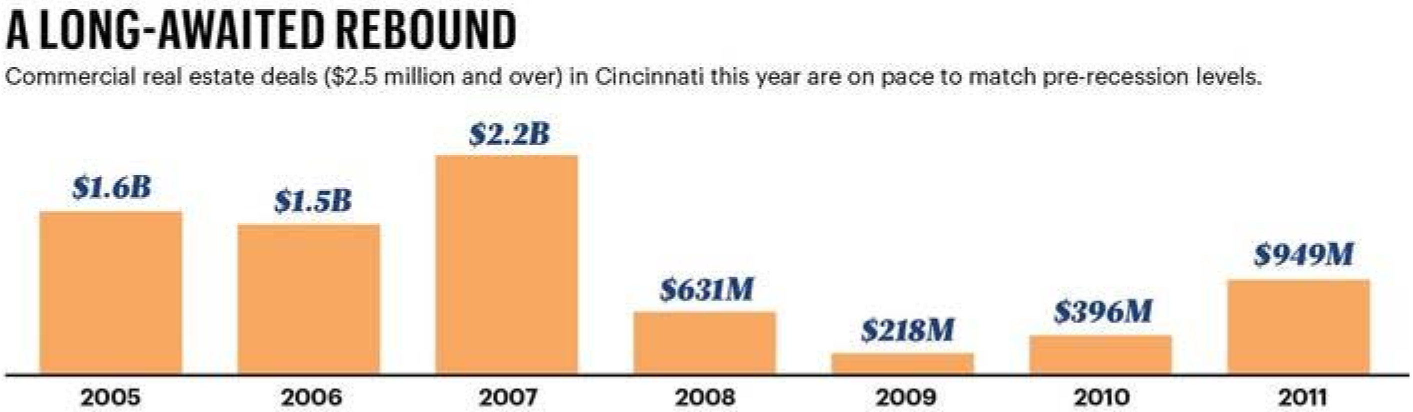
A lot of other companies already have their headquarters here. Cincinnati's diverse economy also makes it attractive to outside investors. But the most important thing has been the region's job growth. The local economy has added 21,300 jobs in the past year, according to the state figures.

"Cincinnati has a great story to tell," O'Connell said.

DEALING DAYS

Big Cincinnati real estate deals have cut across all industries in the first half of 2014.





Demeropolis covers real estate, retail and restaurants.