

Columbus, Ohio



Multifamily Housing Update

August 2010

EXECUTIVE SUMMARY

Recent Capital City payroll data reflected a tepid economic climate. On a seasonally-adjusted basis, employers created 3,800 jobs during the first six months of 2010, although more than half (2,100 jobs) were attributable to temporary hiring for the 2010 Census. Still, any amount of hiring was a welcome change from the -19,700 jobs lost in 1H09 and the -13,900 jobs lost in 2H09.

On an annual basis, metro job trends remained negative as -10,500 (-1.1%) jobs were lost in 2Q10. By contrast, area employers cut -25,800 (-2.8%) positions from payrolls year-over-year in 1Q10. The improvement was partially attributable to hiring among construction and business service firms. Combined, the sectors added 2,800 net new jobs y-o-y in 2Q10, following a -5,400 job decrease observed in the previous period.

The metro unemployment rate fell from 9.4% in April to 8.7% in May, coinciding with peak Census 2010 headcounts. Unfortunately, preliminary data show that the unemployment rate rose to 9.2% in June as total employment declined -2,603 (non seasonally-adjusted) month-to-month.

Although job growth momentum proved elusive in the first half, **RED CAPITAL Research (RCR)** foresee better trends in 2H10. Our econometric payroll model predicts that y-o-y job growth will return by year-end, resulting in a modest -9,100 (-1.0%) job decrease this year and gains of 8,300 (0.9%) and 17,700 (1.9%) in 2011 and 2012, respectively. By contrast, Economy.com predicts that Central Ohio employers will add 11,670 jobs this year, 16,810 in 2011 and 30,050 in 2012.

Home prices and area sales velocity rebounded year-to-date. The Ohio Association of Realtors calculate an

average home sale price of \$160,504 in 1H10, up 4.4% from \$156,759 in 1H09. The source also counted 10,646 closed sales in the first six months of the year, 20.3% above pace recorded in the same period of 2009.

Weak apartment demand gave rise to a 20 basis point sequential decrease in occupancy from 90.5% in 1Q10 to 90.3% in 2Q10. Tenants vacated 137 units and developers completed 96 units during the period. On a y-o-y basis, occupancy plunged 170 basis points as negative net absorption totaled 1,130 units. Apartment demand was particularly weak among Class B/C quality assets. Indeed, Class-A properties net leased 434 units in the twelve-month period ended in June, whereas negative net absorption totaled 2,132 units among lower-tiered assets.

Rent trends rebounded in the second quarter. Following no change in effective rent in 1Q10, the average figure rose 0.9% sequentially to \$640 in 2Q10. Lower concession were partially responsible. The size of the average concession package fell from 7.0% of asking rent in 1Q10 to 6.6% in 2Q10. Class-A asking rent rose 0.7% sequentially to \$823, comparing favorably to the 0.3% increase observed among Class B/C properties.

Reis predict that effective rent will advance at a 1.7% average annual pace over the five-year forecast period, ranking second slowest among the **RED 50**. Still, **RCR** calculate a 7.5% expected rate of total return, above the 7.4% **RED 50** mean, owing to an above average (8.0%) estimated cap rate.

Slow rent growth projections explain thin trading. Real Capital Analytics was aware of only two investor-grade transactions in 1H10. Sales volume totaled \$13 million and the average price per unit was \$36,125.

SNAP SHOT

	Y-o-y change	Projected YE 2010
Vacancy (9.7% - 2Q10)	↑170bps	↓10bps
Effective Rents (\$640 - 2Q10)	↑0.8%	↑1.1%
Cap Rate (N/A - 2Q10)	↑	↓
Employment (900.9m - 2Q10)	↓10.5m	↓9.1m

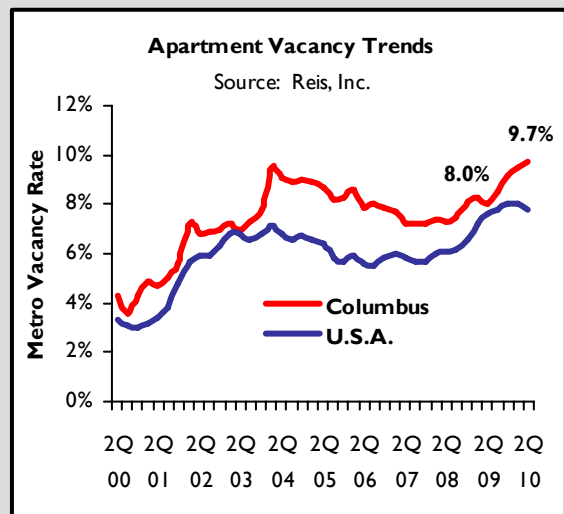
KEY POINTS

- Sluggish apartment demand, particularly for Class B/C units, contributed to eroding occupancy. The average occupancy rate decreased 20 basis points sequentially and 170 basis points year-over-year to 90.3% in 2Q10. Class-A properties boasted a stronger 93.7% occupancy rate, however, as property managers net leased 434 units in the twelve-month period ended in June.
- The size of the average concession package fell from 7.0% of asking rent in 1Q10 to 6.6% in 2Q10. As a result, the average effective rent advanced at a 0.9% sequential pace, the strongest advance since 2Q08. Class-A properties generated a 0.7% sequential increase in asking rent, better than the 0.3% advance recorded among Class B/C properties.
- Real Capital Analytics were aware of only two transactions in 1H10, totaling only \$13 million in sales proceeds. Still, the source notes that sales volume was up 152% from the same period of 2009.
- At an assumed 8.0% going-in yield, **RCR** calculate a 7.5% expected rate of total return, better than the 7.1% metric for Cincinnati, but below the 7.6% Cleveland return.

VACANCY TRENDS

- Apartment demand remained weak in the second quarter as tenants vacated 137 units, marking the fourth consecutive period of negative net absorption. As a result, the metro vacancy rate rose 20 basis points sequentially and 170 basis points year-over-year to 9.7%.
- Supply was limited during the first half of 2010 as only two apartment properties totaling 226 units were completed. By contrast, 910 units were delivered in 2H09.
- The vacancy rate in the Southeast submarket increased 720 basis points year-over-year from 8.9% in 2Q09 to 16.1% in 2Q10.
- Reis expect vacancy to fall 10 basis points to 9.6% by year-end as demand rebounds in 2H10.

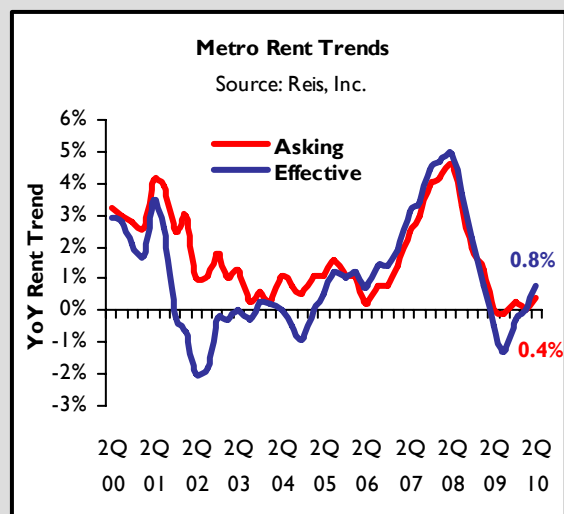
RANK: 39th out of 50



RENT TRENDS

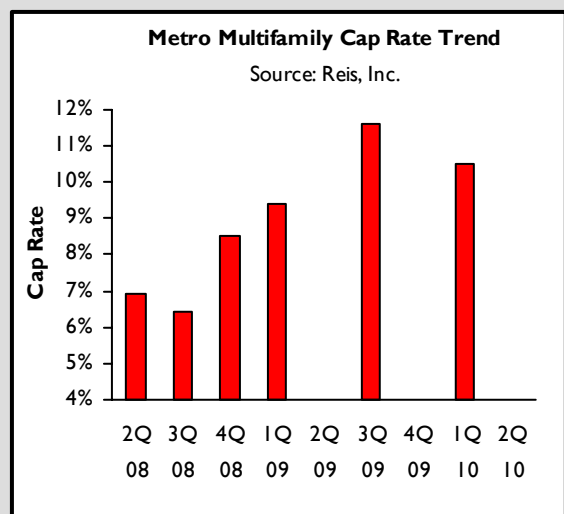
- Effective rent rose 0.9% sequentially to \$640 in the second quarter, following no change in effective rent in the previous period. Lower concessions were partially responsible. The size of the average concession package fell from 7.0% of asking rent in 1Q10 to 6.6% in 2Q10.
- As a result, the pace of average effective rent growth accelerated to 0.8%, comparing favorably to the 0.4% asking rent advance.
- Four (University / Downtown, Bexley, Whitehall / Gahanna, and Northeast) of the metro's 12 submarkets posted year-over-year effective rent declines in 2Q10.
- Reis expect annual effective rent growth to accelerate to 1.1% by year-end.

RANK: 17th out of 50



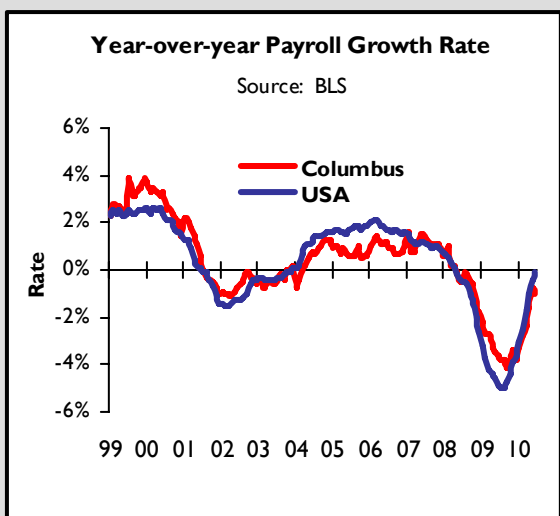
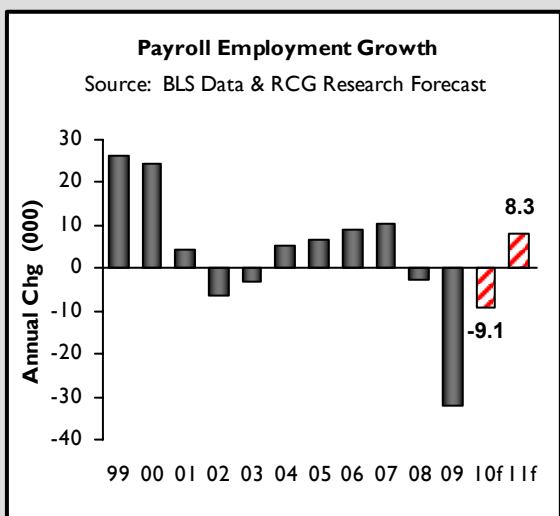
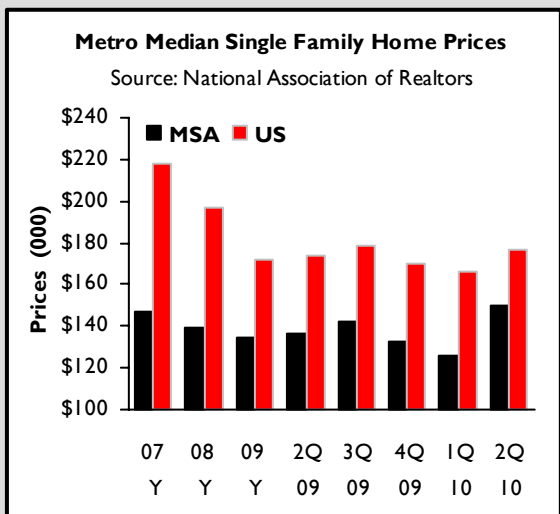
PROPERTY MARKET & CAP RATE TRENDS

- According to Real Capital Analytics, two investor-grade trades were consummated in 1H10, totaling \$13 million in sales proceeds. The average price per unit was \$36,125.
- **RCR** was aware of two listings involving non-stabilized properties. One of the properties, which added 176 units to the Groveport / Canal Winchester submarket in July, was listed at an 8.0% pro forma cap rate. Additionally, a 7.7% pro forma cap rate was applicable to a 208-unit asset located in the Westerville submarket, near the Polaris Fashion Mall.
- At an assumed 8.0% going-in yield, **RCR** calculate a 7.5% expected rate of total return, slightly above the 7.4% **RED** 50 average. Additionally, Columbus boasts the 18th highest measure of risk-adjusted return, owing to low levels of historic rent trend volatility.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
The Residences at North Park Place	A	Listing	\$15.0	\$72,115	7.7%
Ashbrook Run	A	Listing	\$11.1	\$63,148	8.0%



DEMOGRAPHICS & HOUSING MARKET

- At 1.2%, the pace of metro population growth was stable in 2009, matching the increase observed in 2008.
- According to the Ohio Association of Realtors, the average home price was \$160,504 in 1H10, up 4.4% from \$153,759 in 1H09. Likewise, home sales velocity advanced 20.3% to 10,646.
- HousingTracker.net report a \$158,325 July median asking price for metro single-family homes and condos. The price was -6.8% lower than the July 2009 comparison.
- RealtyTrac.com count 10,481 Central Ohio foreclosures in 1H10, equating to a ratio of one in every 74 properties, moderately worse than the one in 78 properties ratio recorded for the US. On the other hand, the metro foreclosure total was down -6% year-over-year.

EMPLOYMENT TRENDS

Non-Seasonally Adjusted

- Metro payrolls continued to decline, albeit at a slower pace in the second quarter. Area headcounts fell -25,800 (-2.8%) year-over-year in 1Q10 and -10,500 (-1.1%) in 2Q10.
- Temporary hiring for the 2010 Census was partially responsible for the improvement. Federal government payrolls expanded 1,700 year-over-year in 2Q10, following the addition of only 200 jobs year-over-year in 1Q10.
- Construction and business service firms created 1,200 jobs and 1,600 jobs year-over-year, respectively in 2Q10. By contrast, the sectors lost a combined -5,400 jobs year-over-year in 1Q10.
- Producers of durable goods eliminated -3,900 positions from payrolls in the twelve-month period ended in June, the slowest year-over-year drop since January 2009.

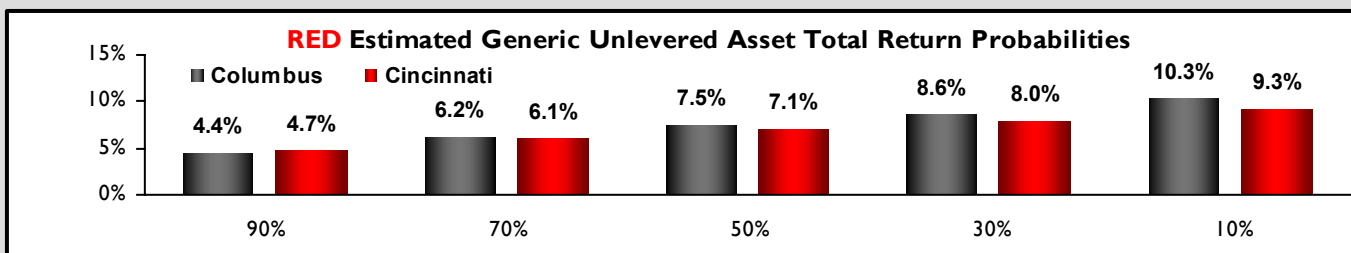
Seasonally-Adjusted

- On a seasonally-adjusted basis, headline job counts rose 3,800 in the first six months of 2010, owing to a 3,100-job increase in the second quarter. Unfortunately, the gain was partially fueled by temporary Census hiring.

Forecast

- Our econometric model predicts that metro payrolls will decline -9,100 (-1.0%) this year, followed by an 8,300 (0.9%) job gain in 2011. Furthermore, the model produces a point estimate of 17,700 (1.9%) net new jobs in 2012, based on strong GDP growth (+3.8%). Logically, RCR believe that job growth is more likely to underperform than outperform the 2012 forecast.

RANK: 28th out of 50

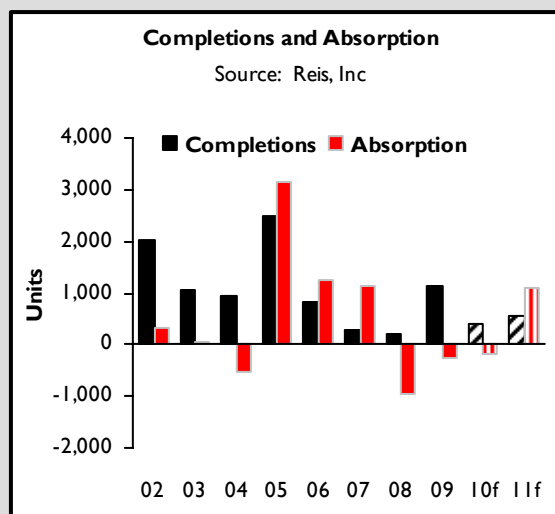


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	2Q09	2Q10	Change	2Q09	2Q10	Change
University / Downtown	\$754	\$742	-1.6%	3.9%	4.2%	30 bps
Bexley	\$610	\$610	-0.1%	5.9%	9.5%	360 bps
Sharon / Worthington	\$619	\$623	0.7%	5.9%	9.3%	340 bps
Dublin / Powell	\$711	\$711	0.0%	4.7%	5.3%	60 bps
Hilliard	\$667	\$671	0.6%	5.4%	6.3%	90 bps
Grove City	\$586	\$599	2.1%	19.3%	21.0%	170 bps
Whitehall / Gahanna	\$604	\$601	-0.5%	8.5%	9.4%	90 bps
Northeast	\$567	\$566	-0.2%	10.0%	11.2%	120 bps
Westerville	\$768	\$787	2.5%	5.2%	7.6%	240 bps
Southeast	\$476	\$493	3.6%	8.9%	16.1%	720 bps
Groveport	\$589	\$593	0.7%	7.2%	9.6%	240 bps
Upper Arlington	\$686	\$690	0.6%	5.4%	5.7%	30 bps
Metro	\$635	\$640	0.8%	8.0%	9.7%	170 bps

SUPPLY TRENDS

- Apartment developers completed two properties in 1H10. A 130-unit asset was completed in the Westerville submarket in January and a 96-unit asset opened in the Groveport / Canal Winchester submarket in May. Additionally, Reis was aware of one Groveport / Canal Winchester property that was delivered in July, adding 176 units to the rental stock.
- Reis were aware of five apartment complexes under construction in August. Four of the five, containing a total of 451 units, were located in the Downtown / University submarket. The other site (272 units) is in the Westerville submarket. Only one of the five properties (48 units) is scheduled to debut by year-end.
- The development pipeline contained 1,671 apartment units in either the planned or proposed phase.



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