

MULTIFAMILY MARKET OVERVIEW

Within the Columbus metropolitan area, approximately 32% of the 627,000 households reside in apartments. This percentage is compared to the national average of 29%. Franklin County reports approximately 39% of households reside in apartments, due, in part, to the many colleges and universities in the area. The area also has a median age that is below the national average.

Occupancy

Occupancy remained in a range from approximately 90% to 92% from October 2007 through June 2009. Occupancy has increased in all but the East sector since June 2009. Starting in December 2011, the Central area is reported as a separate submarket and indicates the highest occupancy. Overall, the East and West submarkets continue to exhibit the lowest occupancy rates. However, each has improved in the past year. The reported occupancy does not include concessions. Free rent, reduced deposits and other incentives have been prevalent in some markets, decreasing effective rent by 3% to 5%. However, beginning in 2010, concessions diminished in the more popular submarkets. Occupancy and vacancy rates, by area, are presented in the following table.

Columbus Area Occupancy Rates										
Submarket	October-07	May-08	December-08	June-09	December-09	October-10	May-11	December-11	August-12	July-13
Northwest	95.6%	95.7%	95.5%	95.4%	93.7%	95.7%	96.3%	97.1%	97.3%	96.8%
Northeast	92.3%	92.1%	92.1%	92.0%	90.3%	92.0%	93.7%	93.8%	94.7%	95.4%
East	90.2%	90.3%	90.2%	90.9%	89.6%	88.8%	89.7%	89.1%	90.8%	93.7%
West	83.3%	84.5%	93.2%	91.0%	90.1%	91.2%	93.4%	91.9%	94.4%	95.1%
Central	N/A	N/A	N/A	N/A	N/A	N/A	N/A	98.6%	98.8%	98.7%
Overall Occupancy	90.4%	90.7%	92.8%	92.3%	90.9%	91.9%	93.3%	94.1%	95.2%	95.9%
Vacancy Rate	9.7%	9.3%	7.3%	7.7%	9.1%	8.1%	6.7%	5.9%	4.8%	4.1%
Source: Apartment Realty Advisors										

Initially, the increase in foreclosures and tightening credit policies of lenders helped the apartment industry. This accompanied the significantly low number of units delivered in 2009-2011. Both potential first-time homeowners and those who have lost homes are anticipated to strengthen apartment occupancy in the long-term. However, the unemployment rate has negatively affected occupancy and operations. As residents lose jobs, they have been forced to break their leases. This had been most evident in Class B and lower-grade apartment communities. All sectors have improved in the past year.

Based upon information provided by The Site to Do Business, population in the Columbus MSA was estimated to have increased 1.4% annually from 2000 to 2010. This would generate demand for an additional 1,000 to 1,500 apartment units per year within the Columbus MSA. Although building permit activity exceeded this amount, occupancy rates remained near 93% until 2003, indicating that population projections are not fully capturing the number of households being created within the Columbus market and residing in apartments. Much of this was due to the prevalence of low mortgage interest rates, making home ownership an attractive option. The following chart compares vacancy rates to multifamily building permits.

Vacancy Rates and Building Permits Columbus, Ohio MSA		
Year	Overall Vacancy	Multi-Family Units²
2000	6.3%	3,801
2001	6.9%	4,322
2002	7.7%	5,293
2003	8.2%	3,418
2004	8.3%	1,609
2005	8.5%	2,110
2006	9.7%	1,437
2007	9.7%	1,514
2008	7.3%	1,370
2009	9.1%	1,292
2010	8.1%	1,370
2011	5.9%	1,347
2012	4.8%	3,345

Sources
¹ARA
²US Census Bureau- 5 or more units

Included in this number are condominium units. The actual number of new apartment units built during the single-family and condominium housing boom was near zero. However, the Columbus MSA has realized a significant increase in multifamily development as developers look to capitalize on rising rental rates and occupancy. Since 2003, the Columbus MSA has realized the most 5+ unit building permits in 2012 year-to-date. Several new apartment projects began construction in 2009 and were completed in late 2010 to early 2011. Sites available for apartment development had become scarce. Former condominium sites have been converted to apartment development where possible. Sites rezoned for apartment development have also seen an increase.

The greatest concentration of new construction is planned for the Central area, with significant increases in the Northwest and Northeast submarkets as well. The Northwest and Northeast submarkets have the greatest amount of land available for apartment development, as well as the greatest population growth.

The following charts identify new and proposed construction.

Columbus MSA Multifamily Development

	<u>Name</u>	<u>Location</u>	<u>No. of Units</u>	<u>Status</u>	
Suburban: Completed	Arlington Park	Hilliard	284	Completed 2011	
	Hilliard Grand	Hilliard	314	Completed 2011	
	Bryant Park	NW Columbus	186	Completed 2011	
	Worthington Green	Westerville	48	Completed 2011	
	Hilliard Meadows	Hilliard	208	Completion 2012	
	Chelsea Square	NE Columbus	186	Completed 2012	
	Ashbrook Run	SE Columbus	292	Completed 2012	
	The Paddock at Hayden Run	Hilliard	376	Completed 2010/2012	
	Albany Landing	NE Columbus	272	Completed 2011/2012	
	Benchmark	NW Columbus	108	Completed 2013	
	Brookfield Village	SW Columbus	156	Completed 2013	
	Madison Park	NW Columbus	114	Completed 2013	
	Hudson Square	New Albany	226	Completed 2013	
	Liberty Crossing	N Columbus	226	Scheduled Completion 2012/2013	
	Chelsea Square II	NE Columbus	126	Scheduled Completion 2013	
	The Grammercy	New Albany	322	Completed 2013	
		Total Completed		3,444	
	Under Construction	Grove City Summit	Grove City	227	Available late 2013
		The Paddock II	NE Columbus	332	Under Construction
		Remington Woods	N Columbus	150	Under Construction
The Lane		Grandview	108	Under Construction	
Preserve Crossing IV		NE Columbus	244	Completed 2014	
Abbie Cove		Southeast	88	Scheduled Completion 2013	
Westbury Park		NE Columbus	126	Under Construction	
Madden's Pointe		NE Columbus	72	Under Construction	
Avenue at Polaris		Polaris	309	Under Construction	
Polaris Place		Polaris	224	Open Spring 2013	
801 Polaris		Polaris	272	Under Construction	
North Park Place II		Polaris	264	Under Construction	
The Ravines at Westar- Phase 1		Polaris	294	2013 Construction	
Chesapeake		Grandview area	127	2013-14 Construction	
Village at Albany Moor		New Albany	168	2013 Construction	
Albany Woods		Easton	208	2013 Construction	
Hartford Village		Hilliard	72	2013 Construction	
Strathmoor		Tuttle	276	2013 Construction	
Andover Place		Hilliard	264	2013 Construction	
Palmer House		NE Columbus	264	2013 Construction	
Clifton Park		NE Columbus	264	2013 Construction	
District One- Phase I		Tuttle	114	First units 8/13/completion fall 2014	
Residences at Central Park		Gahanna	220	Under Construction	
Brooklands-Lifestyle		Hilliard	276	Under Construction	
Albany Glen		NE Columbus	264	Under Construction	
		Total Under Construction		5,227	
Proposed/Planning		District One- Phase 2	Tuttle	114	Proposed
	The Ravines at Westar- Phase 2	Polaris	210	Proposed	
	Hilliard Apartments	Hilliard	276	Planning	
	Pizzuti	Grove City	120	Planning	
	Vision Development	Worthington	326	Planning	
	Avery Brooke	NW Columbus	165	2013-14 Construction	
	Worthington Place	Worthington	141	2014-15 Construction	
	Worthington Square	Worthington	180	Planning	
	Total Proposed/Planning		1,532		
	Suburban Total		10,203		

Columbus MSA Multifamily Development

Central:					
Completed	Flats on Vine	Arena District	232	Completed 2011	
	CCAD Apartments	Gay/Grant	68	Completed 2011	
	Annex at River South	CBD	214	Completed 2010	
	Flats on Vine II	Arena District	120	Leasing	
	Liberty Place II	Brewery District	226	Open 2013	
	570 Lofts/Born Brewery	Brewery District	47	Open February 2013	
	Lennox Flats	Grandview	102	Completed 2012	
	Grandview Yard	Grandview Yard	154/600	Completed 2012	
	Wonder Bread	Italian Village	56	Completed 2013/Leasing	
	Tribeca	Grandview	183	Completed 2013/Leasing	
	Total Completed		1,248		
	Under Construction	600 Goodale	Arena/Grandview	174	Completion 2013/Leasing
		Neighborhood Launch	CBD	260	Scheduled Completion 2013
Aston Place		Short North	59	Scheduled Completion 2013	
HighPoint on Columbus Commons		CBD	301	Scheduled Completion 2014	
Harrison Park		Harrison West	108	Pre-leasing	
Jeffrey Place		Italian Village	267	Scheduled Completion 2014	
Leveque Tower		CBD	70	Scheduled Completion 2014	
N. High St./2nd Ave.		Short North	24	Under Construction	
Lane Avenue Mixed-Use		Upper Arlington	108	Pre-leasing	
Total Under Construction			1,371		
Proposed/Planning		View on High/N.High & 20th	Campus	64	Planning
	View on Fifth	Fifth	153	Planning	
	Atlas Building	N. High St.	100	Planning/2015 Delivery	
	Damiler/Kauffman	River South	156	Planning	
	River South/Lifestyle	S. High St.	106	Late 2014 or early 2015	
	Grandview Yard-Phase II	Grandview Heights	120	Planning	
	Parkside on Pearl	Italian Village	44	Planning	
	1400 Dublin Road	Marble Cliff	216/244	Planning	
	N. High St./7th Ave.	Short North	84	Planning	
	Leafy Dale	Victorian Village	26	Planning	
	The Hubbard/Ibiza	Short North	68	Planning	
	Columbus Coated Fabrics	Weinland Park	200-300	Planning-Long Term	
	Discovery District Commons	Discovery District	102	Planning	
	NRI/West Arena District	Arena District	600-800	Planning-Long Term	
Jeffrey Place	Italian Village	1,000	Planning-Long Term		
Total Proposed/Planning		3,039			
		3,367			
	Central Total	5,658			
		5,986			
	Columbus MSA Total	16,186			
		16,514			

The Central area of Columbus is the most desirable due to the slowed growth of suburban communities, the location of jobs and the development and location of several Central entertainment districts, making the Central area attractive for new renters. The preceding chart illustrates the significant amount of recently completed, under construction, planned and proposed multifamily projects within the Central market. According to The Site to Do Business, the Central 3-mile radius of Columbus is expected to realize an increase in population of 719 people, total, from 2010 to 2015. This estimate will increase as the new multifamily projects are completed; however, the significant number of new units is not justified if all proposed and planned projects are actually completed.

Other factors affecting the Central multifamily area are the number and quality of new jobs being created. The proposed and recently completed projects are asking rental rates of up to \$1.70+ per square foot, pricing a significant number of would-be renters out of the Central submarket. Another long-term factor is the return of home-ownership, as renters analyze renting vs. home-ownership as the rental payments of the Central submarket units will allow a renter/buyer to purchase a quality home/condo in the Columbus MSA.

Rents

Rents during the past year have increased in all market sectors. The rents do not reflect the effect of any concessions. The greatest rental rates are in the Central, Northwest and Northeast sectors. The West and East sectors continue to have the lowest rental rates. The Central area demonstrates the recent interest and planning of developers to target this area. The following chart shows a breakdown by submarket.

Columbus MSA Average Rental Rates										
Submarket	October-07	May-08	December-08	June-09	December-09	October-10	May-11	December-11	August-12	July-13
Northwest	\$755	\$762	\$776	\$776	\$786	\$797	\$825	\$828	\$864	\$896
Northeast	\$656	\$664	\$673	\$673	\$677	\$683	\$695	\$709	\$728	\$747
East	\$590	\$593	\$602	\$600	\$600	\$605	\$614	\$625	\$644	\$655
West	\$572	\$579	\$587	\$585	\$590	\$584	\$586	\$621	\$629	\$660
Central	NA	NA	NA	NA	NA	NA		\$961	\$978	\$1,123

Source: Apartment Realty Advisors

Sales

The average sale price per unit increased steadily through 2001. The drop in the number of sales during 2001 and 2002 is attributable to a general decrease in the desirability of the market due to overbuilding, increasing vacancies, and limited rent growth during the year. Sales volume declined approximately 30% in 2003. After three years of low interest rates and declining capitalization rates, most owners had either refinanced or sold. Therefore, available properties became scarce. The increase in 2005 reflects the sale of more Class A properties.

Most sales in 2009 and 2010 were REO or lender-directed sales. A significant number of lenders finally disposed of REO and distressed Class C assets that were purchased at premium prices (2005 to 2008) or have been mismanaged during the economic decline. The lack of stabilized Class A or B sales prior to 2012 is attributed to the increases in rents and occupancy, as investors were not willing to sell stabilized properties without a significant premium. Multifamily real estate represents one of the most stable commercial real estate or alternative investments over the past three years, and investors continue to look to multifamily assets for the future.

Several of the area brokers interviewed expressed excitement with the recent increase in available properties for sale. They indicate that investors are looking to capitalize on the significant interest in Class A and B multifamily properties from institutional investors. As financial markets continue to remain unstable, institutional investors have looked to stabilized multifamily properties to park cash and chase yield as the 10-year treasury yield has declined significantly. The following chart illustrates the decrease in safe investments, and institutional investors are aggressively pursuing Class A multifamily assets. This is creating a bubble in Class A assets, as large institutional investors have significant purchasing power due to the low required rate of return and interest rates available. The number of potential buyers has increased, which has driven up prices.

MARKET RATES AND BOND YIELDS - %												
	Mar 2013	Dec 2012	Sep 2012	Jun 2012	Mar 2012	Dec 2011	Sep 2011	Jun 2011	Mar 2011	Dec 2010	Sep 2010	Jun 2010
Prime Rate (Monthly Average)	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
U.S. 10-Year Bond	3.73	1.72	1.72	1.62	2.17	1.98	1.98	3.00	3.41	3.29	2.65	3.20
U.S. 30-Year Bond	4.64	2.88	2.88	2.70	3.28	2.98	3.18	4.23	4.51	4.42	3.77	4.13
Corporate Bonds (Aaa)	5.27	3.65	3.49	3.64	3.99	3.93	4.09	4.99	5.13	5.02	4.53	4.88
Corporate Bonds (A)*	5.00	3.98	4.01	4.14	4.51	4.40	4.54	5.26	5.52	5.52	5.01	5.44
Corporate Bonds (Baa)	6.27	4.63	4.84	5.02	5.23	5.25	5.27	5.75	6.03	6.10	5.66	6.23

* Source: Moody's Bond Record

The following chart summarizes the number of sales and average sale prices since 2000. The following sales data is skewed lower due to a few distressed sales with a significant number of units in 2012.

**Columbus Area Apartment Survey
Historical Sales Activity**

Year	Number of Sales	Average Sales Price Per Unit	
2000	60	\$36,880	*
2001	43	\$41,620	*
2002	46	\$38,940	*
2003	32	\$39,770	*
2004	25	\$31,820	*
2005	40	\$45,998	*
2006	34	\$37,382	*
2007	42	\$38,721	**
2008	41	\$54,376	**
2009	23	\$25,995	**
2010	22	\$11,585	**
2011	32	\$23,687	**
2012	23	\$22,848	***

*Based on sales of 20 units or more

**Based on sales of \$500,000 or more

Source: Marcus & Millichap & Collier International

Occupancy and rents in Class A and B apartments have improved in the current economy. This is related to the troubles in the single-family market and unemployment. The demand for apartment units has resulted in significant new construction in the Central, Northwest and Northeast Franklin County markets. The scarcity of land zoned for apartment development may improve lower-grade apartment communities that are distressed. This sector offers the potential for rehabilitation and repositioning within the market without the difficulties of rezoning. Financing availability should continue to improve in 2013. An increase in stabilized transactions has occurred since the beginning of 2013.

A potential issue affecting the multifamily sector is the significant number of vacant single-family homes and condominiums that either were foreclosures or never sold to owner-occupants. This "shadow market" will influence apartments, as developers rent the homes and condominiums due to the non-existent sales market. Improvement has occurred in this market as home and condominium sales have increased in the past year.

Real estate taxes have also had a significant impact on the multifamily sector, as the effective tax rates have increased significantly over the past five years. The following chart illustrates the increase in real estate taxes rates in districts that have experienced multifamily development or are currently targeted for future development. Several investors have expressed frustration with current real estate tax bills and the assessed value of their properties. However, the increase in the effective tax rate is a major factor, along with the assessed value.

Franklin County Effective Commercial Real Estate Tax Rates									
No.	District	2007	2008	2009	2010	2011	2012	Difference	2007-2012 % Change
10	Columbus	\$66.584349	\$73.401247	\$74.489830	\$76.668781	\$78.524688	\$79.712647	\$13.128298	19.72%
50	Hilliard	\$82.503159	\$86.924147	\$87.801436	\$89.868038	\$98.189119	\$99.299020	\$16.795861	20.36%
80	Westerville	\$74.309148	\$74.171407	\$83.142226	\$86.650863	\$89.902910	\$97.515838	\$23.206690	31.23%
222	Plain Twp.-New Albany	\$76.390792	\$78.067399	\$82.091445	\$84.277755	\$85.935618	\$93.132156	\$16.741364	21.92%
273	Dublin	\$79.244956	\$77.173644	\$85.646480	\$89.264369	\$90.385640	\$98.206515	\$18.961559	23.93%
Average Increase:		\$75.806481	\$77.947569	\$82.634283	\$85.345961	\$88.587595	\$93.573235	\$17.766754	23.44%

The Central area will be the most closely watched area for multifamily development as there are several prominent projects scheduled to deliver inventory in 2013 and beyond. With a significant number of projects still in the planning stages, the demand of the Central area multifamily sector could be fulfilled by the time the later projects are completed and attempt to reach stabilization.