



Thomas R. Horner, MAI – Pres.  
Kimberly M. Eilerman, MAI – V.P.  
Tammy L. Donaldson, G.C. – V.P.  
Timothy S. Geiger, R.L.  
Joyce L. Knudsen, G.C.  
Linda Robinette – Office Mgr.  
Debbie Ballard – Admin. Asst.

## **OHIO REAL ESTATE CONSULTANTS, INC.**

### **MARCH 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**

- Apartment Community, Northeast Columbus
- Apartment Community, Eastern Ohio
- Apartment Community, Dayton MSA
- Proposed Apartment Community, Dayton MSA
- Affordable Housing Community, Southwest Ohio
- 3 Affordable Housing Communities, West Virginia
- Apartment Community, Cleveland MSA
- Single-Family Condominiums, Dublin
- Single-Family Subdivision, Southeast Columbus MSA
- Vacant Land, Columbus CBD
- Medical Office Building, Northwest Columbus
- Medical Office Building, Reynoldsburg
- General Office Building, Northwest Columbus
- Restaurant, Powell
- Vacant Commercial Land, Powell
- Vacant Commercial Land, University District
- 2 Agricultural Easements, Southwest Ohio
- Utility Easement, Delaware County
- Utility Easements, Madison County
- Medical Market Rent Study, 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.

## 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 39% 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 approximately 90% to 92% from October 2007 through June 2009. Occupancy has increased in all but the east sector 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 submarkets 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 MSA Occupancy Rates      |              |              |              |              |              |              |              |              |              |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Submarket                         | October-07   | May-08       | December-08  | June-09      | December-09  | October-10   | May-11       | December-11  | August-12    |
| Northwest                         | 95.6%        | 95.7%        | 95.5%        | 95.4%        | 93.7%        | 95.7%        | 96.3%        | 97.1%        | <b>97.3%</b> |
| Northeast                         | 92.3%        | 92.1%        | 92.1%        | 92.0%        | 90.3%        | 92.0%        | 93.7%        | 93.8%        | <b>94.7%</b> |
| East                              | 90.2%        | 90.3%        | 90.2%        | 90.9%        | 89.6%        | 88.8%        | 89.7%        | 89.1%        | <b>90.8%</b> |
| West                              | <b>83.3%</b> | <b>84.5%</b> | <b>93.2%</b> | <b>91.0%</b> | <b>90.1%</b> | <b>91.2%</b> | <b>93.4%</b> | 91.9%        | <b>94.4%</b> |
| Central                           |              |              |              |              |              |              |              | <b>98.6%</b> | <b>98.8%</b> |
| Overall Occupancy                 | 90.4%        | 90.7%        | 92.8%        | 92.3%        | 90.9%        | 91.9%        | 93.3%        | 94.1%        | <b>95.2%</b> |
| Vacancy Rate                      | 9.7%         | 9.3%         | 7.3%         | 7.7%         | 9.1%         | 8.1%         | 6.7%         | 5.9%         | <b>4.8%</b>  |
| 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 provided by The Site to Do Business, population in the Columbus MSA was estimated to have increased 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**

| <b>Year</b> | <b>Overall<br/>Vacancy Rate<sup>1</sup></b> | <b>Multifamily<br/>Units<sup>2</sup></b> |
|-------------|---|--|
| 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                                    |
| <b>2012</b> | <b>4.8%</b>                                 | <b>2,278*</b>                            |

Sources

<sup>1</sup>ARA

<sup>2</sup>US Census Bureau- 5 or more units

\*Through August 2012

Included in this number are condominium units. The actual number of new apartment units built during the single-family and condominium housing boom was near zero. However, the Columbus MSA has realized a significant increase in multifamily development as developers look to capitalize on rising rental rates and occupancy. Since 2003, the Columbus MSA has realized the most 5+ unit building permits in 2012 year-to-date. Several new apartment projects began construction in 2009 and were completed in late 2010 to early 2011. Sites available for apartment development are becoming scarce. Former condominium sites have been converted to apartment development where possible. The greatest concentration of new construction is planned for the central area, with significant increases in the northwest and northeast submarkets as well. The northwest and northeast have the greatest amount of land available for apartment development, as well as the greatest population growth. The following chart identifies new and proposed construction.

### Columbus MSA Multifamily Development

|                            | <u>Name</u>               | <u>Location</u>        | <u>No. of Units</u>       | <u>Status</u>                       |                                     |
|----------------------------|---------------------------|------------------------|---------------------------|-------------------------------------|-------------------------------------|
| <b>Suburban</b>            | Benchmark                 | NW Columbus            | 108                       | Scheduled Completion 2013           |                                     |
|                            | Park Madison              | NW Columbus            | 114                       | Scheduled Completion 2013           |                                     |
|                            | Brookfield Village        | SW Columbus            | 160                       | Scheduled Completion 2013           |                                     |
|                            | Liberty Crossing          | Delaware               | 226                       | Scheduled Completion 2012/2013      |                                     |
|                            | Chelsea Square            | NE Columbus            | 186                       | Completed 2012                      |                                     |
|                            | Chelsea Square II         | NE Columbus            | 126                       | Scheduled Completion 2013           |                                     |
|                            | Hilliard Meadows          | Hilliard               | 208                       | Completion 2012                     |                                     |
|                            | The Grammercy             | New Albany             | 322                       | Scheduled Completion 2012/2013      |                                     |
|                            | Ashbrook Run              | SE Columbus            | 292                       | Completed 2012                      |                                     |
|                            | The Paddock at Hayden Run | Hilliard               | 376                       | Completed 2010/2012                 |                                     |
|                            | Albany Landing            | NE Columbus            | 272                       | Completed 2011/2012                 |                                     |
|                            | Arlington Park            | Hilliard               | 284                       | Completed 2011                      |                                     |
|                            | Hilliard Grand            | Hilliard               | 314                       | Completed 2011                      |                                     |
|                            | Bryant Park               | NW Columbus            | 186                       | Completed 2011                      |                                     |
|                            | Worthington Green         | Westerville            | 48                        | Completed 2011                      |                                     |
|                            | Polaris Apartments        | N Columbus             | 309                       | Planning                            |                                     |
|                            | Hilliard Apartments       | Hilliard               | 450                       | Planning                            |                                     |
|                            | Avery Brooke              | NW Columbus            | 165                       | Planning                            |                                     |
|                            | North Park Place II       | Polaris                | 264                       | 2013 Construction                   |                                     |
|                            | Village at Albany Moor    | New Albany             | 168                       | 2013 Construction                   |                                     |
|                            | Albany Woods              | Easton                 | 208                       | 2013 Construction                   |                                     |
|                            | Hartford Village          | Hilliard               | 72                        | 2013 Construction                   |                                     |
|                            | Worthington Square        | Worthington            | 180                       | Planning                            |                                     |
|                            | Strathmoor                | NW Columbus            | 276                       | 2013 Construction                   |                                     |
|                            | Confidential              | NW Columbus            | 228                       | Planning                            |                                     |
|                            |                           |                        |                           | <b>Suburban Total</b>               | <b>5,542</b>                        |
|                            | <b>Central:</b>           | Flats on Vine II       | Arena District            | 120                                 | Scheduled Completion 2013           |
|                            |                           | Liberty Place II       | Brewery District          | 200                                 | Scheduled Completion 2013           |
|                            |                           | 570 Lofts/Born Brewery | Brewery District          | 47                                  | February 2013                       |
|                            |                           | Flats on Vine          | Arena District            | 232                                 | Completed 2011                      |
|                            |                           | CCAD Apartments        | Gay/Grant                 | 68                                  | Completed 2011                      |
|                            |                           | Annex at River South   | CBD                       | 214                                 | Completed 2010                      |
|                            |                           | Lennox Flats           | Grandview                 | 96                                  | Scheduled Completion 2012/Long Term |
| Grandview Yard             |                           | Grandview Yard         | 154/600                   | Scheduled Completion 2012/Long Term |                                     |
| The Goodale                |                           | Arena/Grandview        | 180                       | Scheduled Completion 2013           |                                     |
| Tribeca                    |                           | Grandview              | 183                       | Scheduled Completion 2013           |                                     |
| Neighborhood Launch        |                           | CBD                    | 260                       | Scheduled Completion 2013           |                                     |
| Aston Place                |                           | Short North            | 59                        | Scheduled Completion 2013           |                                     |
| Columbus Commons           |                           | CBD                    | 300                       | Scheduled Completion 2014           |                                     |
| Harrison Park              |                           | Harrison West          | 108                       | Scheduled Completion 2013           |                                     |
| Wonder Bread               |                           | Italian Village        | 56                        | Scheduled Completion 2013           |                                     |
| Jeffrey Place              |                           | Italian Village        | 267                       | Scheduled Completion 2014           |                                     |
| Lane Avenue Mixed-Use      |                           | Upper Arlington        | 108                       | Planning                            |                                     |
| N. High St./2nd Ave.       |                           | Short North            | 12                        | Under Construction                  |                                     |
| Atlas Building             |                           | N. High St.            | 100                       | Planning                            |                                     |
| 1024 N. High St.           |                           | Italian Village        | 47                        | Planning                            |                                     |
| 463 N. High Street         |                           | Arena District         | 11                        | Planning                            |                                     |
| 1400 Dublin Road           |                           | Marble Cliff           | 216/244                   | Planning                            |                                     |
| 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 District 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        |                                     |                                     |
|                            |                           |                        | <b>Central Total</b>      | <b>5,118</b>                        |                                     |
|                            |                           |                        |                           | <b>5,892</b>                        |                                     |
|                            |                           |                        | <b>Columbus MSA Total</b> | <b>10,660</b>                       |                                     |
|                            |                           |                        |                           | <b>11,434</b>                       |                                     |

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 \$1.70 per square foot, pricing a significant number of would-be renters out of the central submarket. Another long-term factor is the return of home ownership, as renters analyze renting vs. home ownership as the rental payments of the central submarket units will allow a renter/buyer to purchase a quality home/condo in the Columbus MSA.

## 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 | August-12    |
| Northwest                         | \$755      | \$762  | \$776       | \$776   | \$786       | \$797      | \$825  | \$828       | <b>\$864</b> |
| Northeast                         | \$656      | \$664  | \$673       | \$673   | \$677       | \$683      | \$695  | \$709       | <b>\$728</b> |
| East                              | \$590      | \$593  | \$602       | \$600   | \$600       | \$605      | \$614  | \$625       | <b>\$644</b> |
| West                              | \$572      | \$579  | \$587       | \$585   | \$590       | \$584      | \$586  | \$621       | <b>\$629</b> |
| Central                           |            |        |             |         |             |            |        | \$961       | <b>\$978</b> |

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

Most sales in 2009 and 2010 were REO or lender-directed sales. A significant number of lenders finally disposed of REO and distressed Class C assets that were purchased at premium prices (2005 to 2008) or have been mismanaged during the economic decline. The lack of stabilized Class A or B sales prior to 2012 is attributed to the increases in rents and occupancy, as investors were not willing to sell stabilized properties without a significant premium. Multifamily real estate represents one of the most stable commercial real estate or alternative investments over the past three years, and investors continue to look to multifamily assets for the future.

Several of the area brokers interviewed expressed excitement with the recent increase in available properties for sale. They indicate that investors are looking to capitalize on the significant interest in Class A and B multifamily properties from institutional investors. As financial markets continue to remain unstable, institutional investors have looked to stabilized multifamily properties to “park cash and chase yield” as the 10-year treasury yield has declined significantly. The following chart illustrates the decrease in safe investments and institutional investors are aggressively pursuing Class A multifamily assets. This is creating a bubble in Class A assets, as large institutional investors have significant purchasing power due to the low required rate of return and interest rates available. The number of potential buyers has increased, which has driven up prices.

| MARKET RATES AND BOND YIELDS - % |                 |              |               |             |             |              |               |             |             |              |
|----------------------------------|-----------------|--------------|---------------|-------------|-------------|--------------|---------------|-------------|-------------|--------------|
|                                  | October<br>2012 | July<br>2012 | April<br>2012 | Jan<br>2012 | Oct<br>2011 | July<br>2011 | April<br>2011 | Jan<br>2011 | Oct<br>2010 | July<br>2010 |
| Prime Rate (Monthly Average)     | 3.25            | 3.25         | 3.25          | 3.25        | 3.25        | 3.25         | 3.25          | 3.25        | 3.25        | 3.25         |
| U.S. 10-Year Bond                | 1.64            | 1.50         | 2.05          | 1.97        | 2.15        | 3.00         | 3.46          | 3.36        | 2.54        | 2.96         |
| U.S. 30-Year Bond                | 2.81            | 2.60         | 3.18          | 3.03        | 3.13        | 4.27         | 4.48          | 4.39        | 3.71        | 3.88         |
| Corporate Bonds (Aaa)            | 3.67            | 3.48         | 3.96          | 3.85        | 3.98        | 5.16         | 5.13          | 5.04        | 4.68        | 4.72         |
| Corporate Bonds (Baa)            | 4.70            | 4.80         | 5.19          | 5.23        | 5.37        | 5.76         | 6.03          | 6.09        | 5.72        | 6.01         |

The following chart summarizes the number of sales and average sale prices since 2000. The following sales data is skewed lower due to a few distressed sales with a significant number of units in 2012.

**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        | **         |
| <b>2012</b> | <b>23</b>       | <b>\$22,848</b> | <b>***</b> |

\*Based on sales of 20 units or more

\*\*Based on sales of \$500,000 or more

\*\*\*As of October 2012

Source: Marcus & Millichap

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 2013; 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 either were foreclosures or never sold to owner-occupants. This “shadow market” will influence apartments as developers rent the homes and condominiums 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        | 2012        | Difference  | 2007-2012 % Change |
| 10   | Columbus              | \$66.584349 | \$73.401247 | \$74.489830 | \$76.668781 | \$78.524688 | \$79.712647 | \$13.128298 | 19.72%             |
| 50   | Hilliard              | \$82.503159 | \$86.924147 | \$87.801436 | \$89.868038 | \$98.189119 | \$99.299020 | \$16.795861 | 20.36%             |
| 80   | Westerville           | \$74.309148 | \$74.171407 | \$83.142226 | \$86.650863 | \$89.902910 | \$97.515838 | \$23.206690 | 31.23%             |
| 222  | Plain Twp.-New Albany | \$76.390792 | \$78.067399 | \$82.091445 | \$84.277755 | \$85.935618 | \$93.132156 | \$16.741364 | 21.92%             |
| 273  | Dublin                | \$79.244956 | \$77.173644 | \$85.646480 | \$89.264369 | \$90.385640 | \$98.206515 | \$18.961559 | 23.93%             |
| Average Increase:  |                       | \$75.806481 | \$77.947569 | \$82.634283 | \$85.345961 | \$88.587595 | \$93.573235 | \$17.766754 | 23.44%             |

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. Another influence on development is construction costs. According to local contractors, costs have jumped 20% to 30% over the past two years.

### Company News

We hope that you found this newsletter informative. If you would like additional information, please visit our website at [www.ohiorealestate.org](http://www.ohiorealestate.org), or call us at 800-536-0038.