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OHIO REAL ESTATE CONSULTANTS, INC.

MAY 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

- Multifamily Property, Southeast Franklin County
- Multifamily Property, Hilliard
- Proposed Multifamily Property, Downtown Columbus
- LIHTC Apartment Portfolio, West Virginia
- Multifamily Property, Northeast Columbus
- Proposed Multifamily Property, Short North District
- Portfolio of LIHTC Properties, Cincinnati
- Proposed Elderly LIHTC, Northwest Ohio
- LIHTC Apartments, Licking County
- LIHTC Apartments, Southeast Franklin County
- Two Multifamily Properties, Northeast Franklin County
- Proposed Multifamily Property, Dublin Market
- LIHTC Property, Eastern Ohio
- Office Building, Dublin
- Development Land, Downtown Columbus
- Three Single-Family Subdivisions, Central Ohio
- Office Property, Downtown Columbus
- Industrial Property, Southwest Columbus
- Industrial Property, Marion County
- Industrial Property, Stark County
- Industrial Property, Dublin
- Industrial Property, Westerville, Ohio
- Industrial Property, Downtown District
- Agricultural Properties, Union, Champaign and Mercer Counties
- Recreational Facility, Special-Use, Huron County

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.

COLUMBUS INDUSTRIAL MARKET OVERVIEW

Five data sources were used in the completion of this market overview. They include the Fourth Quarter 2011 Xceligent Industrial Overview, CB Richard Ellis, Jacqueline Haines Associates, Society of Industrial and Office Realtors, and Colliers International Industrial Report. While variations in the statistical information and its presentation occur between these sources, the results are generally consistent.

Historical Performance

Based upon the combined sources, the Greater Columbus Industrial Market had a year-end 2011 vacancy rate averaging 9.8%. This was unchanged from the Third Quarter vacancy rate; however, the vacancy rate was down slightly from the Fourth Quarter of 2010 (10.9%).

The Southeast Submarket has the greatest supply of industrial space. This area also experienced a high vacancy rate (11.9%) for year-end 2011. This is attributable to recent (2010) construction within the Rickenbacker neighborhood, as encouraged by the Foreign Trade Zone (FTZ), Community Reinvestment Areas (CRA), and tax-abatements on building improvements. Continued speculation in this area is anticipated as the economy strengthens. This area will also benefit from the completion of the Norfolk & Southern Intermodal Containment Yard, making it one of the most important transportation facilities connecting the Eastern Shore of the United States to Columbus.

HISTORICAL VACANCY RATES						
<u>YEARS</u>	<u>NW</u>	<u>NE</u>	<u>SE</u>	<u>SW</u>	<u>AVERAGE</u>	<u>CHANGE</u>
2000	4.6%	5.8%	11.3%	9.9%	7.8%	
2001	7.2%	8.3%	13.8%	12.5%	10.3%	32.1%
2002	10.4%	7.7%	16.2%	12.1%	11.9%	15.5%
2003	9.7%	9.9%	13.1%	9.6%	11.0%	-7.9%
2004	17.1%	9.0%	12.8%	9.5%	12.8%	16.8%
2005	12.9%	7.4%	13.3%	7.8%	11.1%	-13.3%
2006	11.4%	5.5%	13.7%	11.6%	10.8%	-2.7%
2007	10.8%	6.6%	12.8%	9.7%	10.3%	-4.6%
2008	9.6%	6.4%	15.8%	8.5%	11.2%	8.7%
2009	10.7%	8.0%	15.4%	9.3%	11.8%	5.1%
2010	11.1%	8.2%	13.2%	9.4%	10.9%	-7.6%
2011	8.6%	9.1%	11.9%	6.4%	9.8%	-10.1%
12 Year Avg	10.3%	7.7%	13.6%	9.7%	10.8%	

Source: SIOR Industrial Market Report Year-End 2011

Supply

The table presented below lists the historical construction activity in the Columbus market. As shown, 623,000± square feet were added to the overall market in 2011. New industrial construction for year-end 2011 was nearly 65% less than the 2010 new construction for the corresponding period. New construction in the Columbus market has averaged just over 3.5 million square feet per year for the eleven years prior to 2011. New construction completed in 2011, as previously mentioned (623,000 square feet), was the second-lowest in the past twelve years. All of the new construction was located in the New Albany area of Licking County.

NEW CONSTRUCTION						
<u>YEAR</u>	<u>NORTHWEST</u>	<u>NORTHEAST</u>	<u>SOUTHEAST</u>	<u>SOUTHWEST</u>	<u>TOTAL</u>	<u>CHANGE</u>
2000	171,423	497,698	4,181,436	750,743	5,601,300	
2001	128,471	755,396	3,324,556	1,033,110	5,241,533	-6.4%
2002	121,636	275,870	1,263,047	7,740	1,668,293	-68.2%
2003	364,606	313,078	783,531	189,579	1,650,794	-1.0%
2004	239,597	194,265	2,680,330	35,200	3,149,392	90.8%
2005	392,585	381,041	1,768,090	80,000	2,621,716	-16.8%
2006	165,288	136,109	3,820,481	665,184	4,787,062	82.6%
2007	33,684	17,718	5,587,454	2,129,192	7,768,048	62.3%
2008	152,450	21,750	3,206,973	255,824	3,636,997	-53.2%
2009	21,100	100,700	471,707	0	593,507	-83.7%
2010	35,000	417,049	13,450	1,308,000	1,773,499	198.8%
2011	0	623,000	0	0	623,000	-64.9%

Source: SIOR Industrial Market Report Year-End 2011

Supply can also be measured by using a supply ratio. This ratio is the result of dividing the space currently on the market by the amount of space leased during the prior year. Assuming that no additional space is added, it would require approximately 2.1 years to lease the existing space. There appears to be an over-supply of space in the 60,000 to 80,000 square foot and 80,000 to 100,000 square foot buildings.

Demand

The following table indicates the inventory, availability, and absorption by industry-type. The southeast quadrant has the highest amount of available space, while the east quadrant has the highest vacancy rate. The southwest quadrant had the highest year-to-date net absorption. The Central Business District and West submarkets exhibited negative absorption in 2011, as did the Flex market. As indicated by the following chart, the category with the most industrial activity is in the warehouse-distribution category.

INDUSTRIAL PROPERTY 10,000 S.F. & LARGER BY PROPERTY TYPE							
SUBMARKET	# OF BUILDINGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	TOTAL VACANT RATE	DIRECT VACANT (SF)	DIRECT VACANCY RATE	QUARTERLY NET ABSORPTION (SF)
Warehouse-Distribution	638	125,174,636	22,847,629	11.7%	14,156,381	11.30%	141,424
Flex	544	21,070,875	4,210,272	16.8%	3,480,259	16.50%	-75,727
Light Industrial	1,444	63,014,218	5,538,217	7.2%	4,323,343	6.90%	127,089
Truck Terminal	59	2,213,623	123,344	5.6%	123,344	5.60%	0
Manufacturing	91	22,663,454	1,666,966	7.4%	1,666,966	7.40%	0
Totals:	2,776	234,136,806	34,386,428	10.5%	23,750,293	10.10%	192,786

Source: Market Trends 2011 by Xceligent, Inc.

The following chart has similar data, identified by submarket.

INDUSTRIAL PROPERTY 10,000 S.F. & LARGER BY SUB-MAKET							
SUBMARKET	# OF BUILDINGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	TOTAL VACANT RATE	DIRECT VACANT (SF)	DIRECT VACANCY RATE	QUARTERLY NET ABSORPTION (SF)
CBD	113	4,822,196	414,087	8.6%	414,087	8.6%	-13,686
East	420	26,292,605	5,091,208	17.3%	4,429,190	16.8%	13,886
North	362	19,391,663	3,355,919	8.8%	1,699,522	8.8%	21,063
Outlying	544	52,190,893	3,107,989	5.4%	2,567,897	4.9%	32,844
Southeast	519	70,899,759	14,798,714	14.4%	10,124,180	14.3%	49,368
Southwest	279	21,614,189	2,546,971	6.5%	1,392,196	6.4%	178,241
West	539	38,925,501	5,071,540	8.9%	3,123,221	8.0%	-88,930
Totals:	2,776	234,136,806	34,386,428	10.5%	23,750,293	10.10%	192,786

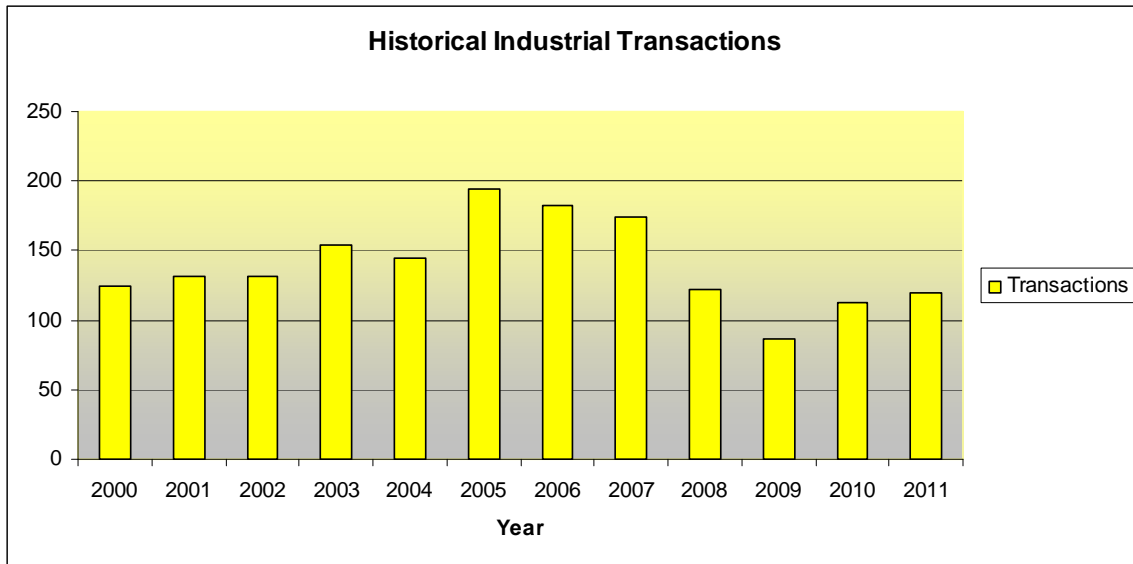
Source: Market Trends 2011 by Xceligent, Inc.

In addition to absorption activity, future demand can be estimated based upon industrial land transfers. According to the SIOR 2011 Report, 74-acres were acquired for industrial development in 2011. This is the lowest total in the past twelve years, and indicates a decrease in land sales activity of 57.8% from 2010. This is compared to the twelve-year average land transfer data of 509-acres. The twelve-year average was heavily impacted by the 2000 absorption of 1,668-acres. This trend is anticipated to continue as vacancies are elevated. The largest land purchase was 25-acres by the Solid Waste Authority for expansion. A summary of this information is presented below.

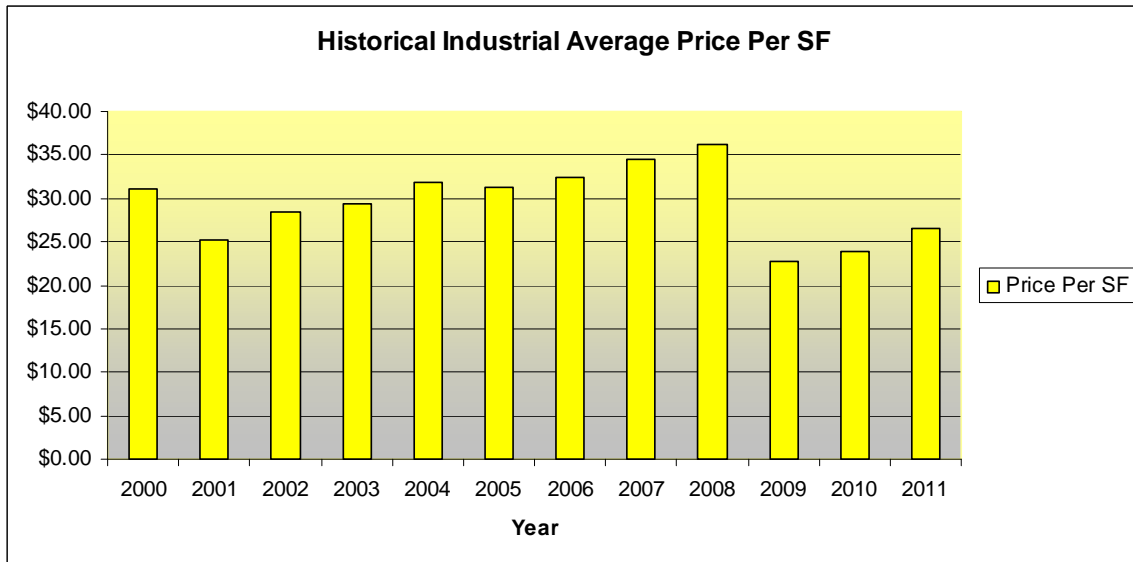
LAND ABSORPTION HISTORY						
	<u>NORTHWEST</u>	<u>NORTHEAST</u>	<u>SOUTHEAST</u>	<u>SOUTHWEST</u>	<u>TOTAL</u>	<u>CHANGE</u>
2000	121	198	964	385	1,668	
2001	118	95	320	42	576	-65.5%
2002	62	50	192	128	431	-25.1%
2003	36	36	319	77	469	8.7%
2004	30	127	372	320	849	81.1%
2005	30	115	259	51	455	-46.4%
2006	49	107	279	149	584	28.5%
2007	25	35	165	253	478	-18.1%
2008	7	77	69	8	162	-66.0%
2009	10	102	60	16	188	15.9%
2010	2	36	104	33	174	-7.3%
2011	7	11	14	42	74	-57.8%
Totals	497	989	3,117	1,506	6,108	
Avg/Year	49	94	300	143	509	

Source: SIOR Industrial Market Report Year-End 2011

Historical Industrial Transfer Information



Source: Jacqueline Haines Associates



Source: Jacqueline Haines Associates

As seen in the charts above, transactions peaked in 2005. Since 2005, there was a steady decline in transactions until 2010. Transactions increased slightly in both 2010 and 2011. A larger number of these transactions are smaller properties purchased for owner-occupancy.

According to various sources, the total industrial square footage sold in 2010 was approximately 20% below the amount sold in 2009. The 2009 total industrial square footage decreased approximately 24% from 2008. Industrial transfers peaked in 2005, with over 18 million square feet being sold. Prices averaged \$31.00 per-square-foot in 2005 and increased steadily to 2008. Prices peaked in 2008 at \$37.13 per-square-foot. Prices dropped nearly 33%, to approximately \$23.00 per-square-foot, in 2009; in 2010, the price-per-square-foot increased to \$24.99; the 2011 price-per-square-foot increased to \$26.84.

Market-Rents

The industrial market asking rental rates averaged approximately \$3.41 per-square-foot in the Fourth Quarter of 2011. The rents are on an absolute-net basis with the tenant responsible for all real estate-related expenses during occupancy. Lease rates peaked in 2005, declining nearly 10% by year-end 2009. Lease rates are anticipated to hold steady, with a chance of slight increases due to the reduction in annual construction. New construction will be driven by demand and incentives available in the marketplace.

Capitalization Rates

According to the Real Estate Research Corporation - Real Estate Report, the overall terminal capitalization rate in the Columbus industrial market has decreased from 9.0% in the Fourth Quarter of 2010 to 8.6% in Fourth Quarter of 2011. Capitalization rates vary based upon building age, location, occupancy, and other characteristics. The Real Estate Research Corporation Fourth Quarter Survey states that industrial capitalization rates within the Columbus market ranged from 8.3% to 9.3% for investment-grade properties. For Class B and C properties, an additional 500 to 1,000 basis points are expected.

Conclusion

New industrial construction has decreased significantly over the past five years. Following suit, land absorption has also declined. The numbers of property transactions, prices, and rental rates have also increased over the past two years. Vacancy rates have also decreased. The Columbus industrial market is rated near the U.S. average and stronger than the Midwest Region. Columbus' central location should allow the Columbus Industrial Market to rebound before competing markets.

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.