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Real
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Consultants, Inc.

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OHIO REAL ESTATE CONSULTANTS, INC.
JANUARY 2013 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 Property, Columbus
- Proposed Multifamily, Dayton MSA
- Office Condominiums, Worthington
- Development Land, Dublin
- Office Building, Dublin
- Residential Subdivision, New Albany
- Medical Office Building, Dublin
- Retail Out-Lot, Columbus
- Class A Office, Columbus
- Agricultural Easements, Greene County
- Sewer Easements, Columbus
- Agricultural Land, Mercer County
- Industrial Investment Properties, Grove City
- Owner-Occupied Industrial, Columbus
- Mixed-Use Retail/Office, Powell
- Scattered Site LIHTC, Columbus
- LIHTC Apartments, Northeast Ohio
- Affordable Housing, Allen County
- CBD Apartments, Columbus

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.

2013 OUTLOOK

Agricultural

Our clients who think apartments are the place to be may have missed the agricultural boom. Farm prices in some Ohio counties have shown double-digit value appreciation over the past 2 years. Farmers sold land to avoid capital gains treatment anticipated with the fiscal cliff. Farmers buying had money and know that the land is a better place to invest than the stock market or the bank. Yields are generally increasing and commodity prices are sky rocketing. In 2013, agricultural land transfers will likely recede due to the temporary fiscal cliff resolution with no further anticipated changes in the capital gains laws. Many farmers are exploring the sale of conservation easements and agricultural easements to maintain control of the land, while cashing in on some of their equity. Farmers are also pursuing creative ways of passing the land to their heirs to avoid the estate taxes that are very penalizing to farmers.

The taxing authorities, however, are realizing that farmers are finally making money so, in all likelihood, they will pursue more methods to tax farm income and assets. There have been discussions about changes to the CAUV status, as well as changes to other farm subsidies that farmers have come to rely upon and consider those safety nets in all of their land purchase and sale decisions.

Apartments

Apartment investments have also returned strong gains to investors, but the question is how long the bubble will last. There are more apartments on the drawing boards and coming out of the ground than I have seen in my 30 years in the business. Double-digit cash on cash returns are extremely attractive, but are very dependent upon loan terms and conditions. Investors should prepare for stabilizing rents and increasing vacancies as the new product comes on-line. In years past, investors have been satisfied with 7% to 8% cash-on-cash returns. The market is anticipated to create enough units that these gains will be again standard in the market, rather than the current double-digit returns. My advice is to lock in the longest-term loan possible and plan on flat to slightly declining net operating incomes.

Although the apartment sector has received a lot of attention, it is still the sector with haves and have-nots. Investors want Class A properties. Lower Class B and Class C properties continue to languish, struggling for occupancy and rents. This may be an opportunity in the sector to reposition these assets and create rental value to tenants in their respective markets. Investors need to explore the many affordable housing programs that enhance the potential for the have-nots in the apartment sector.

Industrial

This sector has been the most recent sector to join the party. Global investors see this sector as the up-and-comer. Well occupied Class A industrial properties are showing sub-8% capitalization rates. The stateôs gains in the manufacturing and industrial sectors have been well documented, and as long as these gains continue, industrial properties have an extremely good outlook. Lenders are also beginning to look at industrial properties more favorably than they have been viewed in the past 5 years.

Retail

There are still quite a few concerns about this sector. Success in this sector more than ever requires the right product in the right place at the right time. I believe on-line retail will continue to grow more rapidly than in-store sales. As with apartments, retail will continue to be a story of the haves and the have-nots. The strongest locations will continue to be around the northern outer-belt, convenient to the strongest demographic areas.

Office

Office land is still one of the slowest-moving commodities in the market. Local office supply far exceeds current demand, with vacancies far above historical standards that justify new construction. Market participants that have been involved in the office market since the late 1980's may recall similar circumstances that eventually improved along with the economy. Seemingly overnight, office properties were back in favor. Occupancies and rents escalated to levels that justified new construction. Investors should proceed cautiously if they intend to invest on the anticipation that the office sector will rebound. I still perceive this as a long, slow path.

Residential Development

Single-family land is again transferring in the strongest markets. The current financing rates are finally attracting home-buyers. Home sale volumes are still well below the peak levels, but are showing strong signs that are anticipated to continue. Apartment buyers are perceiving mortgage payments more and more as a value compared to market rents in quality apartment projects. I anticipate that the developers will reign in speculative lot development, maintaining a 6 to 12 month supply rather than the 2 to 2 ½ year supply they planned on at the peak of the market.

Single-family condominium units will continue to struggle. This troubled sector will suffer from dysfunctional owners associations and undeveloped or partially-developed phases that are still trying to find their place in the market, whether it be conversion to rental or hold for future condominium development.

Conclusion

I think real estate in 2013 will offer the best investment opportunities of the available options. Investors, however, must be extremely knowledgeable in order to avoid the penalties of over-leverage. Investors should lock in long-term loans at reasonable loan-to-value ratios to ensure a margin for cash-on-cash returns. Good luck in 2013.

Company News

Kim Eilerman has received the MAI designation. We congratulate Kim for her efforts and we are extremely proud of her accomplishments.

Ryan Homan also received his MAI designation. Ryan is moving on to a sunnier place, Miami, Florida. We appreciate his diligence over the past 7 ½ years, and wish him the best.

Tom Horner completed his fourth five-year continuing education cycle since he became an MAI by completing over 100 hours of continuing education. His most recent course was The Valuation of Conservation Easements in Austin, Texas. Tom is now on the list used by state and federal agencies to select qualified appraisers in this area.

Job Openings

Ohio Real Estate Consultants, Inc. is actively looking for qualified candidates for two positions. The first position is an **appraiser trainee.** The perfect candidate would be a recent or soon to graduate student with strong computer skills. The second position is a **senior or experienced appraiser** position.

We 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.