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OHIO REAL ESTATE CONSULTANTS, INC.
FEBRUARY 2012 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

- Apartment Community, Northeast Columbus
- Apartment Community, OSU Campus
- Proposed LIHTC Housing, Southwest Columbus
- LIHTC Scattered Site, Dayton MSA
- LIHTC Apartments, Cincinnati, Ohio
- Elderly Apartments, Northeast, Ohio
- Family Apartment Project, Northeast, Ohio
- Hotel/Motel, OSU Campus Area
- Hotel/Motel, Southeast Franklin County
- Proposed Office Building, Northeast Columbus
- Office Condominiums, Dublin, Ohio
- Residential Condominiums, Grove City, Ohio
- Residential Condominiums, Downtown Columbus
- Single-Family Lots, Dublin, Ohio
- Five Conservation Easements, Butler, Greene & Licking Counties, Ohio
- Agricultural Land, Southwest Franklin County
- Industrial Property, Dublin, Ohio
- Industrial Property, Southeast Columbus
- Industrial Property, Delaware County, Ohio
- Industrial Property, Canal Winchester, Ohio
- Development Land, Southeast Franklin County, Ohio
- Three I-71/I-70 Eminent Domain Assignments

You and/or your clients may benefit from information we have used in our current assignments, as well as the more than 350 assignments we have completed within the past 12 months.

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 37% of households reside in apartments, in part due 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 90% to 92% from October 2007 through June 2009. Occupancy increased in all but the east and west sectors 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 markets continue to exhibit the lowest occupancy rates. 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
Northwest	95.6%	95.7%	95.5%	95.4%	93.7%	95.7%	96.3%	97.1%
Northeast	92.3%	92.1%	92.1%	92.0%	90.3%	92.0%	93.7%	93.8%
East	90.2%	90.3%	90.2%	90.9%	89.6%	88.8%	89.7%	89.1%
West	83.3%	84.5%	93.2%	91.0%	90.1%	91.2%	93.4%	91.9%
Central								98.6%
Overall Occupancy	90.4%	90.7%	92.8%	92.3%	90.9%	91.9%	93.3%	94.1%
Vacancy Rate	9.7%	9.3%	7.3%	7.7%	9.1%	8.1%	6.7%	5.9%

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 is most evident in Class B and lower-grade apartment communities.

Based upon information presented in the Regional and City Data section of this report, population in the Columbus MSA was estimated to increase 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 Rate[1]	Multi-Family Units[2]
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	6.7%	1,347

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

Included in this number are condominium units. The actual number of new apartment units built during the past several years has declined significantly. Sites available for apartment development are becoming scarce. The greatest concentration of new construction has taken place in the far northwest and far northeast locations. These areas have the greatest amount of land available for apartment development, as well as the greatest population growth. On the west side, the communities of Hilliard and Grove City, and all points in between, have experienced household growth between 3% and 4% since 1990. Similar growth has been experienced in the New Albany area.

Several new apartment projects began construction in 2009 and were completed in late 2010 to early 2011. Since the overall increase in the multifamily sector, several prominent developers have been actively pursuing multifamily sites. Several former condominium sites have been converted to apartment development. The following chart identifies new and proposed construction.

Columbus MSA Multifamily Development

	Name	Location	No. of Units	Status
Suburban:	Arlington Park	Hilliard	284	Completed 2011
	Hilliard Grand	Hilliard	314	Completed 2011
	The Paddock at Hayden Run	Hilliard	376	Completed 2010/2012
	Albany Landing	NE Columbus	272	Completed 2011/2012
	Bryant Park	NW Columbus	186	Completed 2011
	Hilliard Meadows	Hilliard	208	Scheduled Completion 2012
	Worthington Green	Westerville	48	Completed 2011
	Chelsea Square	NE Columbus	186	Scheduled Completion 2012
	The Grammercy	New Albany	322	Scheduled Completion 2012/2013
	Polaris Apartments	N Columbus	309	Planning
	Hilliard Apartments	Hilliard	400	Planning
Central:	Flats on Vine	Arena District	232	Completed 2011
	CCAD Apartments	Gay/Grant	68	Completed 2011
	Annex at River South	CBD	214	Completed 2010
	Grandview Yard	Grandview Yard	154/600	Scheduled Completion 2012/Long Term
	The Goodale	Arena/Grandview	180	Planning
	Tribeca	Grandview	183	Scheduled Completion 2013
	Valerian	Victorian Village	69	Planning
	Klingbeil	Grandview	94	Planning
	Harrison Park	Harrison West	108	Planning
	Lane Avenue Mixed-Use	Upper Arlington	106	Planning
	Benchmark	Upper Arlington	108	Under Construction
	Atlas Building	N. High St.	100	Planning
	Wonder Bread	Italian Village	57	Planning
	1024 N. High St.	Italian Village	47	Planning
	N. High St./2nd Ave.	Short North	12	Under Construction
	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 Disttrict 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

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 and planned 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 $1.50 per square foot, pricing a significant number of would-be renters out of the central market. Another long-term factor is the return of home ownership, as renters analyze renting vs. home ownership as the amount of rental payments of central units will allow a renter/buyer to purchase a quality home/condo in the Columbus MSA.

The following chart illustrates several notable multifamily land acquisitions within the past three years. The central area sales indicate higher prices-per-unit and higher densities. This results in higher development costs and the need for higher rental rates to justify development. Suburban development typically costs significantly less than central area developments.

Columbus MSA Multifamily Land Sales

	Sale Date	Sale Price	No. of Units	Size	Density	Price-Per-Unit
Suburban:	Oct-09	$3,928,750	304	17.86	17.02	$12,924
	Nov-09	$1,610,800	208	8.05	25.83	$7,744
	Jun-10	$2,607,000	284	15.80	17.97	$9,180
	Jul-10	$2,900,000	314	34.82	9.02	$9,236
	Dec-10	$1,580,000	208	22.32	9.32	$7,596
	Apr-11	$1,172,411	186	7.18	25.90	$6,303
	Apr-11	$408,000	48	4.34	11.05	$8,500
	Oct-11	$2,800,000	322	38.12	8.45	$8,696
Central:	May-10	$737,500	68	0.29	236.11	$10,846
	Jun-11	$2,184,000	183	5.51	33.21	$11,934
	2012	$906,000	69	1.03	67.19	$13,130

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
Northwest	$755	$762	$776	$776	$786	$797	$825	$828
Northeast	$656	$664	$673	$673	$677	$683	$695	$709
East	$590	$593	$602	$600	$600	$605	$614	$625
West	$572	$579	$587	$585	$590	$584	$586	$621
Central								$961

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 have either refinanced or sold. Therefore, available properties became scarce. The increase in 2005 reflects the sale of more Class A properties.

During 2007, sales were up slightly from the prior year. However, sales volume increased due to an increase in the size of the deal sold. Overall, the number of sales remained constant for 2008. However, the average price per unit increased significantly. Two institutional sales involved UDR and AIMCO leaving the Columbus market. UDR sold six properties totaling approximately $173M. AIMCO sold seven properties totaling approximately $90M. Excluding these transactions, the number of sales was considerably less than in 2006 or 2007.

Most sales in 2009 and 2010 were REO or lender-directed sales. The following chart summaries the number of sales and average sale price since 2000. The lack of stabilized class A or B sales is attributed to the increases in rents and occupancy as investors are not willing to sell stabilized properties without a significant premium. Multifamily real estate represents the most stable commercial real estate investment at this time, and investors do not have enough alternative investment opportunities to place proceeds from the sale of performing assets.

The best indication of non-distressed sales are packages of units (generally 8 to 24 units) that Village Communities is selling within recently developed apartment communities that are platted as condominiums. The developer sells the units and garages in packages to investors who want a "hands-off" real estate investment as the developer continues to manage the units for the buyers. The developer typically sells the units at a premium due to added non-real estate financial incentives, such as free management and/or guaranteed occupancy and rental rates for the 1st two years. A significant amount of these recently developed apartments are developed on sites that were originally planned for condominiums. The recent increase in sale price per unit in 2011 due to the increasing competition for repositioning distressed and Class C apartments. There were a significant number of very low sale price per unit transactions in 2010 that have attracted other distressed asset buyers from outside the market, and has resulted in an over-increase in the price per unit.

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	**

*Based on sales of 20 units or more
**Based on sales of $500,000 or more
Source: Marcus & Millichap

Conclusion

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 northwest and northeast Franklin County markets. The scarcity of land zoned for apartment development may improve lower-grade apartment communities that are currently troubled. This sector offers the potential for rehabilitation and repositioning within the market without the difficulties of re-zoning. Financing availability should continue to improve in 2012; however, until owners have alternative investments with similar returns and stability, very few stabilized transfers will occur.

A potential issue affecting the multifamily sector is the significant number of vacant single-family homes and condominiums that were either foreclosures or never sold to owner-occupants. This “shadow market” will influence apartments as developers rent the homes and condos due to the non-existent sales market.

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 several districts that have experienced multifamily development and 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**	**Difference**	**2007-2011 % Change**
10	**Columbus**	$66.584349	$73.401247	$74.489830	$76.668781	$78.524688	$11.940339	17.93%
50	**Hilliard**	$82.503159	$86.924147	$87.801436	$89.868038	$98.189119	$15.685960	19.01%
80	**Westerville**	$74.309148	$74.171407	$83.142226	$86.650863	$89.902910	$15.593762	20.98%
222	**Plain Twp.-New Albany**	$76.390792	$78.067399	$82.091445	$84.277755	$85.935618	$9.544826	12.49%
273	**Dublin**	$79.244956	$77.173644	$85.646480	$89.264369	$90.385640	$11.140684	14.06%
	Average Increase:	**$75.806481**	**$77.947569**	**$82.634283**	**$85.345961**	**$88.587595**	**$12.781114**	**16.86%**

The central area will be the most closely watched area for multifamily development as there are several prominent projects scheduled to deliver inventory in 2012-2013. With a significant number of projects still in the planning stages, the demand of the central area multifamily could be fulfilled by the time the later projects are completed and attempt to reach stabilization.

Company News

Kim Eilerman recently completed General Demonstration Report Writing and On-Line Advanced Area Search Strategies.

Tom Horner and Tim Geiger attended the Cardinal Chapter of the Appraisal Institute's 34th Annual Economics Seminar. Presentations included a 2012 commercial real estate outlook, the effect of the Casino on the West Broad Street corridor, and legal issues impacting real estate in Ohio, among other topics.

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