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OHIO REAL ESTATE CONSULTANTS, INC.

MARCH 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

- Corporate Office Building, Northeast Columbus
- Mixed-Use Office and Residential Development, Cleveland
- Two Apartment Communities, Northeast Columbus
- Multifamily Property, Fayette County
- Multifamily Property, Scioto County
- LIHTC Scattered Sites, Dayton, Ohio
- Apartment Community, Southeast Columbus
- Apartment Community, Downtown Columbus
- Apartment Community, OSU Campus Area
- Single-Family Residential Lots, Dublin, Ohio
- Single-Family Residential Subdivision, Granville, Ohio
- Three Corporate Office Buildings, Columbus CBD
- Conservation Easement, Licking County
- Automotive Service Facility, Northwest Columbus
- Industrial Property, Canal Winchester
- 17 Various Properties for Tax-Appeal

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.

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GREATER COLUMBUS OFFICE MARKET OVERVIEW

Current Market Trends

Over the past 12 months, office vacancies have declined, absorption of office space has been positive, construction has been limited to mostly build-to-suit circumstances, and rental rates have increased. Market activity within 2011 showed signs of improvement, with a positive net absorption of nearly 650,000 square feet (depending on the source) and marginally increasing asking rental rates.

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 62.8 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 4th Quarter 2011 summary is presented on the following page.

RESEARCH & FORECAST REPORT | Q4 2011 | OFFICE | GREATER COLUMBUS REGION

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	19,091,001	2,107,621	11.0	65,897	161,101	-	-	$19.82	$16.87
ARLINGTON/GRANDVIEW	4,752,155	672,459	14.2	22,192	56,871	-	-	$21.22	$15.66
DUBLIN	9,501,878	1,274,119	13.4	(93,877)	28,596	-	-	$17.32	$14.95
EAST	3,555,814	542,166	15.2	(1,510)	41,390	140,000	-	$17.03	$14.32
EASTON	2,685,332	166,634	6.2	2,626	17,097	-	-	$17.90	$22.50
GAHANNA/AIRPORT	1,262,397	151,172	12.0	8,004	198,217	-	-	$17.63	$16.34
HILLIARD	2,480,456	457,110	18.4	15,700	(157,850)	-	-	$19.95	$15.03
NEW ALBANY	1,935,789	182,628	9.4	2,098	52,306	191,000	-	$18.12	$15.00
NORTH CENTRAL	1,255,636	90,764	7.2	1,732	(22,939)	-	-	$23.00	$14.16
POLARIS	4,419,869	231,526	5.2	23,897	39,045	-	-	$18.78	$15.69
POWELL	273,719	65,916	24.1	12,830	15,112	-	-	-	$14.76
SOUTHEAST	402,548	60,225	15.0	-	(360)	-	-	-	-
SOUTHWEST	236,158	38,061	16.1	16,486	3,412	-	-	-	$7.50
WESTERVILLE	4,489,479	579,949	12.9	97,685	174,464	-	-	$16.77	$15.01
WORTHINGTON	6,496,402	1,022,533	15.7	59,486	37,010	-	-	$16.26	$14.42
SUBURBAN TOTAL	43,747,632	5,535,262	12.7	167,349	482,371	331,000	-	$17.94	$14.86
TOTAL	62,838,633	7,642,883	12.2	233,246	643,472	331,000	-	$18.61	$15.47

				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	25,676,078	2,819,295	11.0	53,021	245,347	331,000	-	$18.61
CLASS B	23,102,511	3,140,756	13.6	97,398	373,625	-	-	$15.47
CLASS C	14,060,044	1,682,832	12.0	82,827	24,500	-	-	$12.94
TOTALS	62,838,633	7,642,883	12.2	233,246	643,472	331,000	-	$16.35

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	
Q3, 2011	62,838,633	7,876,129	12.7	238,414	410,226	331,000	-	$18.58	$15.41
Q2, 2011	62,838,633	8,114,543	12.9	194,313	171,812	246,500	-	$18.25	$15.25
Q1, 2011	62,838,633	8,394,042	13.4	(14,500)	(14,500)	246,500	65,000	$18.10	$15.46
Q4, 2010	40,544,677	7,188,371	17.73	(13,360)	(253,648)	65,000	-	$18.56	$14.96

Occupancy

The surveys indicate that market vacancy decreased approximately 5.53% in 2011. Current vacancy rate estimates range from 12.2% (Colliers International) to 18.7% (CB Richard Ellis). The decrease in vacancy during 2011 was caused by positive absorption and minimal new construction. Polaris continues to be the strongest suburban submarket, with overall vacancy estimated at 5.2%. The second strongest submarket, Easton, is currently estimated at 6.2% (per Colliers International).

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. Contrary to recent trends, 2009 and 2010 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. A historical perspective of the absorption is provided in the following table.

Historical Office Absorption

Submarket	2003	2004	2005	2006	2007	2008	2009	2010	2011
CBD:	70,390	572,576	172,599	201,667	413,493	186,362	(196,241)	(10,000)	161,101
Suburban:	(127,191)	859,356	(58,651)	509,366	576,990	581,526	(389,211)	(243,648)	482,371
Total All:	(56,801)	1,431,932	113,948	711,033	990,483	767,888	(585,452)	(253,648)	643,472

Source: Multiple

Historical absorption was strong in the late 1990's through 2000, although negative absorption occurred from 2001 to 2003 due to strong speculative building throughout the region. A significant positive absorption was experienced in 2004 as these spaces were leased. 2005 experienced very little leasing activity by comparison, and 2006 results indicated the beginning of a gradual improvement in both the CBD and suburban markets. 2007 and 2008 absorption was strong as a result of limited new speculative construction. However, by 2009, significant negative absorption became evident, due to the declining economic conditions. As shown above, negative absorption began to improve in 2010, and was positive for 2011.

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. Daimler is currently constructing a speculative 103,500 square foot (net), four-story, office building as a continuation of the Water's Edge Office Park in New Albany, after the first building, Water's Edge I, stabilized. This development is encouraged through tax abatements and other incentives offered by New Albany. Several large office buildings planned throughout the region remain in limbo, due to lack of pre-leasing, market conditions and stringent financing requirements. A 140,000 square foot office headquarters for Net Jets, just south of the Port Columbus International Airport in East Columbus, is currently under construction.

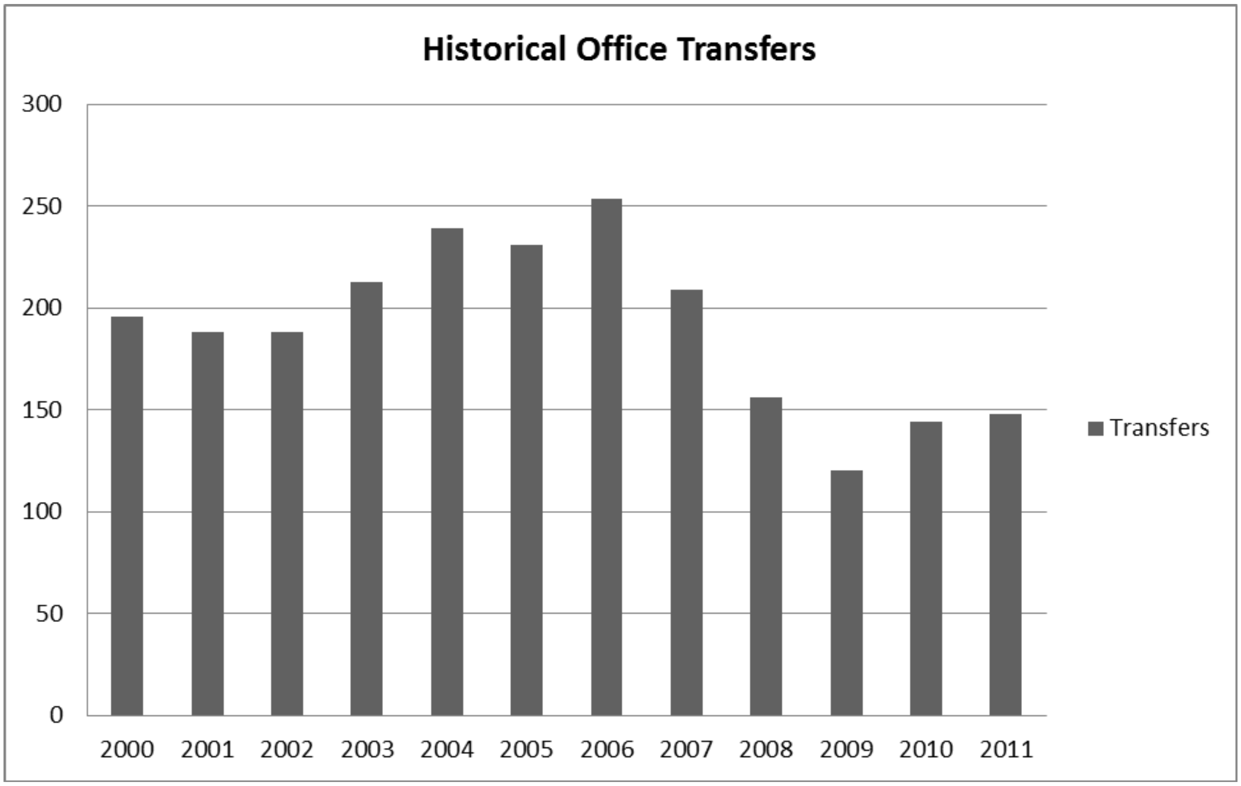
New Office Construction		
2004	253,640	Sq. Ft.
2005	658,000	Sq. Ft.
2006	795,642	Sq. Ft.
2007	922,392	Sq. Ft.
2008	444,392	Sq. Ft.
2009	108,000	Sq. Ft.
2010	90,000	Sq. Ft.
2011	331,000	Sq. Ft.

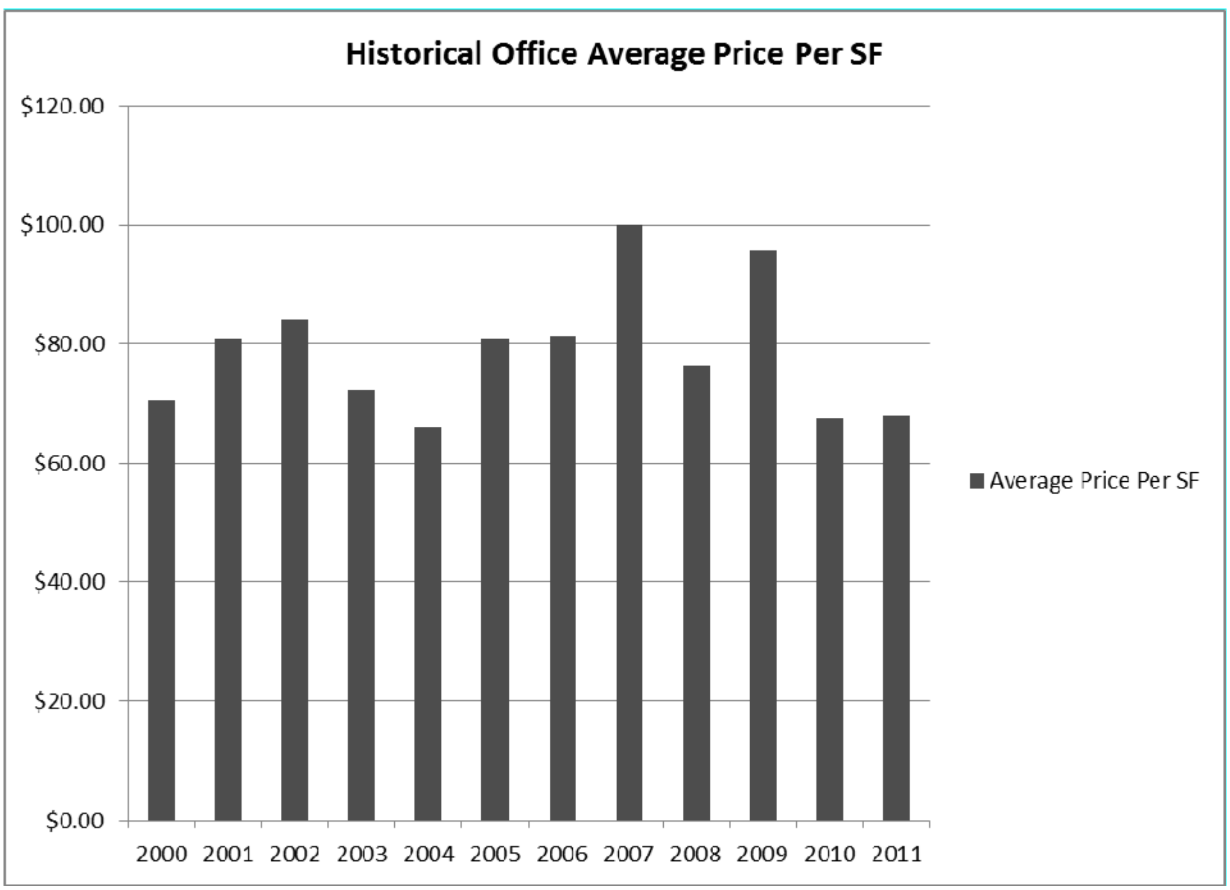
Historical Office Transfer Information

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	No. of Transactions	Volume ($)	Average Sale Transaction	Average Building Size	Average Price-per-Sq. Ft.
2000	196	$201,847,644	$1,029,835	14,562	$70.72
2001	188	$180,692,213	$961,129	11,884	$80.88
2002	188	$298,562,412	$1,588,098	18,875	$84.14
2003	213	$146,888,802	$689,619	9,543	$72.26
2004	239	$266,014,147	$1,113,030	16,826	$66.15
2005	231	$436,937,516	$1,891,504	23,339	$81.04
2006	254	$360,073,394	$1,417,612	17,404	$81.45
2007	209	$475,094,308	$2,273,179	22,749	$99.92
2008	156	$256,164,814	$1,642,082	21,476	$76.46
2009	120	$114,546,299	$954,552	9,968	$95.76
2010	144	$212,027,697	$1,472,415	21,836	$67.43
2011	148	$326,014,304	$2,202,799	32,457	$67.87


Historical Office Transfers
300
250
200
150
100
50
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Transfers


Historical Office Average Price Per SF
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Average Price Per SF

The average sale price-per-square-foot has remained relatively constant over the past ten years, showing limited appreciation until 2007, which reflects the positive influence of new office condominium units and medical offices to the average overall sale price. The demand for office property will continue to be owner-occupied office buildings and newer, well-occupied investment properties. The trend that is influencing the market is the transfer of the entity that owns the real estate rather than the real estate itself. The sale of the business entity allows investors to escape the payment of conveyance fees and risk increasing real estate taxes that would reflect the sale price. 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. There has been very little change over the past twelve months in the supply of office land. Current 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 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. The demand for labor has decreased significantly over the past two years, resulting in a moderate decline of construction costs (estimated at 10% to 20%).

Market Rents

New office space is typically being leased on the basis of net rental rates. 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 typically range from $16.00 to $18.00 per square foot (gross), while Class B suburban office rates range from $12.00 to $14.00 per square foot (gross). Over the past several years, asking rental rates have decreased and building owners have become 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. The most significant operating expense continues to be real estate taxes. Some office developments have secured real estate tax-abatements that reduce the tenant's occupancy costs. These incentives increase the building's 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 2009 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

Favorable financing rates and terms continue to be available from local and national sources. Lenders typically require a 25% to 35% equity position in office transactions. Interest rates are approximately 6.0% to 6.5% or slightly lower, depending upon the quality of the property and the tenants. Amortization schedules typically range from 15 to 25 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.

In 2000, the FDIC issued an advisory statement cautioning members against lending on speculative office construction with less than 50% pre-leasing in the Columbus market. This statement is still influencing the market. Most lenders have become more cautious concerning speculative office lending. Discretion by both lenders and investors will cause future speculative office development to continue at a controlled pace.

Capitalization Rates

Due to the softness in the Columbus office market, overall capitalization rates are 500 to 1,000 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	8.5% - 9.5%
Office: General Class-B	9.5% - 10.5%
Office: General Class-C	10.0% - 11.0%
Office: Medical (New)	8.0% - 9.0%
Office: Medical (Other)	9.0% - 11.0%

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. Strong leased fee interests remain attractive to institutional investors. Construction costs new are higher than current values; therefore, new construction will continue to be limited to build-to-suit and owner-occupied opportunities. 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. Based upon the current market conditions, rental rates are anticipated to remain level over the next several quarters. This will, hopefully, improve occupancy results throughout the region. No significant changes to these trends are anticipated within the foreseeable future, as fragile market conditions and high unemployment continue to impact the regional office market.

Company News

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.