GREATER COLUMBUS OFFICE MARKET OVERVIEW

Current Market Trends

Over the past 12 months, overall market conditions have continued to improve. Vacancy declined, absorption remains positive and rental rates have increased. Additionally, new construction has mostly been limited to build-to-suit scenarios, which has helped to alleviate the oversupply of existing space within the regional market.

Supply

In assessing the Columbus office market, several sources have been considered. These sources include Colliers International and CB Richard Ellis. The broadest survey appears to have been conducted by Colliers International. This survey includes over 62.6 million square feet of tenant-occupied office space. Reporting criteria has now been expanded to include all non-government office buildings with 10,000 square feet and greater, as opposed to their previous methodology, which was based on buildings of 20,000 square feet and greater.

By comparison, the CB Richard Ellis survey identifies 32.6 million square feet within the greater Columbus office market. The substantial difference in square footage included in the Colliers International survey includes owner- and partial owner-occupied office buildings with significant amounts of sub-lease space available. According to historical records, the greater Columbus office market is made up of approximately 57% multi-tenant, investor-owned office space, while the remaining 43% is owner-occupied. Using these estimates against the CB Richard Ellis survey indicates approximately 57.2 million square feet of total office space in the Columbus metropolitan area. The Colliers International 2nd Quarter 2013 Research & Forecast Report is presented on the following page.

UPDATE Market Comparisons

OFFICE MARKET

				Net Absorption		Construction		Asking Rental Rates	
SUBMARKET	Total SF	Vacant SF	Vacancy %	Current Quarter	Year-to-date	Current	Completions	Class A ($)	Class B ($)
CBD	19,343,367	2,186,036	11.3%	(184)	154,919	280,000	-	$19.19	$16.64
ARLINGTON/GRANDVIEW	4,853,288	433,102	8.9%	29,010	58,882	48,500	-	$23.34	$16.82
DUBLIN	9,325,430	1,250,072	13.4%	119,404	(31,588)		-	$19.01	$15.89
EAST	3,869,477	509,137	13.1%	(684)	14,766		-	$15.65	$14.96
EASTON	2,705,095	167,816	6.2%	56,634	58,641		-	$20.23	$18.00
GAHANNA/AIRPORT	1,235,246	107,079	8.6%	(24,392)	(33,045)		-	$19.68	$16.38
HILLIARD	2,361,083	391,846	16.6%	(1,253)	50,910	56,000	-	$19.99	$16.37
NEW ALBANY	1,880,057	182,021	9.6%	6,772	48,772	258,000	-	$17.71	
NORTH CENTRAL	1,147,668	124,673	10.8%	(950)	(31,364)		-		$12.98
POLARIS	4,405,927	314,207	7.1%	11,263	2,126		-	$19.49	$18.66
POWELL	273,589	29,577	10.8%	2,667	779		-		$16.55
SOUTHEAST	434,658	64,565	14.8%	(2,275)	(2,275)		-		
SOUTHWEST	219,119	15,770	7.2%	-	1,374		-		$15.32
WESTERVILLE	4,383,103	527,116	12.0%	26,061	78,413		-	$19.35	$15.45
WORTHINGTON	6,240,847	855,262	13.7%	7,007	7,037		-	$18.65	$15.04
SUBURBAN TOTAL	43,345,289	4,972,243	11.4%	229,264	223,428	362,500	-	$19.19	$15.56
TOTAL	62,688,656	7,158,279	11.4%	229,080	378,347	642,500	-	$19.19	$15.87

				Net Absorption		Construction		Asking Rental Rates
PROPERTY TYPE	Total SF	Vacant SF	Vacancy %	Current Quarter	Year-to-date	Current	Completions	By Product Type
CLASS A	26,589,427	2,919,837	10.9%	216,230	269,344	507,500	-	$19.19
CLASS B	22,401,293	2,853,096	12.7%	11,704	114,234	11,000	-	$15.87
CLASS C	13,697,936	1,385,346	10.1%	1,146	(5,231)		-	$13.41
TOTALS	62,688,656	7,158,279	11.4%	229,080	378,347	642,500	-	$17.10

QUARTERLY COMPARISON AND TOTALS

				Net Absorption		Construction		Asking Rental Rates	
QUARTER, YEAR	Total SF	Vacant SF	Vacancy %	Current Quarter	Year-to-date	Current	Completions	By Product Type	
Q1, 2013	62,688,656	7,386,619	11.7	162,701	162,701	518,500	103,000	$19.27	$15.91
Q4, 2012	63,192,662	7,143,523	11.7	93,462	350,209	391,000	395,000	$18.90	$15.93
Q3, 2012	63,051,662	7,188,414	11.8	246,232	174,114	457,000	-	$19.16	$15.60
Q2, 2012	63,051,662	7,566,097	12.0	32,745	8,037	301,000	-	$19.05	$15.67
Q1, 2012	63,040,960	7,598,842	12.1	(22,230)	(22,230)	301,000	140,000	$18.79	$15.57

DEVELOPMENT

Westerville plans to buy the 67 undeveloped acres in the city's Altair mixed-use development as part of a broader, $16 million deal with an affiliate of developer Solove Real Estate. The $6.7 million acquisition of the land at Cleveland Avenue and Polaris Parkway, within the Westar commercial park east of the Polaris Centers of Commerce, is targeted to be built out as offices. The deal also calls for the city to pay a discounted $9.5 million for roads, utilities, retention ponds and other infrastructure improvements that Solove built during the last decade or so in support of three office properties built at Altair.

Expedient Communications, a Pittsburgh-based company which provides cloudbased data storage and stores clients' own hardware, is completing the internal build-out at its Upper Arlington data center in a $1 million expansion. Expedient is also scouting the north Interstate 270 corridor from Dublin to New Albany for a future second center.

Occupancy

The surveys indicate that market vacancy decreased approximately 0.7% from Q1 2012 to Q2 2013, slightly improving the stability of the regional office market. Current vacancy rate estimates range from 11.4% (Colliers International) to 19.3% (CB Richard Ellis). The decrease in vacancy during 2013 was caused by positive absorption and some new construction. Easton, in the northeastern portion of the region, anchored by the areaǒs largest regional mall development, is the strongest suburban submarket, with overall vacancy estimated at 6.2%. The second strongest submarket, Polaris, is currently estimated at 7.1% (per Colliers International). Recently, the strongest demand has been from medical, insurance technology and higher education users.

Absorption – Demand

While the historical performance of the metropolitan Columbus office market is not a guarantee of future performance, it provides insight into the supply and demand components that created office absorption in the past and, therefore, what components are likely to promote absorption in the future.

In recent years, the suburban submarkets have accounted for most of the new office space in the metropolitan area. These areas have also claimed the vast majority of the office space absorption. In years 2009 and 2010, the regional office market indicated negative absorption in both the CBD and Suburban office markets, reflecting the declining economic conditions that became apparent by the end of 2008. However, by 2010, leasing activity increased, and 2011 ended with positive absorption. Annualized absorption for 2013 indicates continued improvement, as to-date results have exceeded total 2012 absorption. After several years of fragile market conditions, it appears that corporations are beginning to illustrate their confidence by taking on additional space. A historical perspective of the absorption is provided in the following table.

Historical Office Absorption

Submarket	2005	2006	2007	2008	2009	2010	2011	2012	2013 Q2
CBD:	172,599	201,667	413,493	186,362	(196,241)	(10,000)	161,101	10,016	154,919
Suburban:	(58,651)	509,366	576,990	581,526	(389,211)	(243,648)	482,371	340,193	223,428
Total All:	113,948	711,033	990,483	767,888	(585,452)	(253,648)	643,472	350,209	378,347

Source: Multiple

A summary of new office construction, by year, is summarized in the following chart. As shown, new construction over the past ten years reached its lowest point in 2010, when the only new construction took place in the Grandview Yard area. During this time, financing was largely unavailable to most users, and unemployment rates were near peak levels. Development activity increased in 2011 and 2012, although current development activity is far-outpacing the previous two years. The majority of this new construction is occurring in the CBD and New Albany, in several corporate headquarter offices (Bob Evans and AEP). Additional speculative development is also occurring in New Albany.

New Office Construction		
2004	253,640	Sq. Ft.
2005	658,000	Sq. Ft.
2006	795,642	Sq. Ft.
2007	922,392	Sq. Ft.
2008	444,392	Sq. Ft.
2009	108,000	Sq. Ft.
2010	90,000	Sq. Ft.
2011	331,000	Sq. Ft.
2012	391,000	Sq. Ft.
2013 Q2	642,500	Sq. Ft.

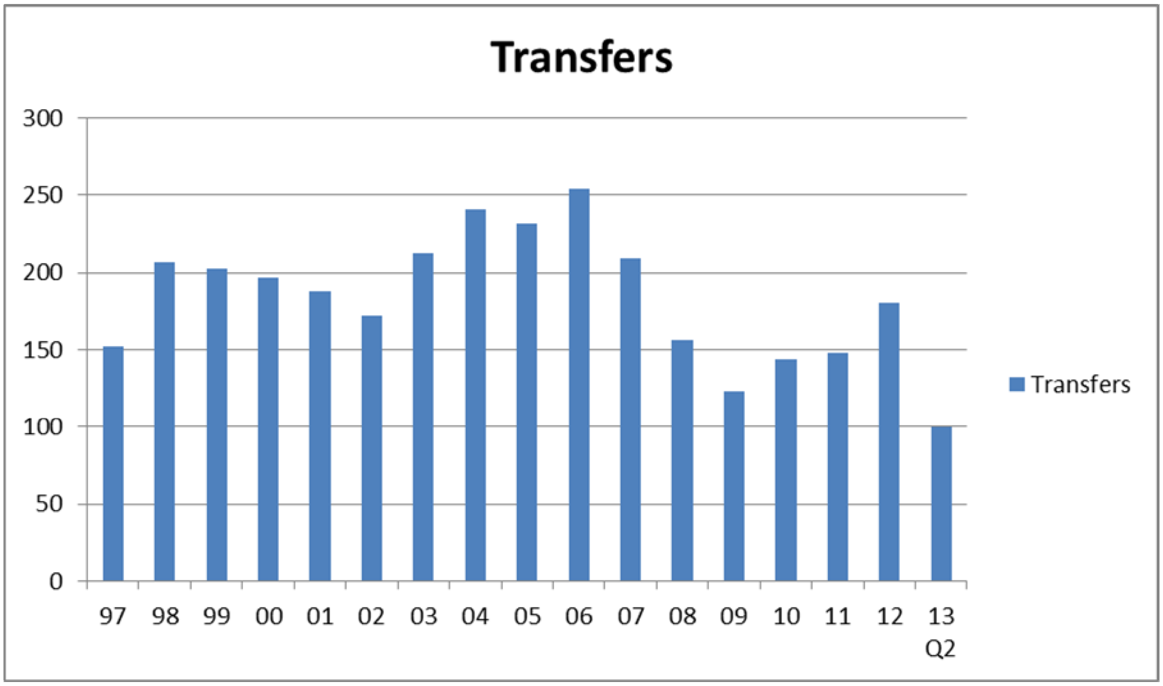
Historical Office Transfer Information

The actual office transfers within Franklin County include all offices with recorded conveyance forms. The historical transfer information, as reported by Jacqueline Haines Associates, is presented in the following chart.

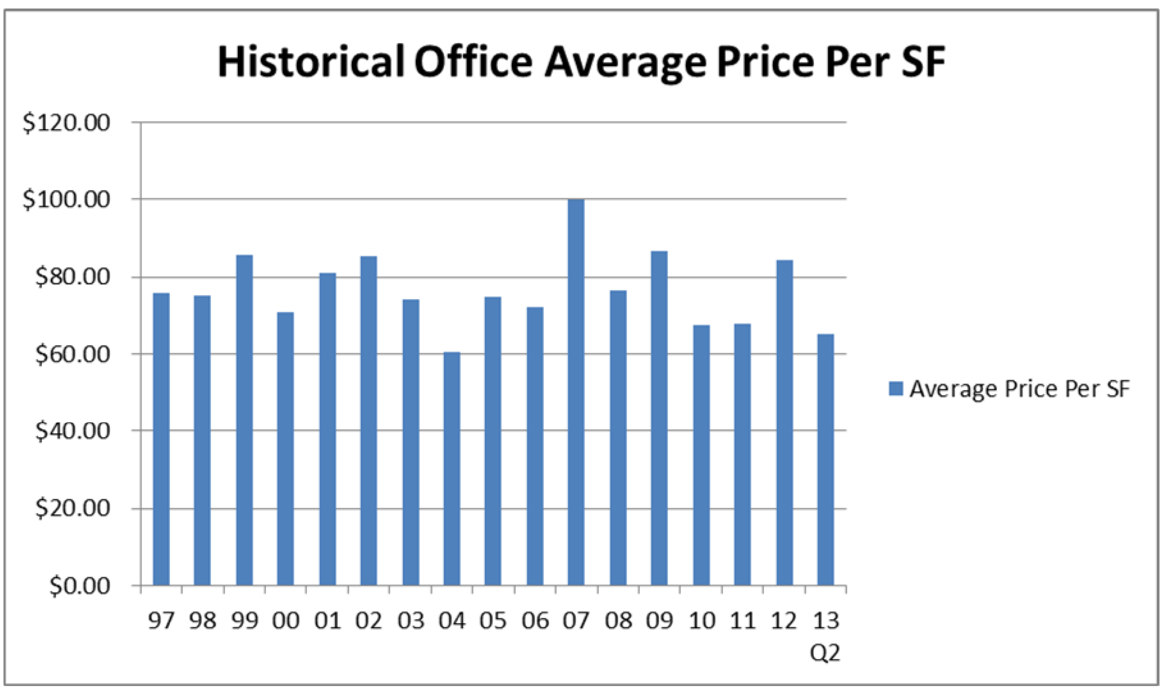
Historical Office Transfer Information

Year	Number of Transactions	Total Dollar Volume	Average Transaction	Average Building Size (SF)	Average Price Per SF
1997	152	$262,591,576	$1,727,576	22,791	$75.80
1998	207	$493,608,068	$2,384,580	31,793	$75.00
1999	203	$296,962,457	$1,462,869	17,077	$85.66
2000	197	$202,347,644	$1,027,145	14,522	$70.73
2001	188	$180,767,213	$961,528	11,840	$81.21
2002	172	$320,520,712	$1,863,495	21,848	$85.29
2003	213	$146,888,802	$689,619	9,543	$74.03
2004	241	$262,465,647	$1,089,069	18,043	$60.36
2005	232	$385,916,991	$1,663,435	22,248	$74.77
2006	254	$359,948,394	$1,419,120	19,614	$72.25
2007	209	$475,094,308	$2,273,178	22,746	$99.94
2008	156	$256,164,814	$1,642,082	21,476	$76.46
2009	123	$124,986,299	$1,016,149	11,709	$86.79
2010	144	$212,027,697	$1,472,415	21,836	$67.43
2011	148	$326,014,304	$2,202,799	32,457	$67.87
2012	180	$289,741,968	$1,609,678	32,281	$84.28
2013 Q2	100	$75,848,549	$758,485	12,666	$65.17

Source: Jacqueline Haines Associates



Transfers
300
250
200
150
100
50
0
97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 Q2
Transfers



Historical Office Average Price Per SF
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 Q2
Average Price Per SF

The volume of sales activity has continued to increase over the past several years, although the average price-per-square-foot has fluctuated near the low end of the range over the past decade, due to the influence of distressed transactions and a market correction. The average sale price-per-square-foot has remained relatively constant over the past several years, showing limited appreciation. The demand for office property will continue to be owner-occupied office buildings and newer, well-occupied investment properties. One significant trend influencing the market is the single-asset LLC transfer (business entity) rather than the real estate itself. The sale of the business entity allows investors to disguise the true purchase price and escape the payment of conveyance fees. In Ohio, real estate taxes are based on market value, and disclosing the true purchase price creates the risk of increasing real estate taxes. The number of transfers in 2010 and 2011 has remained consistent, although the average price-per-square-foot has remained near the low end of the range over the past decade, due to the influence of distressed transactions.

Office Land

Most submarkets still have ample land appropriately zoned and serviced for office development. Over the past year, developers have begun to acquire land for new office development in select, strong submarkets, such as New Albany. However, overall, recent market conditions have stopped most speculative office development. Duke Realty, which owned significant acreage in both New Albany and Dublin, has been aggressively marketing for sale all of their vacant office land in the Columbus market. Land that was previously priced in the $150,000 to $250,000 per-acre category has been sold for as little as $65,000 per-acre within the past 12-24 months. Even at these extraordinary prices, limited transactions are occurring.

Construction Costs

Construction costs have been increasing over the past several years, largely due to increasing material and labor costs. Direct and indirect construction costs for general office space typically ranged from $110.00 to $120.00 per square foot, including a $25.00 to $35.00 per square foot tenant improvement allowance for general office space. Medical office finish is experiencing tenant improvement costs in excess of $40.00 per square foot. Therefore, total costs with land were exceeding $150.00 per square foot before profit.

Market Rents

New office space is typically being leased on the basis of net rental rates, with the tenant responsible for either directly paying, or reimbursing to the owner, all fixed and operating expenses. Class A CBD office building rent is typically $19.00 to $21.00 per square foot on a gross basis. Class B and C CBD office buildings typically experience gross rental rates ranging from $14.00 to $17.00 per square foot. General, Class A suburban office rates are typically $20.00± per square foot (gross), while Class B suburban office rates range from $12.00 to $16.00 per square foot (gross), depending on location, condition, etc. After several years of rental rate stagnation, average rates have begun to improve slightly. Still, in some locations, building owners remain more reliant on short-term rental concessions, such as free or discounted rent, to attract tenants. Lease agreements are more commonly requiring tenants to pay all building-related expenses during occupancy, including management and major capital expenditures (i.e. replacement reserves). The most significant operating expense continues to be real estate taxes. Some office developments have secured real estate tax-abatements that reduce the tenantôs occupancy costs. These incentives increase the buildingôs competitive advantage from a marketing standpoint and, therefore, typically reduce the required absorption period. However, over the long-term, these abatements have generated additional movement within the market, as tenants relocate to other municipalities providing these incentives. This activity does not generate office growth in the market, but creates additional vacant space within the regional supply.

Operating Expenses

According to the IREM 2012 Office Buildings Income/Expense Analysis, operating expenses range from $6.50 to $8.00 per square foot. Assuming net rental rates, these expenses would be paid for by the tenant during occupancy. Building owners are typically responsible for all expenses during vacancies. More commonly, owners are also requiring reimbursement for management and capital expenditures in newer building leases. Medical office space expenses are typically $1.50 to $2.00 per square foot higher, due to higher real estate taxes, utilities and janitorial costs.

Financing Availability

After a period of limited financing availability, market conditions are beginning to appear favorable to development, as favorable financing rates and terms are available for developments in strong locations. Lenders typically require a 25% to 35% equity position in office transactions. Interest rates are approximately 4.25% to 5.0% or slightly lower, depending upon the quality of the property and the tenants. Amortization schedules typically range from 20 to 30 years, with debt coverage ratios of at least 1.25. As interest rates have remained steady or fallen, investors have increased their required rate of return. Equity dividend rates currently range from 10% to 15%, depending upon the investment.

Current equity dividend rates, as provided by RealtyRates.com, are as follows:

RealtyRates.Com Investor Survey (Office/R & D Equity Dividend Rates)			
	Min	**Max**	**Avg.**
Office:	.12%	17.09%	13.05%
Suburban:	8.12%	15.89%	11.62%
CBD:	8.32%	17.09%	12.27%
Medical:	8.22%	16.49%	11.94%
R & D/Flex:	7.84%	17.01%	11.96%

Capitalization Rates

Due to the softness in the Columbus office market, overall capitalization rates are 50 to 100 basis points higher than the national averages. Capitalization rates vary based upon building age, location, occupancy, and other characteristics. The following capitalization rates have been experienced in the Columbus market:

Current Columbus MSA Capitalization Rates (Stabilized Properties)	
Office: General Class-A	8.0% - 9.0%
Office: General Class-B	8.5% - 10.0%
Office: General Class-C	9.0% - 10.5%
Office: Medical (New)	6.5% - 8.0%
Office: Medical (Other)	8.0% - 9.5%

Conclusion

The current Columbus office market is extremely segmented by price, product type, age, and location. Smaller, owner-occupied office buildings are still experiencing the strongest demand, as is medical office space. However, strong leased fee interests remain attractive to institutional investors. Until recently, construction costs new were higher than market values; this, in addition to limited financing availability and overall weakened economic conditions, prevented new development between 2009 and 2011. Within the past year, market conditions have continued to improve, and a new wave of office development has begun in strong locations, such as the CBD and New Albany.

Overall, market participants are anticipated to remain cautiously optimistic over the near term. Without significant new construction in most parts of the region and positive absorption, overall vacancy is anticipated to moderately improve for the next several quarters. Much of the new construction will continue to be limited to build-to-suit and owner-occupied opportunities. The inventory of the regionçs older buildings are struggling to maintain occupancies due to changing design demands by the typical tenant and the extreme cost of retrofitting older buildings to meet current standards. With limited rental rate appreciation, in addition to the previous factors, no significant changes to these trends are anticipated within the foreseeable future, although the overall strength of the regional office market will still be reliant upon economic conditions, which remain slightly fragile.