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OHIO REAL ESTATE CONSULTANTS, INC.

OCTOBER 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, Westerville
- Multifamily Property, Dublin
- Multifamily Property, Clintonville (+500 Units)
- Multifamily Property, Cleveland
- Multifamily Property, Franklin County (+900 Units)
- Multifamily Property (LIHTC), Cincinnati
- Affordable Housing Property, Dayton MSA
- Proposed Multifamily Property, Dublin
- LIHTC Community, Canal Winchester
- Multifamily Property, Northeast Columbus
- Multifamily Property, Newark, Ohio
- Medical Office Building, Hilliard
- Professional Office Building, Worthington
- CBD Office Building, Columbus
- 4-Property Industrial Portfolio, Central Ohio
- Single Tenant Leased Industrial Property, Southwest Franklin County
- Industrial Land, Dublin
- Single-Tenant Industrial Building, Southwest Franklin County
- Utility Easement, Delaware County
- Vacant Industrial Land, Southwest Franklin County
- 1,000-Acre Conservation Easement, Western Ohio
- Multiple Agricultural Properties, Western Ohio

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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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%	**97.3%**
Northeast	92.3%	92.1%	92.1%	92.0%	90.3%	92.0%	93.7%	93.8%	**94.7%**
East	90.2%	90.3%	90.2%	90.9%	89.6%	88.8%	89.7%	89.1%	**90.8%**
West	83.3%	84.5%	93.2%	91.0%	90.1%	91.2%	93.4%	91.9%	**94.4%**
Central								98.6%	**98.8%**
Overall Occupancy	90.4%	90.7%	92.8%	92.3%	90.9%	91.9%	93.3%	94.1%	**95.2%**
Vacancy Rate	9.7%	9.3%	7.3%	7.7%	9.1%	8.1%	6.7%	5.9%	**4.8%**

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

Year	Overall Vacancy Rate[1]	Multifamily 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
2012	**4.8%**	**2,278***

Sources
[1]ARA
[2]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

	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
	Chelsea Square II	NE Columbus	126	Scheduled Completion 2013
	The Grammercy	New Albany	322	Scheduled Completion 2012/2013
	Liberty Crossing	Worthington	226	Scheduled Completion 2012/2013
	Polaris Apartments	N Columbus	309	Planning
	Hilliard Apartments	Hilliard	450	Planning
	Albany Park	New Albany	1,100	Planning
	Avery Road Apartments	Hilliard/Dublin	165	Approved
	Confidential	NW Columbus	228	Planning
	Confidential	NW Columbus	276	Planning
		Suburban Total:	**5,076**	
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
	Lennox Flats	Grandview	96	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
	Lane Avenue Mixed-Use	Upper Arlington	108	Planning
	Flats on Vine II	Arena District	120	Planning
	Benchmark	Upper Arlington	108	Scheduled Completion 2013
	Liberty Place II	German Village	200	Scheduled Completion 2013
	Atlas Building	N. High St.	100	Planning
	Wonder Bread	Italian Village	56	Scheduled Completion 2013
	Jeffrey Place	Italian Village	267	Scheduled Completion 2014
	1024 N. High St.	Italian Village	47	Planning
	463 N. High St.	Arena District	11	Planning
	1400 Dublin Road	Marble Cliff	216/244	Planning
	N. High St./2nd Ave.	Short North	12	Under Construction
	Worthington Square	Worthington	180	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
		Central Total:	**5,359 - 6,133**	
		Columbus MSA Total:	**10,435 - 11,209**	

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	**$864**
Northeast	$656	$664	$673	$673	$677	$683	$695	$709	**$728**
East	$590	$593	$602	$600	$600	$605	$614	$625	**$644**
West	$572	$579	$587	$585	$590	$584	$586	$621	**$629**
Central								$961	**$978**

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 2012	July 2012	April 2012	Jan 2012	Oct 2011	July 2011	April 2011	Jan 2011	Oct 2010	July 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	**
2012	**23**	**$22,848**	*******

*Based on sales of 20 units or more
**Based on sales of $500,000 or more
***As of October 2012
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 central, northwest and northeast Franklin County markets. The scarcity of land zoned for apartment development may improve the outlook of 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 as lenders consider multifamily real estate one of the safest assets available at this time.

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 slow 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 rates is a major factor, along with the assessed values.

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 2012-2014. With a significant number of projects still in the planning stages, the demand of the central submarket could be fulfilled by the time the later projects are completed and attempt to reach stabilization.

Class A assets are being underwritten with a projected continued increase in rents, minimal vacancy and compressed capitalization rates. Along with historically low interest rates for conventionally financed assets, the multifamily asset class has realized significant increases in value. The significant amount of inventory expected to be delivered to the market in 2012-2014 could have a significant negative effect on the existing assets, as current Class A properties will be considered Class B-B+ in a shorter time frame than historically.

The multifamily sector is subject to several risk factors in the next few years. The significant amount of inventory expected to be delivered to market has the potential to increase vacancy. An increase in vacancy typically limits any expected rental increases and most likely will cause rents to decline in some areas. Capitalization rates have the potential to decompress as investors account for more risk in the multifamily sector due to vacancy and the possible return to home ownership. Any increase in interest rates from the current historically low rates we are realizing now will have a negative effect. All of these factors could lead to a market correction within the next few years.

Company News

I hope that you found this newsletter informative. I apologize for the extended time between newsletters. The last four months have been the busiest in our history. I pledge to be more timely with our future newsletters. If you would like additional information, please visit our website at www.ohiorealestate.org, or call us at 800-536-0038.