

# Columbus, Ohio

Multifamily Housing Update

February 2011

## EXECUTIVE SUMMARY

While the outlines of economic recovery began to take shape in the nation and among regional peers by 4Q10, they remained largely vague and unformed in Columbus. Capital City business activity and job creation continued to languish and the prospects for recovery seemed to dim at year end as the state government, a key driver of the local economy, prepared to tackle a gaping fiscal deficit largely through spending reductions.

With respect to job creation trends, metro establishments trimmed payrolls at a 5,100-job, -0.6% year-over-year pace in 4Q. The performance represented a moderate improvement from 3Q's 8,800-job, -1.0% setback but still compared poorly to the U.S.'s 0.5% and state of Ohio's 0.1% payroll gains in the comparable period.

Attrition in the financial service, retail trade and professional and technical business service sectors was largely responsible. Financial service shops slashed payrolls at a 4,700-job, -6.8% year-over-year rate in 4Q, the fastest pace observed in the 21-year history of that BLS data series, reducing total headcounts to a 16-year low in November. Professional business service firm headcounts declined at a 2,200-job, -3.5% pace, representing the deepest cuts in this sub-sector since 2002, employment services trimmed another 1,100 jobs, and retailers cut -700 jobs, down from -200 in 3Q10.

Gains in several sectors partially offset the foregoing attrition. Hiring was robust in the business service sector as a whole, which added 4,100 workers expressed on a y-o-y basis during 4Q10, the aforementioned component cuts notwithstanding; and goods producing industries hired 1,700.

RED CAPITAL Research's payroll forecast model spots a light at the end of the tunnel — Columbus is pro-

jected to add jobs in 2011 — but the net gains are not expected to exceed 3,000. Meaningful job creation won't arrive before next year (11,300/1.3%).

Apartment owners enjoyed a second consecutive quarter of positive absorption in 4Q, a welcome relief after suffering nearly 2,000 net move-outs in the course of the prior 24 months. But progress was slow in the seasonally weak fall quarter as a net of only 247 tenants leased units, down from 1,222 in 3Q. Developers added only 48 units to stock in the period, however, allowing average occupancy to rise 20 basis points sequentially to 91.2%. Submarket performance was mixed as 7 of Columbus's 12 Reis-defined submarkets managed sequential occupancy gains and 4 posted retreats. The Downtown / OSU submarket remained the tightest in the area — occupancy increased 10 bps sequentially to 95.7% — while areas south of I-70 struggled: each reported a double digit vacancy rate in 4Q10.

Owners also scratched out a \$2 (0.2%) asking rent advance, rebounding from 3Q's \$1 sequential decline. On the other hand, standard concession costs increased modestly, limiting average effective rent growth to \$1 or 0.16% to \$641. Submarket performance trends were mixed as four posted 0.8% sequential revenue gains or greater while three posted net decreases. Largely class-A Dublin / Powell and OSU / Downtown chalked down the strongest rent increases.

Reis forecast solid absorption trends from 2011 to 2013 when tenants lease a net of 4,949 metro units, raising average occupancy 160 bps to 92.8%. But revenue growth is expected to be sluggish over the period — rents are projected to advance by an annual rate of 2.3%, materially slower than the 3.7% average gain projected for the RED 50 — constraining NOI growth.

## SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (8.8% - 4Q10)	↓ 40 bps	↓ 90 bps
Effective Rents (\$642 - 4Q10)	↑ 1.3%	↑ 2.3%
Cap Rate (9.5% - 4Q10)	↑ 1.7%	↑
Employment (902.4m - 4Q10)	↓ 5.1m	↑ 2.9m

## KEY POINTS

- Metro occupancy increased 20 basis points sequentially and 40 bps year-over-year in 4Q10 to 91.2%, 7th lowest among the RED 50.
- Owners in the suburban Dublin/Powell (1.0%) and Worthington (1.3%) submarkets managed to implement useful sequential rent hikes, but pricing power was soft overall. Metro average effective rent increase only \$1 (0.16%) to \$642, topping the results of only five RED 50 metros.
- Trade in Capital City apartment assets accelerated in recent months as five properties exchanged hands for a total of \$36.1 million. Unfortunately, each of the properties was distressed and applicable cap rates ranged from the mid-9s to mid-11s.
- Metro employment growth continued to lag regional and national peers. Metro payrolls declined at a 5,100-job, -0.6% year-on-year pace in 4Q10 while the U.S., Pittsburgh, Cleveland and Indianapolis posted gains.
- December data were constructive. Total employment and the payroll job count increased 16,341 and 500 jobs from, respectively, and the metro unemployment rate declined to a 2-year low of 7.8%.



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