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OHIO REAL ESTATE CONSULTANTS, INC.
OCTOBER 2014 NEWSLETTER

This letter will update you on our current assignments, the trends we see in the industry, staff accomplishments, community service and other current information.

Current Assignments

- Multifamily Housing, Columbus CBD Fringe
- Affordable Housing, Pickaway County
- Affordable Housing, Ross County
- Market Rent Apartments, Southwest Franklin County
- Affordable Housing, Cincinnati
- Affordable Housing, Northeast Franklin County
- Industrial Property, Delaware County
- Industrial Property, Cincinnati
- Industrial Property, Southwest Franklin County
- 4 Daycare Facilities, Northwest Franklin County
- Medical Office, Northeast Ohio
- Office Building, Worthington
- Retail Property, North Central Ohio
- Vacant Land, Southern Delaware County
- Special-Purpose Property, Springfield
- 5 Farm Properties, West Central Ohio
- 2 Nature Preserve Properties, Greene County
- Proposed Condominiums, Cleveland
- FAA Appraisal Review, Ohio

You and/or your clients may benefit from information we have used in our current assignments, as well as other assignments we have completed.

GREATER COLUMBUS OFFICE MARKET OVERVIEW

Current Market Trends

Over the past 18 months, overall market conditions have continued to improve from a decline in 2013 Q2. The overall vacancy rate is steadily decreasing, while asking lease rates are relatively flat. 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 & Demand

In assessing the Columbus office market, we consult publications and subscription services from Xceligent, Haines Reports, Colliers International, and CB Richard Ellis. The Xceligent Market Trends report includes over 30 million square feet of tenant-occupied office space. Reporting criteria includes all non-government office buildings with 20,000 square feet and greater. 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.

Xceligent market trends observed approximately 4.45 million square feet of vacant space for the second quarter of 2014. The following table provides a market snapshot for the most recent reporting period:

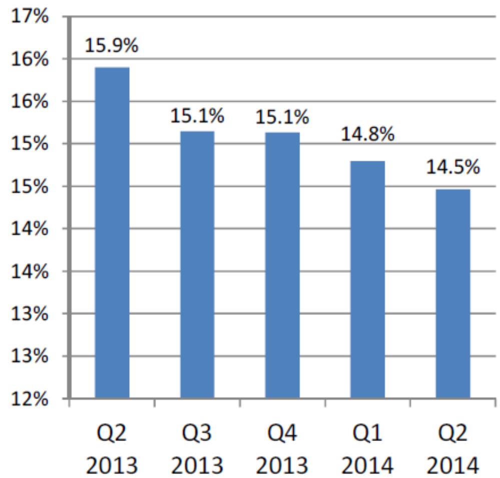
Office Market Statistics - Columbus MSA

Submarket	Inventory (SF)	Vacant (SF)	Vacancy Rate	YTD Net Absorption (SF)	Average Asking Rate (Class A)*	Average Asking Rate (Class B)*
CBD	10,391,707	1,523,876	14.7%	82,639	$21.18	$16.72
East	2,755,792	371,473	13.5%	1,120	$20.68	$15.17
North	4,163,449	693,740	16.7%	16,287	$17.67	$16.36
North Central	189,092	13,820	7.3%	9,226	N/A	$19.86
Northeast	4,053,804	572,924	14.1%	62,276	$18.54	$14.70
Northwest	9,192,415	1,272,603	13.8%	50,219	$18.58	$16.34
Total	**30,746,259**	**4,448,436**	**14.5%**	**221,767**	**$19.42**	**$16.29**

*Full service gross lease rates
Source: Xceligent Market Trends

The current vacancy rate of 14.5% is an improvement from the first quarter of 2014 and 140 basis points lower than the same period in 2013. The chart on the following page illustrates this trend, presenting the historical vacancy rates for the Columbus MSA over the past five quarters:

VACANCY RATE BY QUARTER – COLUMBUS MSA



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.

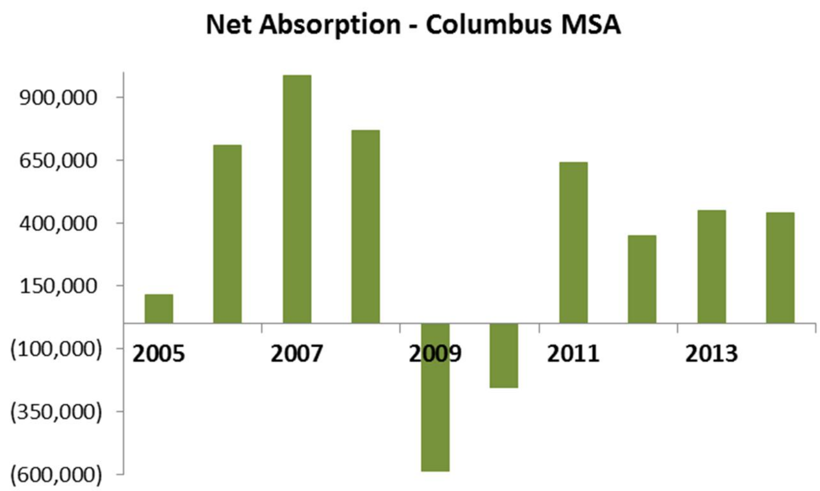
Absorption

The chart above demonstrates the improving stability of the regional office market. The downward trend in the vacancy rate is a direct result of positive net absorption. The regional office market indicated negative absorption in both the CBD and suburban office markets in 2009 and 2010. The market reaction was caused by the declining economic conditions, which became apparent by the end of 2008. After two consecutive years of negative net absorption, as vacating tenants outpaced newly leased space, the net absorption trend in the Columbus MSA is positive since 2011. 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. Recently, however, there is notable traction in the CBD, with positive year-to-date net absorption for 2014. After several years of fragile market conditions, and a swift reaction (likely due to pent-up demand for space) in 2011, there is a steady improvement in absorption as users continue to demonstrate some confidence in the economy by taking on additional space. A historical perspective of the absorption is provided in the following table and chart:

Historical Office Absorption (Net) - Columbus MSA

Submarket	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Q2*
CBD:	172,599	201,667	413,493	186,362	(196,241)	(10,000)	161,101	10,016	(15,202)	165,278
Suburban:	(58,651)	509,366	576,990	581,526	(389,211)	(243,648)	482,371	340,193	468,134	278,256
Total All:	113,948	711,033	990,483	767,888	(585,452)	(253,648)	643,472	350,209	452,932	443,534

*Annualized
Source: Multiple



<u>Construction</u>

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 occurred 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. 2013 showed heavy construction in the CBD area with many large projects such as 240 West Nationwide (280,000 SF), 621 North High Street (55,000 SF) and 250 South High Street (150,000SF). In 2014 Q1 new construction began in three of the suburban submarkets. 800 Yard Street as part of the Grandview yard development with 75,000 SF, 7815 Walton Parkway with the third phase of Waters Edge at 43,000 SF, and The Georgetown Company starting construction on a 40,000 SF office located on 4305 Worth Avenue.

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	772,840	Sq. Ft.
2014 Q2	886,840	Sq. Ft.

Note: 2014 year-to-date figures may include projects in process during 2013 and current new construction estimates may overlap with the prior reporting period.

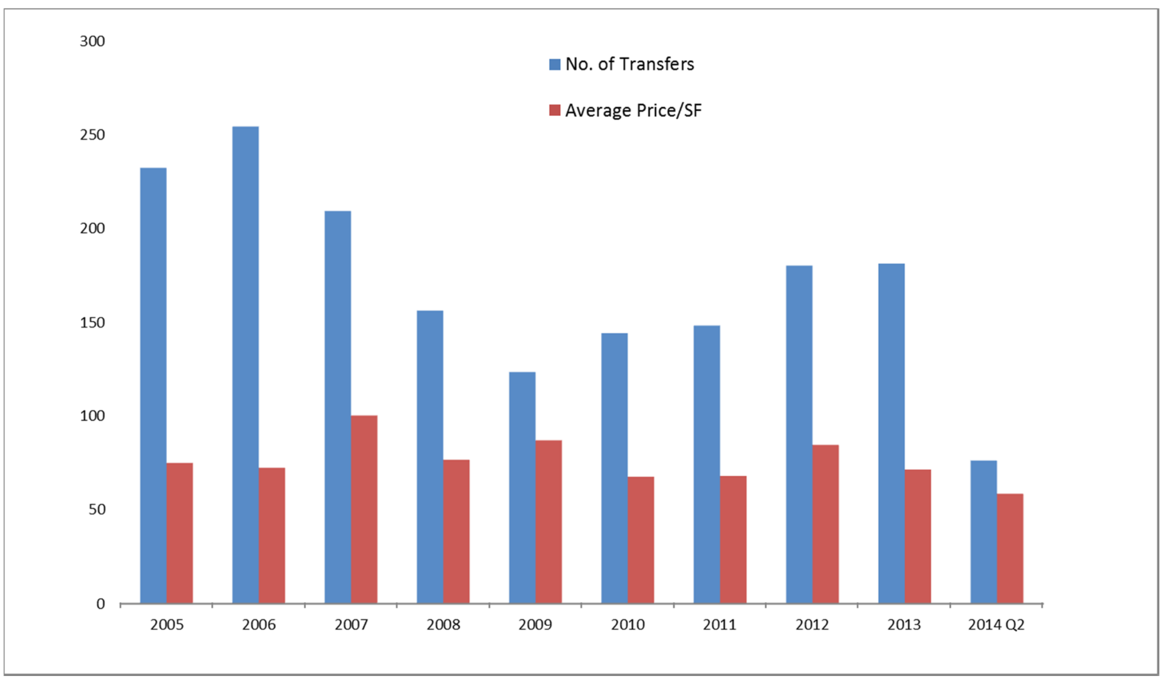
Historical Office Transfer Information

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 table.

Historical Office Transfer Information - Franklin County

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	181	$281,584,479	$1,555,715	23,973	$71.23
2014 Q2	76	$65,107,819	$856,682	14,673	$58.39

Source: The Haines Report



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. Collectively, the average sale price-per-square-foot has remained relatively constant over the past several years. The demand for office property will continue to be driven by 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 2012 and 2013 indicate an upward trend. Although the average price per square foot and year-to-date 2014 transfers indicate a stabilization or reversal of the 2012 and 2013 trend.

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 for medical office.

Market Rents

New office space is typically being leased on the basis of net rental rates, with the tenant responsible for either or directly paying, or reimbursing to the owner, all fixed and operating expenses. Class A CBD office building occupancy costs are typically $21.00 to $22.00 per square foot including all tenant paid expenses. Class B and C CBD office buildings typically experience gross rental rates ranging from $15.00 to $17.00 per square foot. General, Class A suburban office rates are typically $18.00 to $20.00 per square foot (gross), while Class B suburban office rates range from $14.00 to $17.00 per square foot (gross), depending on location and age/condition of the property. After several years of rental rate stagnation, average rates improved slightly. However, the most recent data indicates rates have decreased or remained flat. In some locations, building owners remain more reliant on short-term rental concessions, such as free or discounted rent, to attract tenants. 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 net office growth in the market.

Operating Expenses

The most significant operating expense continues to be real estate taxes. Some office developments have secured real estate tax-abatements that reduce the tenantǒs occupancy costs. Operating expenses still 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 office investment, 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 4.5% to 5.5%, 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:	7.66%	16.17%	12.34%
Suburban:	7.66%	14.97%	10.95%
CBD:	7.86%	16.17%	11.60%
Medical:	7.76%	15.57%	11.27%

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 table below presents first-tier investment rates for the area as reported by Real Estate Research Corporation:

COLUMBUS **2ND QUARTER 2014**

Columbus Investment Criteria | First-Tier[1] Investment Properties

	Pre-Tax Yield (%)			Going-In Cap Rate (%)			Terminal Cap Rate (%)			Anticipated 1-Year Growth Rates			
	RERC Estimate	Midwest Region	U.S.	RERC Estimate	Midwest Region	U.S.	RERC Estimate	Midwest Region	U.S.	National Value	Midwest Value	National Rent	Midwest Rent
Offc - CBD	8.8	9.0	8.7	7.0	7.9	7.2	7.8	8.6	7.9	2.5	2.1	2.2	1.7
Offc - Suburban	9.4	9.5	9.2	7.7	8.1	7.6	8.4	8.8	8.2	1.7	1.3	1.5	1.2
Ind - Warehouse	8.6	8.8	8.9	7.0	7.8	7.4	7.7	8.4	8.0	3.1	2.7	2.5	2.3
Ind - R&D	9.2	9.2	9.2	7.9	8.4	7.8	8.4	8.8	8.4	2.4	2.0	2.0	1.7
Ind - Flex	9.5	9.3	9.3	8.0	8.4	7.8	8.5	8.7	8.4	2.4	2.2	2.0	1.7
Ret - Reg Mall	8.7	8.8	8.7	7.1	7.9	7.3	7.8	8.5	7.9	1.3	0.5	1.1	0.6
Ret - Pwr Center	9.0	8.9	8.9	7.6	7.9	7.3	8.2	8.5	8.0	1.7	1.2	1.6	1.5
Ret - Neigh/ Comm.	9.1	9.2	9.0	7.4	8.0	7.4	8.0	8.6	8.1	2.4	2.1	2.1	1.8
Apartment	7.8	8.1	8.0	6.0	6.8	6.2	6.7	7.4	6.9	3.5	3.4	3.1	3.0
Hotel	10.2	10.0	9.9	8.3	8.9	8.2	9.0	9.3	8.9	2.6	2.3	2.6	2.4
Average	**9.0**	**9.1**	**9.0**	**7.4**	**8.0**	**7.4**	**8.1**	**8.6**	**8.1**	**2.4**	**2.0**	**2.1**	**1.8**

[1] First-tier investment properties are defined as new or newer quality construction in prime to good locations.
Source: RERC Investment Survey.

The following capitalization rates are generally observed for local transactions within 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 three years, 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 expected 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 regionós 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.

Company News

Thomas R. Horner, MAI, will be a presenter at the ***Eminent Domain - From Start to Finish*** **Seminar** offered by the National Business Institute (NBI) on December 9, 2014. The seminar will be held at the Four Points by Sheraton Columbus Airport in Columbus, Ohio. For more information, please call **866-240-1890** or visit ***nbi-sems.com***.

This month we recognize 23 years in business.

We hope you found this newsletter information. If you would like additional information, please visit our website at www.ohiorealestate.org or call us at 800-536-0038.