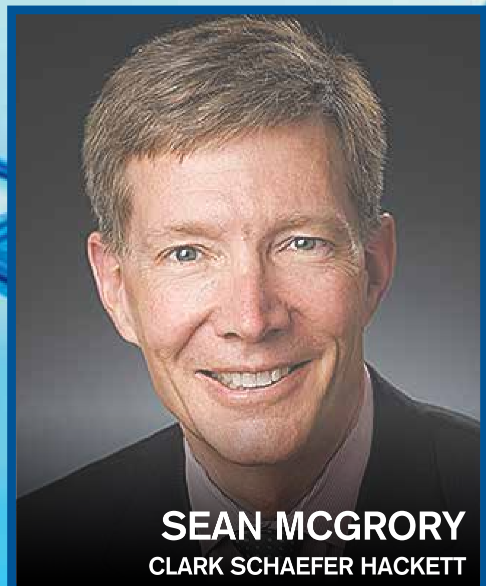
COMMERCIAL REAL ESTATE ROUNDTABLE

PANELISTS


SUSAN BRANSCOME
NORTHMARQ CAPITAL


JEFF EICHHORN
SCHUELER GROUP


GEOFF LEDER
KEATING MUETHING & KLEKAMP PLL


SEAN MCGRORY
CLARK SCHAEFER HACKETT

THE STATE OF COMMERCIAL REAL ESTATE

The Cincinnati Business Courier recently sat down with four of Cincinnati's top commercial real estate experts to talk about the trends and what's happening in the market. Editor Rob Daumeyer moderated the panel, and the discussion covered a variety of topics including growth in the market, the hottest development areas, Opportunity Zones, driverless cars, retail and more. Read on as we hear from Susan Branscome of NorthMarq Capital, Sean McGrory of Clark Schaefer Hackett, Geoff Leder from Keating Muething & Klekamp PLL and Jeff Eichhorn with the Schueler Group.

COURIER: We'll get started by saying who you are, where you work, and a little bit about what you do for your company. Well start with Susan Branscome and go around and introduce ourselves. Then, we'll jump right into the discussion.

SUSAN BRANSCOME: I'm Susan Branscome. I'm the managing director with the NorthMarq Capital office in Cincinnati. NorthMarq is the largest, privately-owned, commercial mortgage banking company in the country. We have 38 offices throughout the country. NorthMarq arranges debt, either permanent, long-term, fixed rate and non-recourse debt. Additionally, we arrange bank debt, short-term construction loans, bridge debt. We also arrange equity for projects. We have a staff of six. We closed 50 deals last year, and we work with developers and borrowers that are looking for help in arranging financing for their projects.

SEAN MCGRORY: My name is Sean McGrory, and I'm a CPA with Clark Schaefer Hackett. I head our Real Estate Construction Practice. We serve real estate developers, real estate investment companies, contractors, and people in the building industry with accounting, tax and financial advice. We have about 120 people working here in our Cincinnati and Northern Kentucky offices.

GEOFF LEDER: My name is Geoff Leder. I'm a partner with Keating Muething & Klekamp. Specifically, I'm in the commercial real estate group. The commercial real estate group focuses on all aspects of development of commercial real estate for our clients, locally, regionally and nationally, from acquisitions, dispositions, development, leasing, financing, real estate taxation and valuation appeals, zoning, land use and planning. Our group covers it all. In addition to general commercial real estate, I am also focused on tax-credit incentive type projects, especially historic tax credits, new markets tax credits, and recently, I have advised developers and communities on how to utilize opportunity zone investments.

JEFF EICHHORN: Good morning. My name is Jeff Eichhorn. I'm executive vice president of the Schueler Group. I run the commercial brokerage arm at Henkle Schueler & Associates. The Schueler Group is really a collection of companies. We offer traditional real estate services. We have a commercial brokerage, a residential brokerage, property management, construction and development divisions. We have local clients. Our range is from Northern Kentucky, Greater Cincinnati and Greater Dayton. We also have national projects and clients. Some of our national clients include Tractor Supply, FedEx Freight and PetSuites.

COURIER: Great. Thank you. Let's get started. Commercial real estate in Cincinnati is cyclical. Everybody I know in commercial real estate is always dealing with that fact. If that's true, where is Greater Cincinnati, or the nation as well, if you want to go that far. Where are we in the cycle?

MCGRORY: Often, the baseball analogy is used. So, what inning are we in? The consensus is we're in extra innings.

EICHHORN: My thought is I think we're probably in the sixth or seventh inning. I still think we have room to grow. This is an exciting market. Greater Cincinnati has a lot of opportunities. We think we'll be thrown a curve ball sometime in the next year or so, with a little bit of a slow-down, but I still think we have a lot of room to grow.

LEDER: You keep hearing about interest rates rising. I don't think we've seen the full thrust of that yet. Anecdotally, we're still really busy with a lot of different development deals in all different types of neighborhoods. So, I haven't seen the growth stop yet.

BRANSCOME: 2008 and 2009 brought one of the worst recessions we have ever seen. They call it The Great Recession, and we've been in a growth mode since about 2010. We've seen eight or nine years of growth. We have such a healthy job market, and there are not big signs of inflation, which you would normally expect from a healthy economy. With the volatility of the stock market in December, long-term rates declined. The Federal Reserve increased short rates in December, yet with the volatility in the market, has indicated that it will not increase short rates more than a couple of times during 2019. I'm optimistic about this year. I do not believe we are headed for a recession, yet economists seem to be saying that if we do have a recession, it will be short and not a deep recession.

COURIER: Sean, you said extra innings. Is that because it's been a cycle with 10-year growth?

MCGRORY: Yes, it's been a 10-year growth cycle since the Great Recession. I'll echo what everyone else has said. I don't see any clients slowing down, or having the types of difficulties you would associate with a slow-down. Anyone who is in the game, absolutely knows they need to stay in the game right now.

PANELISTS

Susan Branscome

Senior Vice President, Managing Director, NorthMarq Capital

Susan has over 36 years of experience in the industry and has originated more than $3.0 billion in commercial real estate debt. During her career, she has established relationships with more than 40 life insurance companies and has many long-term and loyal borrower relationships. Her career and professional success is mirrored in her civic and community involvement. Susan is consistently invited by industry editors to write articles for local, state and national publications and has received awards from numerous real estate publications. Susan was recently one of Real Estate Forum's 2018 inductees into the Women of Influence Hall of Fame. She is also the recipient of the 2011 YWCA Career Women of Achievement Award and the 2008 Athena Award through Cincy Magazine, an award given to women who achieved professional success and have assisted other women succeed and gives back to their community.

Susan is managing director of NorthMarq Capital's Cincinnati regional office, which was acquired by NorthMarq in late 2014 and was formally known as Q10|Quest Commercial Capital Corp. Inc. where Susan was the principal founder/president for nearly 17 years.

Jeff Eichhorn

Executive Vice President, Schueler Group

Jeff joined the Schueler Group in 2006 in the commercial sales team. Prior to the Schueler Group, Jeff worked in local and state governments.

As Executive Vice President, Jeff's responsibilities include managing the commercial real estate team, growing sales, and working with local governments and businesses to develop new projects for the Schueler Group. Jeff is honored to be part of an organization that has been engaged in commercial real estate for more than 80 years and excited about leading it into the future.

Honored by the Cincinnati Area Board of Realtors as a Commercial Top Producer from 2011-2018. He has been recognized for superior performance in commercial real estate sales by the Cincinnati Business Courier. Jeff is also a real estate investor.

Jeff is a graduate of the University of Cincinnati with a degree in Political Science. He is a licensed Broker in Ohio and a licensed Agent in Kentucky. Jeff is married to Jill and has two teenage children – Jakob and Caroline.

Geoff Leder

Partner, Real Estate Practice Group Keating Muething & Klekamp PLL

Geoff Leder is a partner in KMK's Real Estate Practice Group. Geoff's practice includes representing a variety of corporate, individual and non-profit clients in all aspects of the development, disposition, acquisition, leasing, finance and construction of commercial real estate. Geoff has assisted clients with the development of residential, retail, commercial, and mixed-use properties and has helped those clients attract and utilize various incentives for those projects. In addition, Geoff has significant experience advising clients in the structuring, negotiating and closing of tax credit financing transactions, especially new markets tax credit, historic tax credit and opportunity zone financing. His practice also involves representing lenders, other lien holders and receivers in various foreclosure related matters.

Geoff is a member of the Riverbend Commercial Title Agency Board of Directors. Riverbend is a wholly-owned subsidiary of KMK Law that provides title insurance policies for purchasers and lenders in addition to closing and escrow services.

Geoff earned his J.D. from the University of Cincinnati College of Law, magna cum laude, in 2008. He earned his B.A. from Vanderbilt University in 2000 where he also graduated Magna cum laude. Geoff is admitted to practice law in the state of Ohio.

Sean McGrory

Shareholder, Construction and Real Estate Industry Group, Clark Schaefer Hackett

Sean McGrory serves as the Chair of CSH's Construction and Real Estate Industry Group. Sean brings unique experience to his clients as he previously served as a CFO for one of the area's most prominent commercial real estate development organizations. This background helps Sean truly understand and meet the needs of the boards, owners, CEOs, and CFOs who rely on his counsel.

Sean also has more than three decades of public accounting experience. He leads client engagements by providing accounting, audit, transaction support, risk management, organizational development and business advisory services to a range of middle market companies. These include organizations with family or closely-held ownership, international operations or ownership, and private equity investors. Sean's areas of emphasis include budgeting and forecasting, strategic planning, international transactions, investor reporting, and financing.

Sean received a BS in Accounting from Miami University and a MBA from Xavier University. He is a licensed CPA in Ohio and currently serves as a member of the UC Real Estate Center's Board of Executive Advisors in Real Estate and is a member of the Urban Land Institute. He also serves as Board President of the Wasson Way urban greenway organization. Sean is a graduate of Leadership Cincinnati (Class XXV). Contact Sean at SMcgrory@cshco.com to learn more.

THE STATE OF COMMERCIAL REAL ESTATE

EICHHORN: The labor market is tight. We're always looking to hire on the sales side, or on the construction side; and trying to find quality applicants can be a challenge. If we are headed for a slow-down in the year ahead, I think it's going to be a gradual readjustment. The fundamentals are still pretty strong.

COURIER: Okay. As far as different parts of town, what are some of the hottest development areas right now in Greater Cincinnati, geographically?

BRANSCOME: The Industrial market at the airport is pretty hot. There has been a lot of speculative development there, and these buildings are leasing up. Many of these developments are as a result of Amazon's planned growth there. DHL is a big employer in the airport market as well and has fueled the market Industrial development . The industrial market outside the I-275 belt, is also strong which is where the available land is located and is cheap enough to make industrial development make sense. Then, the other hot market is multi-family, downtown. We continue to witness office building conversations to multi-family product and which is good thing because it is removing obsolete and vacant Class-B buildings from the market. The new multi-family coming to the market continues to lease up at excellent rents so this market is strong.

EICHHORN: I agree with Susan. From our perspective we really focus on the outer belt and the suburbs. In Northern Kentucky, it's the Amazon effect, so developers are looking for large tracks of land to build a 500,000, 600,000 or a million-sq. ft. building. Trying to find land sites that are ready to go in Northern Kentucky is a challenge. I call it Kentucky flat. There are a lot of hills and hollers. There are creeks, streams, and mixed-land development, and it's a little bit more expensive. It is amazing what Amazon has done. They control over 1,100 acres at the airport. Their project seems to grow in scope and size, so it's impacting Northern Kentucky, the airport and Boone County. From our world, Warren County offers a unique quality of life. It has a very diverse economy in Mason and Lebanon with the tourism, ATP, Kings Island, bike trials and the Little Miami River. So, there's a great quality of life as well as a lot of industrial, and a lot of business growth in those areas. So, those are the areas that I see are growing, and they will continue to grow – Northern Kentucky and Warren County, Mason and Lebanon, specifically.

LEDER: We're still seeing a lot of repurposing of older buildings in and around the inner-city area, Over-the-Rhine, Pendleton and West End with the FC Cincinnati Stadium development. I anticipate more office mixed-use and entertainment-type retail coming in around that facility, and it functioning as a gateway, as well as, an expansion of Over-the-Rhine, and development into other areas of the downtown market. In some of the other neighborhoods, we see that same mixed-use, ground-floor retail or other commercial with above the ground floor residential in areas like Walnut Hills and College Hill, and expanding those types of developments into some of the nearby suburbs.

MCGRORY: The other area that I would add to the list is Uptown, with all of the development in the Uptown corridor. Things that are going on with University of Cincinnati and Children's Hospital. A lot of the development around the MLK Interchange is still just starting to hit stride now, and will probably be going on for years to come. So, that's a very active area.

EICHHORN: I'm fascinated by the growth in the core area of Covington and Newport with The Banks, and Over-the-Rhine. There are some unique developments that have happened in Covington and Newport, and I think you'll see more of that at the urban core on both sides of the river.

COURIER: You're right. Especially, in Covington and Newport. It's interesting how that's going. It's not quite as master plan as Over-the-Rhine was, or has been, but you can feel it, or at least I can. It seems like a lot of the developers in downtown, Covington and Newport are taking what they've seen on the Ohio side of the river, saying, "How can I make this work?" Susan mentioned industrial, are there any other active industries? Are apartments still going strong?

LEDER: It doesn't seem to be slowing down with the demographic shifts, people want to live, work and play, all in the same area. So, developers are continuing to market to that idea of live, work and play.

COURIER: Are more retirees opting for renting versus downsizing into another house? Is that a reality?

BRANSCOME: They are renters by choice and often their expectations for amenities are high. That is why we are witnessing these high-end, Class-A development coming to the market. Baby boomers may want to lease versus committing to owning, and millennials, too, for different reasons. Millennials may not yet have kids, they don't have the amount needed for a down payment, or they're not ready to buy a house. The growth in multi-family has been extraordinary. There are a lot new developments which have come on the market in the last two years, and there are many planned. So it appears the strong market will continue although we may witness some softness based upon supply/demand fundamentals.

COURIER: We'll talk a little bit more about apartments in a second, but I wanted to get into Opportunity Zones, which are part of the new tax code. Maybe one of you, or several of you can explain what Opportunity Zones are and how they work? Then, we can talk about the realities on the ground as to how they are working. First of all, what are Opportunity Zones?

MCGRORY: I'll take a swing at answering that. The concept of Opportunity Zones became law with the 2017 Tax Cuts and Jobs Act. Opportunity Zones, as the name implies, are a zone, they are census tracts that have been designated by each state and approved by the Treasury Department as Opportunity Zones. With that designation come tax advantages for investment that's done inside those census tracts. Our region has it's fair share of designated Opportunity Zones. A lot of them are in the places you would expect. The whole idea is to stimulate investment in underserved communities, and to also release some undeployed capital. We've all heard that there's a lot of capital sitting on the sidelines, waiting for investment. There is more capital than there are invest-

DISCUSSION, CONTINUED ON PAGE 4B

THE STATE OF COMMERCIAL REAL ESTATE

DISCUSSION, FROM PAGE 3B

ment opportunities. The whole notion of Opportunity Zones came out of a think tank called the Economic Innovation Group, started by none other than Sean Parker, an early Facebook investor, and Dan Gilbert a serial entrepreneur from Detroit. The idea was to get a lot of these Silicon Valley billionaires to go ahead and sell some of their stock, and plow some of those gains back into these underserved communities. The Opportunity Zone allows an investor to defer the recognition of capital gain on those investments, if they are made in an Opportunity Zone. They will have to pay tax on their capital gains eventually, but they do get some reduction in the gain if they hold the Opportunity Zone investment long enough. In the long-term, if they hold on to a property, project or an investment for more than ten years any new gains from the investment point forward, could potentially be waived entirely. So, what's interesting about this, and what makes it different than a number of other tax incentives is it's not managed by a central agency. If you make an investment in an Opportunity Zone, there are a set of rules you need to follow, and if you follow those rules, you'll qualify. You self-certify, and the rules get a bit complicated. I think that's caused a lot of investors and developers to proceed with caution, but there's clearly a lot of interest, and it could unleash a lot of investment.

PHOTO: PAULA NORTON

"Retail and shopping are still an experience. Especially for women. Many women like to shop. It is an experience, but we want service, and we want to have a good feeling from that experience. So, that's not going away."

– Susan Branscome, Northmarq Capital

LEDER: There is a lot of interest. I echo what Sean said, the regulations are still developing. The government shutdown stunted some of that development, and we're waiting for both finalized versions of certain regulations and then additional regulations, which will help people understand how to best use this. Because of that, the easiest thing to do, since it is location-based, is to focus it on real estate projects. We have seen some real estate deals start to trickle in, in different areas around the country. Eventually, I think it will be used for operating businesses as well. There's business expansion, and business start-ups in the Zones, but because of the uncertainty, it's easier to structure as a real estate deal for now. We anticipate that being fluid, and changing as we go forward. The other thing I would say, is there is some time crunch here, because to really take advantage of the full benefit that Sean mentioned, investment should be in place by the end of this year. While it's not mandatory, but in order to realize the full benefit of it, potentially, the investment needs to be made by end of 2019.

COURIER: In real life, do any of you, or all of you have clients that you are talking to about Opportunity Zones?

MCGRORY: Yes, absolutely. All the time.

BRANSCOME: Yes.

LEDER: Just to mention some of the areas around town, if you look at a map of Ohio, Cincinnati did well, or at least as well as some of the other big cities in Ohio. A lot of the central business district downtown, including the Riverfront, Over-the-Rhine, Pendleton, West End, Price Hill. We mentioned everything that's going on in Covington and Newport, regardless of Opportunity Zones, but Covington has a lot of tracts that were designated as Opportunity Zones. Newport has a couple of Zones. They have less than Covington, but they both have tracts. Then, even going out into the suburbs there are some tracts near Fairfield, Hamilton, Middletown, Wilmington and there's a designated area out by Eastgate Mall. So, it did span a little bit into the suburbs, but a lot of the urban core is covered.

EICHHORN: To get the full benefit, do you have to hold the property for 10 years? Is that what the regulation states?

LEDER: The 10-year requirement is related to the potential for the new investment not to have to recognize gain at all. So, that's the home run.

THE STATE OF COMMERCIAL REAL ESTATE

MCGRORY: And, that's a challenge for real estate investors, because a 10-year time horizon is a long time. We were just talking about the real estate cycle, and we're 10-years into it now. For those of us that are in this industry we know that most investors want to make sure they have options. And that they don't have to hold something for 10 years if they choose not to.

LEDER: I think that gets into some of the complications of the program. Not only is it complicated on the front end, it's complicated to make sure you're complying with everything in the interim, and also thinking about an exit strategy. It doesn't mean you have to hold the investment for the entire 10 years, it just would affect your potential outcome. Figuring out the best way to get in and out of a deal is also going to become important.

MCGRORY: And, that's something we spend a decent amount of time on when we are talking to our clients about this. As an accounting firm, we actually do more number-crunching than talking. So, modeling what this looks like and all the different scenarios of what this benefit could mean to a client can be a little mind-numbing, but we're giving our Excel spreadsheets a workout with the Opportunity Zones.

EICHHORN: It is interesting - the political process (involved with these Zones), because this came together rather quickly, under the radar. I looked in California, and the Napa Valley is considered an Opportunity Zone. I wouldn't think of the Napa Valley as needing an Opportunity Zone designation, but they have had a lot of fires and floods. Their Congress, men and women, were able to get that designation. It just indicates the politics in play for the enterprise zone creation as well.

LEDER: I remember hearing about it when the Opportunity Zones were announced last April, and probably a third of them were areas that had active developments already, similar to Over-the-Rhine. We may not think living here that Over-the-Rhine needs a push for investment as much as some other places. Of course, there are still certain pockets that do. But then there were other designated areas that were areas that you would not think about investing in without some kind of an incentive. Those areas hadn't even started the turnaround yet. It runs the gamut, and it goes back to what Jeff was saying, there are some areas that you scratch your head about, entirely, like the Napa Valley example.

MCGRORY: There were some guidelines on what could be designated as an Opportunity Zone, and not every census tract was eligible. So, each census tract had to have a certain proportion of the residents at or below the area's median income. So, there was a large pool of census tracts where it could be applied. In places like Over-the-Rhine or Napa Valley, I think it's a little bit of an eye-opener of how many residents in some of these places really aren't doing well. We think of Napa Valley, and we think of the wine owners, but there's a lot of people working in those fields who are below the average median income, and therefore, it does qualify. It's kind of a big gamble. A lot of policy-makers are looking to see where this goes, because exactly as Jeff said, is this just adding fuel to a fire? Is it only places that are in the path of growth anyway? And, is it really going to create that incremental growth, or is it just going to subsidize growth that was going to occur?

COURIER: So, what is the thought on that specifically as it relates to Cincinnati? We're talking about it from the investors point of view, I did want to ask quickly about it from a community point-of-view. Is this something to be optimistic about? Are Opportunity Zones something that community leaders feel like are an opportunity?


PHOTO: PAULA NORTON

"I'm fascinated by the growth in the core area of Covington and Newport with The Banks, and Over-the-Rhine. There are some unique developments that have happened in Covington and Newport, and I think you'll see more of that at the urban core on both sides of the river."

– Jeff Eichhorn, Schueler Group

BRANSCOME: Any time we have government providing incentives for developments and it makes sense for developers/owners by realizing profitable projects from the incentives it is good for everyone and good for these communities The investor realizes tax benefits from the development which allows the development to make sense and communities such as Avondale and Price Hill realize new housing and perhaps new commercial tenants. If more affordable housing is available in these communities, it's a great benefit for them. There's the tax benefit for the developers, and then the communities have safe affordable housing, so it's a win-win.

MCGRORY: I have experienced this, and Geoff, you can probably speak to this, too. Some communities do feel like they are being overrun by a gold rush, and they are a little bit apprehensive about an investment wave coming in that could be uncontrolled. They are asking: "What type of development is going to go in, and what are we going to end up with?" A lot of community organizations are trying to make sure they are at the table when the developments are being discussed. Madisonville is an example. I know large parts of Madisonville are qualified as Opportunity Zones, and there's a lot of development that is already going on there, and there's potential for a lot of new development coming in. They've spent a lot of time, thinking about how they want Madisonville to develop, and one of the concerns is, any time you have a program like this, are you going to get "dumb money" as well as "smart money" coming in, and are investors going to bid-up prices, and gentrify a community.

COURIER: So, it would be a concern with the people in the community that they at some point may lose out.

MCGRORY: Right.

COURIER: Okay.

LEDER: I think there's a natural inclination to say any money is good money, if you are in a community. In some respects, it's going to bring jobs, and redevelopment, but I think the key for communities is to get out in front of it, and to market it in a way to show that they have these Opportunity Zones in their community, but also show that they have all these other development tools in their toolbox, and they can all work together nicely. So, if a community can get out front of the issue, maybe, they can drive some of the development that goes on there by peppering in additional incentives, or other incentives that would incentivize behavior that they want to see, and incentivize community benefits and the impact that you normally see a community try to get involved with.

COURIER: That's an important point.

LEDER: Yes, because if it's unfettered, you really don't control the type of growth here, other than traditional zoning, and land-use controls, or permits that may or may not be given. So, I think communities are trying to get out in front of it, and trying to drive the process, and help have a hand at least in how and where the investments are being made.

COURIER: That's a great point. We've covered a lot about Opportunity Zones, is there anything else we should address in regard to Opportunity Zones?

MCGRORY: There is one more thing. One of the questions was what does it mean for investors? We talked a little bit about the tax benefits, but most of the models get down to what's the IRR, or what's the investor return? The term, "Does this project pencil out?" means does it produce an acceptable return for the risk. In general, the consensus of people working on Opportunity Zones with projects around the country, there's a rule of thumb, and I'm always cautious about rules of thumb, if the investor can utilize the Opportunity Zone benefits, it's probably worth around 200-400 basis points in a deal in terms of return. So, 200 to 400, depending whether they can qualify for the full benefit, how long the holding period's going to be, and some other things like that. When you look at what's the difference in a project, it's probably a 200 to 400 basis point, that can mean the difference between some very dramatic rents. Back to Susan's example. Apartments can be a lot more affordable if an investor can take 400 basis points less on the return, because they are getting that tax benefit, and that's the idea behind these. That's what makes it worth it.

LEDER: Yeah, ideally, it gives the developer patient capital, long-term capital, and more affordable capital. Whether that's through their own investors in the development group, or from outside investors that may form a fund, and you look to attract that into your development.

EICHHORN: It's fairly flexible, isn't it? You can put together a group of investors that can pool to create a development. So, it's like selling shares of a syndication, if you pull it off correctly.

MCGRORY: Jeff brings up a very good point that the vehicle through which you get these benefits is an Opportunity Fund. So, there has to be a pooling, and a fund, and the benefits pass through the fund to the individual investor level. So, structuring these deals can be complicated.

COURIER: They require some expertise. Let's talk about some specific projects and areas of town. We cover a lot of commercial real estate. Our readers are hungry for commercial real estate news in a way we, frankly, did not know before we started tracking it. We always thought commercial real estate was important, but we had no idea just how important. I think it's because it unlocks so many other business opportunities, obviously. We've written a lot about some of the following projects, but I wanted to get everybody's take here on just how big of a deal some of these are, what they mean, and how they are going? Start with UC's Innovation Corridor. Is this a special project? Is this something you think developers have a true sense of what it could be?

MCGRORY: I think the short answer to that is yes. In fact, from some of the real estate professionals that I work with that are involved in that area, I would say their view is, "Are we even thinking big enough?" As big as it is, could it be even bigger? And by that, I mean, we have a pretty good idea of what new offices and labs, and those kinds of things look like, but are there ways to take that to the next level? And, a lot of that comes down to coordination. There are a lot developers working in that area, and are we going to have four developers doing four similar things on four different corners? Or are we going to have four very different things, each at an order of magnitude scale. I think that's one of the challenges with Uptown, is "Are we thinking big enough?" Fortunately there are a lot of smart people looking at this.

EICHHORN: It is a unique development, and development creates more development. So, there will be some spin-off businesses that are attracted to the corridor.

BRANSCOME: Two big things have happened there. Of course the opening of the MLK Interchange. That was huge. It opened up land which was not accessible. There is not a lot of land in this area to develop and that's why the hospitals have been developing in the suburbs. Now this area is open to new development. Then, Uptown Consortium, Inc assembled 100 pieces of ground near the new interchange which took time and resources. So, those two things combined have caused developers like Neyer properties and Terrex Development seeing opportunity to develop here.

COURIER: Okay. Is there a sense from any of you that things aren't happening fast enough in that corridor, or is that to be expected? Sean, you've obviously had some apprehension about making sure there are different groups as Susan mentioned, and they all have their own goals, and how much of this should be from a master plan, and how much of it should be organic?

MCGRORY: My sense is it's probably proceeding at a pace that's expected. I think there may have been some expectation at the moment the MLK Interchange opened that you'd see buildings sprouting up like plants, but I think it's proceeding pretty much along at a typical pace. There are a couple of things that are

DISCUSSION, CONTINUED ON PAGE 6B

THE STATE OF COMMERCIAL REAL ESTATE

DISCUSSION, FROM PAGE 5B

very significant. I think the repurposing of the former Sears building, as part of the UC 1819 Innovation Hub, was very significant. The other thing that is coming is the NIOSH Center. When that starts, that's going to be a very big project. And, for the moment, I think people that are directly involved with it are aware of what's going on, but that's going to be a significant campus.

LEDER: And, a lot of those types of uses that they're encouraging there require planning, because it's not just a typical development. The idea is to have interaction between these different uses, and these different centers. The thinking now is that coordination and collaboration spurs innovation, additional creativity, and technology. In this type of development, even more so than others, it's important to have a coordinated plan.

EICHHORN: Sometimes, patience is difficult in this business, but you've got to have patience. The NIOSH project is one we've been following, and it's been talked about for the last eight or nine years. So, we're excited that they can formally break ground in the fall, hopefully. I think that will be a nice project for the UC corridor. Can I ask a question? Is it official that it's going to happen there?

MCGRORY: I know it's out to bid.

COURIER: That's the place for it. Internally, we've seen some renderings, that frankly look like they should be for a campus that's out in the suburbs. So, I don't know how they'll come together.

MCGRORY: I've seen those, too. It's interesting. The setbacks are not what you would expect in a dense, urban environment like that.

COURIER: The building footprint and the site seem very suburban.

EICHHORN: The original spec was they wanted a large tract of land. The setbacks were that they wanted security. So, to balance the security and the developmental needs, it will be interesting to see how they can work through those details.

COURIER: I wasn't thinking about the security. The government's involved. So, switching gears a little bit with The Banks. There have been ups and downs with The Banks since the day they announced it, the day it opened, even with GE going in down there, there's still an open question as to how The Banks is doing. We just wrote about the last two tenants going in. There's nothing wrong with Smoothie King and the fitness store, but The Banks was built with more grand plans. What are your thoughts on how The Banks is doing? Is it doing well? What needs to change if it's not? What are your thoughts?

BRANSCOME: Well, it does appeal to the trend, which is "live, work, play" environments. As you look at other developments in the city like the Summit Park in Blue Ash, and Montgomery Gateway, there is a trend toward people wanting to live work and play in the same area. What draws people to the restaurants at The Banks? It's the games and stadiums and there are 600 apartment units. Then there are the employees at GE located on the Banks, that's another draw. I still think there is an issue around Fort Washington Way being somewhat of a barrier to people coming from downtown to support the Banks. This coupled with the resurgence of Over The Rhine, there have been challenges at the Banks. Where are millennials going on a Saturday night? They'll probably go to OTR. Will they go to The Banks? Do people who work downtown walk to the Banks for lunch? There are ways to overcome these barriers through perhaps offering discounts to build loyalty so the Banks is supported during the week and on week-ends.

PHOTO: PAULA NORTON

"It doesn't seem to be slowing down with the demographic shifts, people want to live, work and play, all in the same area. So, developers are continuing to market to that idea of live, work and play."

– Geoff Leder, Keating Muething & Klekamp PLL

LEDER: I feel like 20 years ago when The Banks was envisioned, they weren't thinking about Over-the-Rhine as competition. Some things have changed in the marketplace. There are other options, too. So, I think that's a difficulty.

COURIER: You're right. I think the freeway is a bigger deal, because you feel like you are walking a ways. They built footers, so that you can build on top. That might be a massive project or projects. I do think that would be a game-changer if they could just incorporate it into the central business district, but that seems like a giant undertaking.

BRANSCOME: If you remember, Fort Washington Way used to be a lot worse, before the renovation, 20 or 25 years ago. So, the barrier was broken, but it's still that feeling of "Going down to The Banks."

COURIER: We mentioned this earlier, but the apartment market here is still hot. Is it going to stay hot? Are we ever going to stop building apartments in Greater Cincinnati?

MCGRORY: It doesn't look like it.

EICHHORN: It serves two different demographics, the millennials and the baby boomers who are approaching retirement, which is a cool dichotomy with the live, work, play type of community. You have the 25-year old's hanging out with 70-year old's.

LEDER: Even further than that, from what I've read, I'm not even sure what it's called right now, the post-millennial generation. With that generation, no one is expecting any differences there. It's going to follow this trend. I don't think this is necessarily going away, unless some of the behaviors change with those generations.

COURIER: They call it I-Gen, or Gen-Z. They are attracted to urban areas.

BRANSCOME: One of the things that could be the fly in the ointment, or a couple of things which might deter additional development in multi-family are the labor costs and material costs. We have all seen the labor and material costs go up in construction and development. Do the numbers still make economic sense to develop these huge, high-end, multi-family projects? Does it still make sense considering development costs and rent charged? So, some of these projects we have seen announced may be delayed, or indefinitely put on hold. This will help keep vacancies lower and rents higher and control any overbuilding which might occur. Also contributing to the development impediments are rising interest rates. Short-term construction interest rates have risen and we don't know where long-term rates will be six months or one year from now which could impede development.

EICHHORN: Another thing about our economy is people change jobs more frequently. When my parents worked, they had one job. My dad held one job over the course of his whole career. It looks like I will have two or three jobs, Folks that are graduating from college, are going to have seven, eight, nine and 10 different jobs, or 10 different careers. The economy is changing. There will continue to be more of an entrepreneurial spirit. So, that changes the housing market. People don't want to be tied down to a house. They want to have the flexibility of living in a community, but they may want to move to Charlotte, or to a different neighborhood. So, with the change of the demographics and the economy, multi-family is always going to be in demand. But, like Susan said, the labor costs, and the cost of construction are going to keep going up.

BRANSCOME: Right.

MCGRORY: Susan and Jeff bring up excellent points that we haven't talked about, but it is impacting the market, broadly, and these are these construction costs. For those of us that are involved in the construction business, you know the term escalation, and escalation and inflation are not the same thing. The escalation and building costs have to be far outpaced inflation, or general inflation. There are a variety of indexes that track those for different components.

LEDER: Is that because of some of the trade issues and tariffs?

MCGRORY: Some of it is. Absolutely. Lumber, steel, certainly the steel costs, for buildings that have a large steel component, and then the labor. Companies are changing the design so they don't have to have as many skilled laborers working on buildings, because they are so hard to find.

EICHHORN: When we build an industrial building, you have to order pre-cast concrete panels, and you have to order them five months in advance. That creates a back log. So, factoring in the labor, construction costs, costs for excavation and site prep costs, (costs are going to continue to go up.) It seemed like when the economy tanked in 2008, a lot of general contractors, and excavators went out of business. The one's that survived are busier than all get out. It's supply and demand.

COURIER: We were talking about apartments. We've written a lot about some buildings downtown that are being considered for changing, such as the Central Trust Tower. They are talking about changing it into apartments. Obviously, Kroger's is building there. Fourth and Race is going to be another substantial project. They are digging there right now. Does this make sense to you as a group? I don't recall seeing cities where I can look at one of the biggest tower's in town and say that used to be an office, now it's an apartment complex. Does this happen? I don't get around that much? It's not a trend I've seen. It doesn't mean it's not a great idea. What do you think?

LEDER: It seems to be a response to what we were just talking about, and not having to build ground-up construction with some of the examples you cited. Sometimes, there's incentives for these older buildings downtown to be refurbished, and keep their historical integrity. With some of the projects that have been mentioned, I think developers are taking advantage of historic tax credits, and things of that nature, or other municipal incentives to keep the buildings in place. That, along with the tighter market on the construction side, and the cost of materials, it may work better, economically, for the developers.

EICHHORN: It's not just apartments. I know of other hotel projects in the inner city, Fifth Street, between Fifth and Central, and a couple of other hotel conversions that are going from office to an eclectic hotel. It is interesting. I'm like you, Rob, I don't get to travel across the United States, but it is a phenomenon that's out there.

COURIER: The restaurant tours at dinner in the core here say we need more people living downtown. A building like Central Trust Tower filling up with apartments sure would facilitate that.

MCGRORY: That's right. If you look at the number of housing units we have in our downtown core area, I think we're a long way from being over populated downtown, even relative to peer cities. I think we will continue to see that phenomenon, and in general, it will be healthy.

COURIER: We did get a late start. There wasn't a lot of inventory. For years and years, if you wanted to live downtown, you couldn't. Over-the-Rhine wasn't a choice. Like you were saying before, it wasn't a choice. I'm going to rattle off a couple of these bigger ones that we've written a lot about. You don't have to talk about them at any length, but I wanted to check them off, and see if you have any thoughts on how you think they might impact the City – the Children's Hospital Tower, the downtown Kroger, Amazon at CVG, which we've mentioned, and the Fourth and Race project, which is just now getting underway. Do you see any of these as substantial enough to say this is a game-changer, or something we should be really happy is happening for the City?

LEDER: The Kroger development, being that a grocery store was always sought in the urban core, is beneficial. Also, Fourth and Race and the Kroger development, they both involve garages, and garages that are built below the rest of the development. This

THE STATE OF COMMERCIAL REAL ESTATE

sort of infrastructure hurdle is always an issue for downtown development projects. So, with the infrastructure being in place, it helps tremendously with these kind of developments.

MCGRORY: I think they are all substantial. With the Children's Hospital Tower, Children's is just a phenomenon on its own, in its own right. And, it's hard to overstate the influence that institution has on the City, and the scale of that investment is so significant, and its ability to attract talent, to attract research dollars. Those are core economic development type jobs, that draw money in from outside the region. Those are the things that boost the regional GDP, and that absolutely is a game-changer.

EICHHORN: I agree with Sean's comments. I think Children's Hospital is such a fantastic institution, and that project is an incredibly large and significant project in the Uptown community. It's Messer Construction's number one project in Greater Cincinnati. They have a couple key executives that have stayed on just to make sure the Children's Tower project is finished to the satisfaction of their client, Children's Hospital.

COURIER: That's great.

LEDER: We touched on Amazon earlier, and some of the development there, but I think it's also important for the airport as part of the rebirth at CVG, too – to continue to expand and provide flights that are affordable and frequent enough to support the development going on in this city.

EICHHORN: It is a transformational project in terms of the growth at the airport - the Amazon affect that has transformed Northern Kentucky's economy. And, again, the need for larger land sites, which is something we're passionate about. It's one of our specialties. We manage about 3,000 acres of land throughout Greater Cincinnati and Northern Kentucky, and we have a couple of sites by the airport that we're kind of bullish on long-term.

COURIER: Amazon doesn't talk much to us, maybe the talk with you. So, we don't exactly know when everything is going to open, or exactly what they are going to do. We've heard some of ideas about how big their main building is going to be, and it's going to be a huge building, but it's the ancillary developments that we're most interested in. If you look in Evendale, at all the different aerospace that happens there, I wonder as far as logistics and Amazon's business, if the same kind of impact will happen near the airport just because Amazon's going to throw off so much business.

EICHHORN: We're already seeing it. There are developers building on spec. We wouldn't have seen that three or four years ago. These are large buildings – 300,000, 500,000, and a million-sq. ft., and they are building them on spec.

MCGRORY: I guess they are getting them financed.

EICHHORN: In the past, if you had a spec building of that magnitude, financing would be impossible, but there are some entrepreneurs that are taking some critical risks. The Amazon project seems to grow and change, but there are also going to be some infrastructure changes. For example, Mineola Pike is going to be expanded to five lanes. So, the infrastructure is going to cater to the airport, and Amazon's going to open up other sites, other opportunities for other developers to invest to be a just-in-time delivery model to Amazon, like DHL at the airport.

COURIER: I'm going to bounce around a little bit here. A couple of questions I made a note of don't have a straight tie into to what we've been talking about. I want to ask you about driverless cars. Driverless cars are something we've written a lot about. Everybody has an opinion of what's going to happen with them, but I would like a real estate opinion on what driverless cars could do to the market.


PHOTO: PAULA NORTON

"I don't see any clients slowing down, or having the types of difficulties you would associate with a slow-down. Anyone who is in the game, absolutely knows they need to stay in the game right now."

– Sean McGrory, Clark Schaefer Hackett

MCGRORY: I will use the analogy that Hemingway used about bankruptcy. It comes on "gradually, and then suddenly", and I think that's where we are with driverless cars. There are people working feverishly on this, but you don't hear about it every day. I think what they are learning is that it's going to take longer than they thought. It's interesting, at the UC Economic Center a year ago, the CEO of Ford Motor Company, Jim Hackett, came and spoke, and he talked a little bit about what they are doing with driverless cars. In a nutshell, they are logging millions and millions of miles in cars that are being driven that are sucking in all kinds of data, because they need these enormous data bases to be able to build the intelligence necessary for driverless cars. What they are finding is that the data bases need to be even bigger than they thought, before they can do it. Over the planning horizons of most development projects right now, we'll initially only experience small changes, in what parking requirements are and those types of things, and those are probably being driven by factors other than the future of driverless cars. They're being driven by demographic and lifestyle choice factors, more so than driverless cars. They are probably being driven more by ride-sharing issues, than driverless cars. I think we'll still be talking about this 10 years from now, but it will be a different conversation.

LEDER: I do think you can see the impact from a commercial real estate perspective. If you have a shopping center in the suburbs, for instance, with a huge surface parking lot, you'd be able to use that space for other things if you don't need to have cars parked there. So, maybe that means less maintenance, and lower rent for the retailers. Someone is going to have to figure out how we are going to work drop-off centers with these cars that come in and drop people off and then go on their way. And, that's probably an issue for urban and suburban settings, and it would probably further the trend more toward urban development, because you don't have the parking lot problem that we may have now. I agree with Sean. You don't hear a lot about it in plans or development. For developments right now, it still seems like a little bit of a pipe dream.

BRANSCOME: It's fascinating to think about how this might change the markets, and from what I've heard, the urban areas are going to change the most. The need for parking will shift a lot, and the parking cost to owners/developers will decrease. . So, what will be the alternate use of these parking garages and parking lots be? If you think about a driverless car, and people sharing rides, cheaper transportation what is the long-term impact in downtown markets around the need for parking? It's fascinating to me that it would shift everything you see out there right now---traffic, parking, etc. It's almost like imagining the impact of internet before it existed!

COURIER: It will be a physical manifestation of technology, and I think you're right. When we think about some of the things we've been doing forever. Things are always changing, but we are still driving the same cars we were 100 years ago. Not, really, but we could. Airplanes haven't changed a lot as far as I can tell. Freeways have been around now for 50 or 60 years, and garages, lots and everything, but you're right. This kind of change would be something we'd see all day, every day.

EICHHORN: I agree that we're five to 10 years from seeing a meaningful change, and how sites are developed. We've looked at restaurants, and one thing that is going to be interesting is having the local communities and government enforcement entities change their zoning codes, because there are strict guidelines, that state one spot for two seats in a restaurant. Every municipality has a slightly different code. Not only do the developers have to worry about that, but we've had to educate our public partners that they need to relax some of their zoning regulations. One thing I can think of is back in 2006, Bunnell Hill Construction built a building for Melink in Clermont County. It was the first gold-certified LEAD building in Southwestern Ohio. Another thing that held up that project was they wanted to do low-flow or waterless urinals, but the code required they have so many gallons of water per flush. So, we couldn't install them until there was a regulation change, and that took three to four months. Again, once you've educated the public partner, they get it. It's interesting how society adapts, but how we educate is important, because the government is often lagging behind in terms of enforcement. It's always fun when you submit a site plan, and they say you need more parking for your restaurant.

MCGRORY: I'm going to pick up on that and take it a step further. I think about this driverless vehicle, and one of the things that's going to be very interesting, and potentially more disruptive than what it does to the real estate industry is what it does with the jobs. The largest, single employment category for men with a high school education or less is a truck driver. What happens if that all goes away?

EICHHORN: Actually, we may see that first. There are a lot of logistics companies that are exploring driverless trucks.

COURIER: We're at time. I have about six questions that we didn't have an opportunity to discuss. Maybe there's one last question we can tackle. What do you guys think? Retail? Is retail dead? Is retail gone? Is Amazon the way to go? I don't shop anymore. I hate shopping. I go on Amazon, and buy all my stuff, and it gets sent to me two days later, and I'm happy. I don't have to go to the mall, but that's not a great thing for our economy. What's going to happen with retail?

EICHHORN: It's changing, but it's not dead. There's still going to be a need for retail, close to population centers, the urban core, and I look at the model of just-in-time delivery. People still need to eat, and they still need to buy their groceries. Actually, I guess they don't need to buy their groceries, but retail is changing. So is the suburban shopping center. Unless it's a Grade A location, it's going to struggle, and it will be interesting to see how those will be re-used. In today's climate, there's always going to be a demand for just-in-time retail delivery for its customers.

BRANSCOME: The retailers which are going to survive, Best Buy, for example, need to integrate their online platform with their retail stores, and some retailers are struggling with that. Best Buy changed its approach by saying, we'll match the price, and we'll show you how to do whatever you need to do with these electronics---so they met the market by focusing on price and service. Retail and shopping continue to be experiences. Especially for women, many women like to shop. It is an experience, but we want service too, and we want to have a good feeling from the experience. So, that's not going away. Millennials expect different things than baby boomers. They want products fast –deliver in a day or two. They don't want to wait a week. They tend to shop at the store, then come home and buy it online at the best price. So, they're the bigger spenders now, and retailers must appeal to millennials. There was a net gain of retailers last year. There were store closings, but there were more store openings. The entire retail landscape is changing. The retailers which will survive will be the ones which integrate online, e-commerce with their brick and mortar stores, enhance the experience, and provide fast and strong customer service.

EICHHORN: We're seeing continued growth in restaurants. In some of our older shopping centers, it's literally a series of unique restaurants. Instead of a corner bookstore, it's a Mexican restaurant, or it's a Chinese buffet, but the need continues to grow, which I find mind-numbing. You can build restaurants just about anywhere.

BRANSCOME: Millennials like to eat out at restaurants a lot.

LEDER: They have to focus on the experience, right? It's entertainment retail, and traditional retail that offers an experience.

COURIER: Great. Thank you for the input and expertise. That's all I have for you.