

Real Estate Trends in Central Ohio

2016



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Institute



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Cover Image Source: Crawford Hoying Development

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2016

A PUBLICATION FROM



**THE OHIO STATE
UNIVERSITY**

CENTER FOR REAL ESTATE

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BACKGROUND

Real Estate Trends in Central Ohio takes a pulse of the region's real estate market, including capital markets, various sectors, and area submarkets. This survey complements the national Urban Land Institute's Emerging Trends in Real Estate, adding an in-depth local perspective to the national survey's insights on the U.S. economy and real estate markets.

In early October, ULI Columbus distributed a link to an online survey to its full e-mail list, from which 38 responses were collected from October 6 to November 9. Additionally, 17 interviews were conducted throughout October with key local experts from the private and public sectors across a range of professional developments, in particular real estate development, management, finance, and planning.

The information presented in this report comprise quantitative data from the survey and quotes from the interviews as well as the comment sections in the survey.

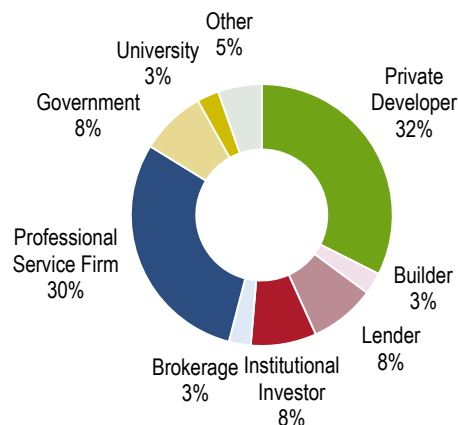
SURVEY RESPONDENT CHARACTERISTICS

Private developers represent the largest share of survey respondents at 32 percent, followed by professional service firms (30 percent).

Compared to past years, owners and high-level executives represent the lion's share of survey respondents, with 63 percent at VP level and up.

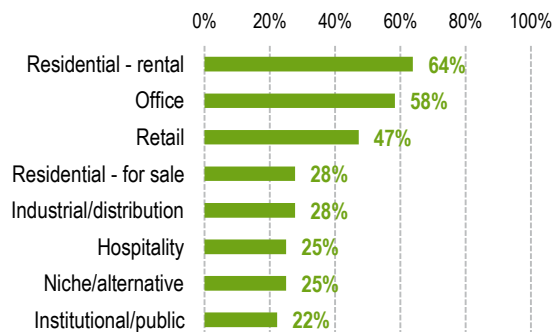
Nearly half or more of the respondents are active in rental housing, office, and retail. The sector composition in general is similar to last year.

Respondents by field

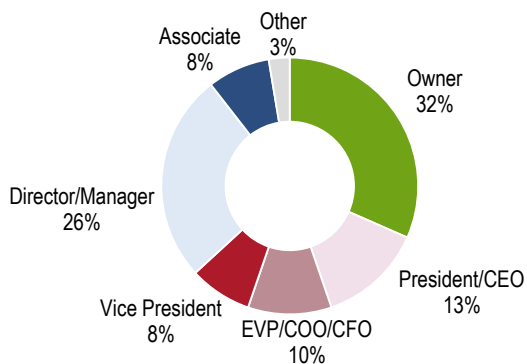


Other responses: historic preservation consultant, nonprofit market research.

Respondents by sector (multiple selections allowed)



Respondents by position

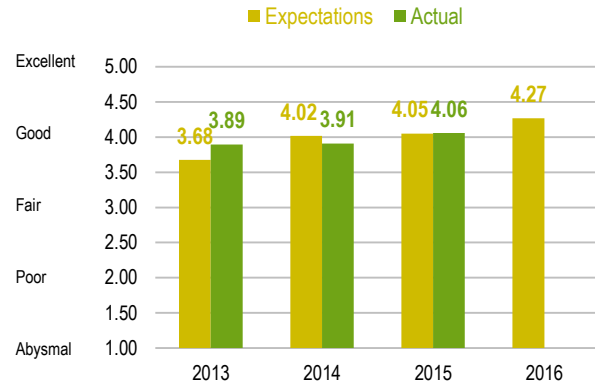


GENERAL BUSINESS PROSPECTS

Survey respondents' expectations of how 2015 will wrap up matches sentiments from a year ago. With "turmoil in the stock market" and cap rates trending down, real estate has become a destination for investment as "people try to put money to work." Another interviewee notes that 2015 has been "a record year in total commercial square footage under construction."

Expectations for 2016, at an average score of 4.27, are at an all-time high in the five years covered by this report series. Interviewees' opinions are more mixed, with some seeing a leveling off in the market while other predict a continued but perhaps smaller improvements

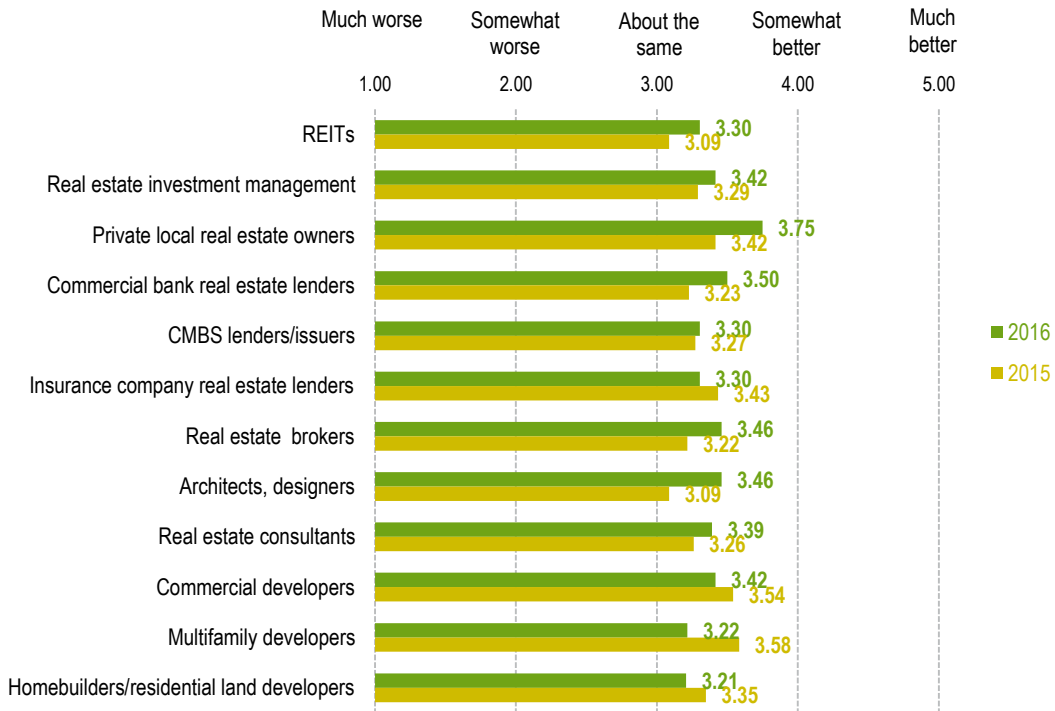
Expected and actual profitability of own business



Prospects by industry, relative to other markets

Prospects are high across industry areas relative to other markets. Survey respondents view Central Ohio more favorably for investment, lending, property management, and professional services. Despite an upbeat mood about the market for development and scores still above neutral (3.00), the gap between Central Ohio and other markets is expected to narrow.

Central Ohio compared to other U.S. markets by industry area



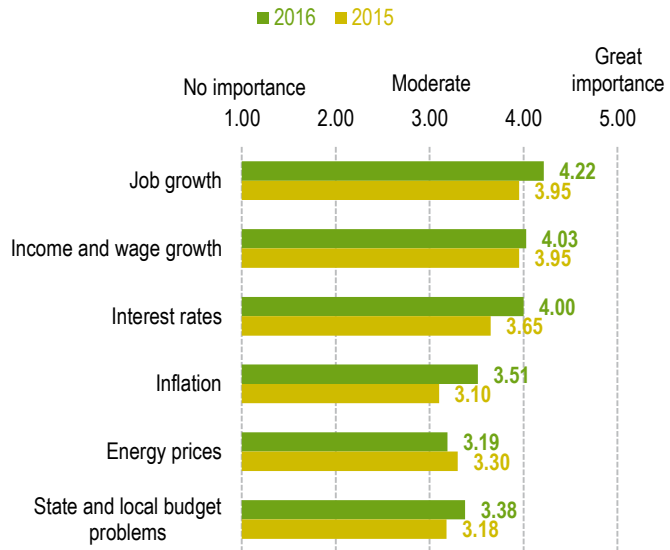
KEY ISSUES FOR 2016

Economic issues

Job growth is again the top economic concern among Central Ohio's development community, reflecting its status as the ultimate driver of demand across sectors.

As the economy continues to strengthen, interest rates and inflation have the greatest gains in scoring. In contrast, energy prices fall to the bottom of the list, reflecting cheaper oil and gas costs.

Top economic issues for Central Ohio in 2016



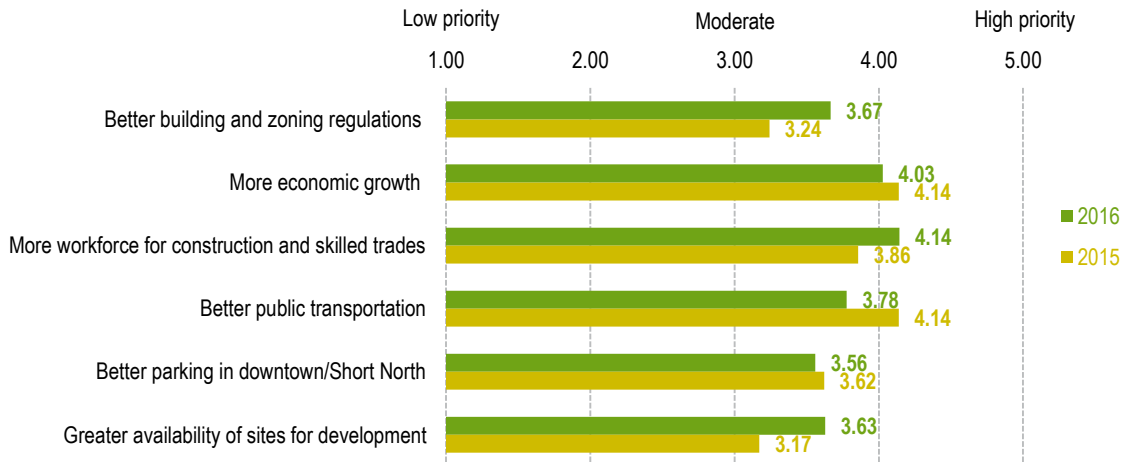
Land use and development needs

In 2016, workforce rises to the top of the priority list for development. "Every sub trade has the same issue of finding qualified workforce." One interviewee claims to "have never seen a tighter sub[contractor] market."

The workforce shortage is leading to higher construction costs being passed on from general contractor to developer and, in the end, the tenant or buyer. "Material costs for the most part have stayed pretty level, but labor costs are going up quite a bit." Adding in increased development activity means that "the trades are exercising some pricing power."

Survey respondents rated building regulations and site availability as higher priorities than in years past. As the market strengthens, developers are running into limits. "Sites are going to be a challenge due to zoning regulations." There is concern of excessive regulation as well: "it's a fight to get anything done, even if it's routine."

Central Ohio's biggest needs for land use and development



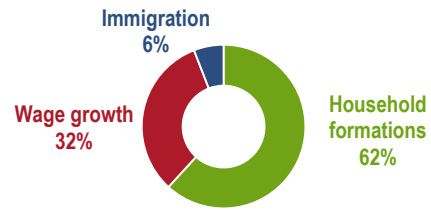
The big trends

For the first time this year, the survey asked respondents to choose what they think is the most important trend across demographics, finance, public leadership, design and development.

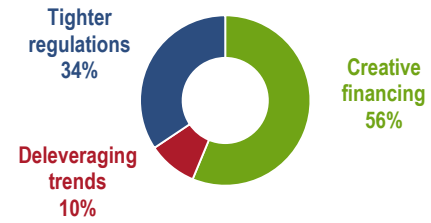
In demographics, household formations far outpaces wage growth. And in finance, despite the increased availability of both debt and equity, creative financing remains of great interest. Part of the financing formula may be government tax credits and incentives which, even with the rising concern about building and zoning regulations, still rose to the top for public leadership.

Concepts of building healthy places and green design fare differently between the design and development categories. In design, healthy and green draws more than a third of respondents but does not factor much into development. These results, at least in part, may be due to the competing choices. "Mixed use" is the buzzword here and throughout other parts of this report. In design, many people across the office, retail, and rental housing sectors are seeking to create more value with less space.

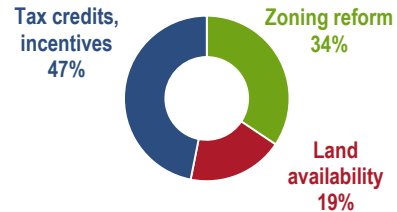
Demographics



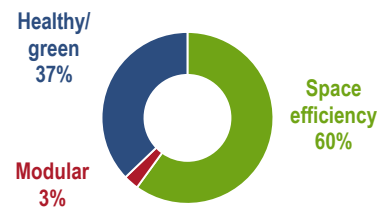
Finance



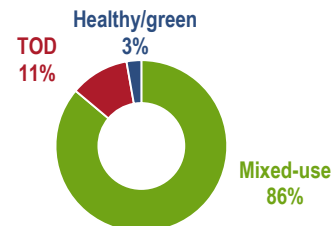
Public Leadership



Design



Development



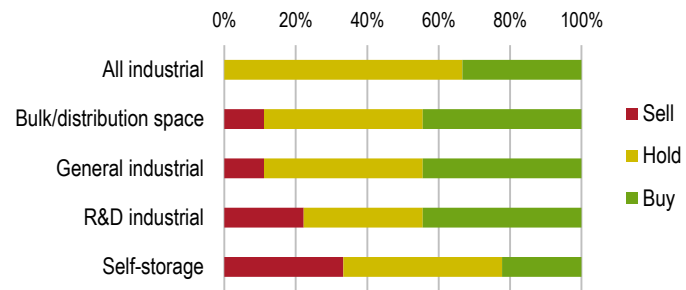
REAL ESTATE SECTORS

Industrial

The majority of survey respondents gives the industrial sector a hold rating, with more on the buy side than the sell side. There is a preference for larger bulk/distribution or general industrial space.

Interviewees appear more bullish, stating that "industrial is huge for us right now" and "industrial will continue to stay strong." And while industrial is generally "very attractive on a national scale," Central Ohio performs well "even as it relates to other markets around the country."

Investment recommendation for 2016: INDUSTRIAL



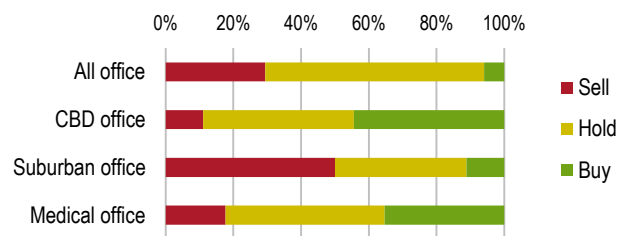
Office

Survey respondents and interviews continue to be down on office generally, but the disparity between urban and suburban office locations is increasing sharply.

Fundamentally, the "office environment is changing. The number of people per square foot has changed and are downsizing." "I think the rental rate growth over the past decade is zero."

However, while "velocity has slowed in suburban locations," there is a growing trend of companies "wanting to locate in an urban area for their workforce, more so than we have seen over the past 20 or 30 years."

Investment recommendation for 2016: OFFICE



Hospitality

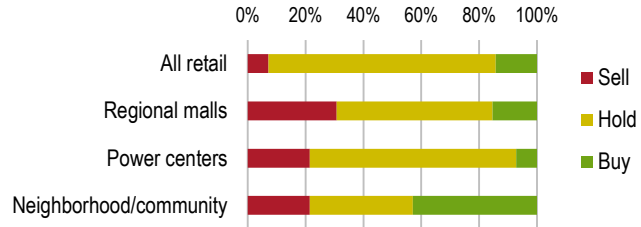
Last year's report noted some concerns about the number of new hotel projects and rooms coming on the market. Again, going into 2016, "you've got a lot of new rooms coming online. They're building hotels everywhere."

The success of recent projects may have helped demonstrate that there is demand. Interviewees seem less concerned this time and expect some continued increase in the hospitality sector.

Retail

Neighborhood shopping centers continue to outpace other retail, with strong survey ratings on the buy side. In contrast, retail overall is "very flat." Multiple interviewees believe that retail projects of any significant scale will rely on "niche" characteristics around location, design, and tenant base. On this note, "Easton is a unique animal."

Investment recommendation for 2016: RETAIL



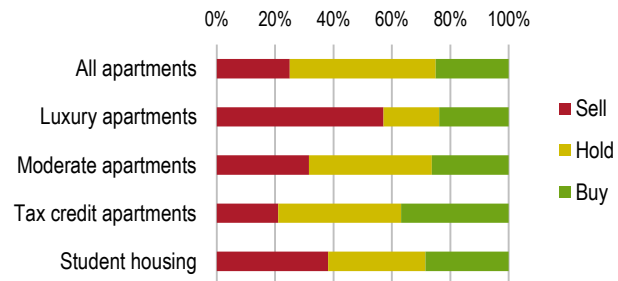
"Financially, retail is very strong" perhaps due to years of discipline enforced on real estate from "downsizing and consolidation of tenants caused by online distribution channels." In addition to e-commerce, omnichannel brings on "a two-way consolidation. One is the shrinking size of retailers, that they are trying to do more or the same in smaller spaces because they approach the retail as an omnichannel tool. Second is that you can do this with fewer stores."

Rental housing

Survey respondents continue to cool on rental housing, with sell numbers starting match or outnumber the buy side. Many interviewees have seen continued growth in 2015 and expect more in 2016. Some remain highly optimistic: "I don't see anything on the horizon slowing the activity down." New rental housing stock is "white hot."

A smaller number are "cautiously bullish."
 "Multifamily might slow down a little bit, but the demand is still out there."

Investment recommendation for 2016: RESIDENTIAL - RENTAL



Opinions are mixed on rents. One interviewee sees good increases and stable occupancy, while another believes that rents will not grow dramatically as more supply enters the market. The rising cost of rent may also be "starting to keep some of that [renter] demand in check."

As the adage goes, location may be the determinant on how different parts of the rental market perform in the future. "There is a really strong push to downsize and want the quality of life downtown can provide."

For-sale housing

Interviewees are positive about prospects in for-sale housing, supported by survey numbers, though limited, leaning toward the buy side. Comments range from "residential sales have been very good" to "the market is hot for residential for sale."

While the market for urban condominiums is re-emerging, there is a clear shift for suburban single-family from previous eras of housing growth. Compared to when developers stockpiled land purchases and options, "land is getting tougher and tougher to find."

Moderate growth may be the best forecast: "I don't think the for-sale model will be as frothy as the early 2000's, but we are seeing a growing demand for buyers."

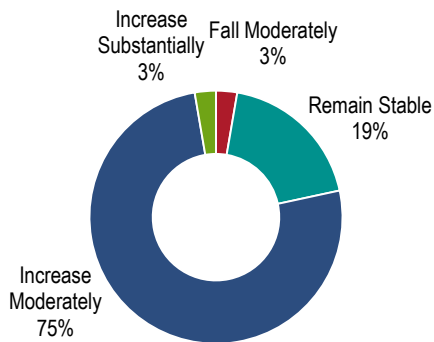
CAPITAL MARKETS

Interest rates

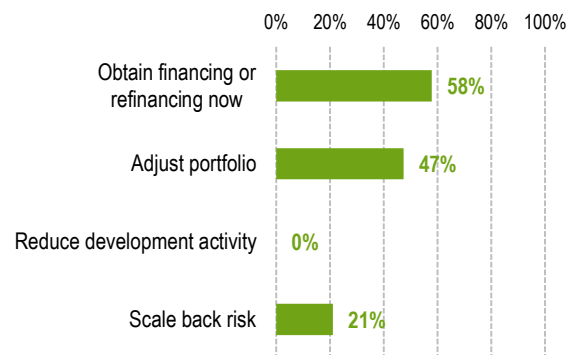
Survey respondents and interviewees alike anticipate small increases in interest rates, which will remain low overall. One interviewee bets on slight increases totaling 50 to 75 basis points.

After years of anticipation now of interest rate rises, the more interesting question is around how everyone will respond. Many survey respondents will seek to obtain financing or refinance and/or make portfolio adjustments. Strategies may include "putting in hedges and interest rate caps and swaps" and "locking our rates for existing assets at sub-5% rates." Portfolio adjustments will also be part of the puzzle, but interestingly enough, no one among the survey is looking to reduce development activity just yet.

Expected change in interest rates in the next three years



Response to interest rate rise

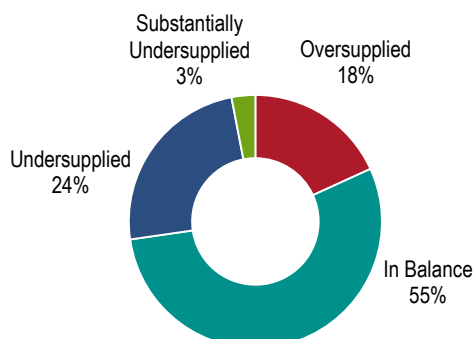


Capital availability

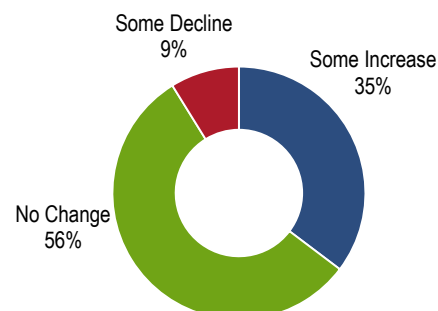
Underwriting and credit standards "continue to level and loosen slightly" as "lenders try to get more competitive for the number of loans out there." Even though Dodd-Frank and other regulations have pushed up some peripheral costs around financing, "the banks have been more aggressive than they were even in 2013 and 2014, so that has freed up capital to get deals done." A similar story pertains to the equity side. "For every dollar of equity needed, there are \$4 or \$5 chasing those deals that could be on acquisitions or ground-up development."

While there is plenty of debt and equity capital available, the "blocking and tackling is more difficult" in terms of demonstrating project feasibility. For example, "lenders are requiring evidence that there is a market for the projects they are financing, so they have increased their requirements, oftentimes including a market study."

Overall state of capital availability through 2016



Expected change in the availability of capital



CENTRAL OHIO SUBMARKETS

Best prospects for 2016 and beyond

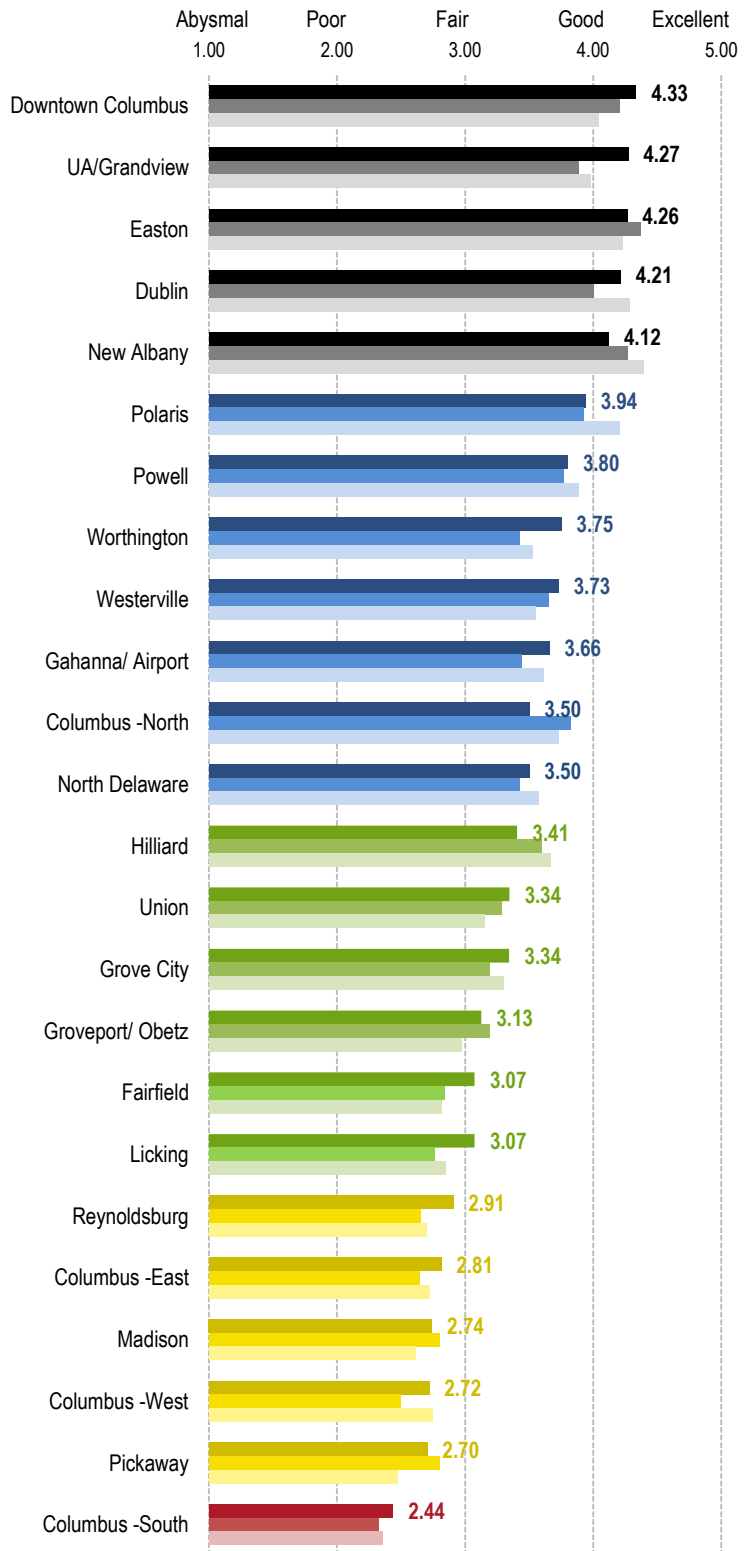
Downtown Columbus takes the top spot for development and investment prospects in 2016. "There is a tremendous amount of momentum and it's on its way to becoming a great neighborhood."

The only constraint for downtown and surrounding neighborhoods may be transportation and parking, which "will continue to be a main factor in solving for how people live and work downtown."

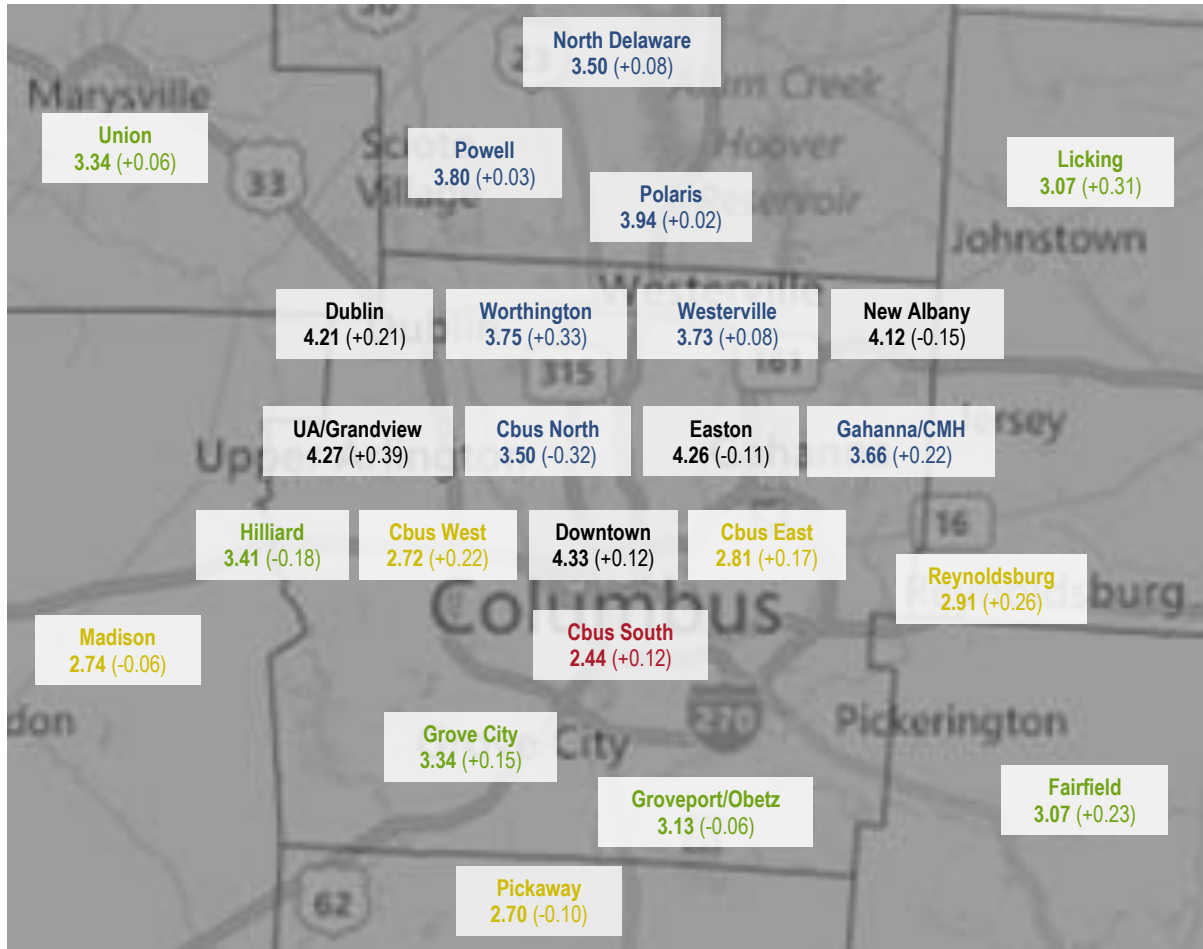
Compared to last year, the Upper Arlington/Grandview Heights area sees the greatest boost in prospects, with average scores up 0.39 points. As in downtown, the continued and highly visible development in Grandview Yard appears to be raising prospects.

After Easton, there is a string of suburbs across the north side of I-270 and in Delaware County where prospects are high. The map on the next page illustrates a clear north-south divide in Central Ohio.

Prospects for submarkets in 2016 (vs. past years' prospects for 2015 and 2014)



Prospects for Central Ohio submarkets in 2016 (with change in score from 2015 prospects)



Prospects elsewhere in Central Ohio

Outside of downtown and north side neighborhoods, other areas of Columbus continue to score lower in their development and investment prospects. "There is a stigma against single-family development ground in the Columbus public school system." However, a couple of interviewees highlight opportunities in central Columbus neighborhoods such as the Near East Side and Franklinton, which are already benefiting as downtown and the Short North area build out and prices rise.

As suburbs and outer counties see that "anything urban is hot," "it will be interesting to see the willingness of further out suburban communities to urbanize." More areas around central Ohio may be taking note of millennials and baby boomers currently heading to urban settings and, in turn, seek to capture some of that market. "Mixed-use development in urban centers is a trend that is going to continue for quite a while."

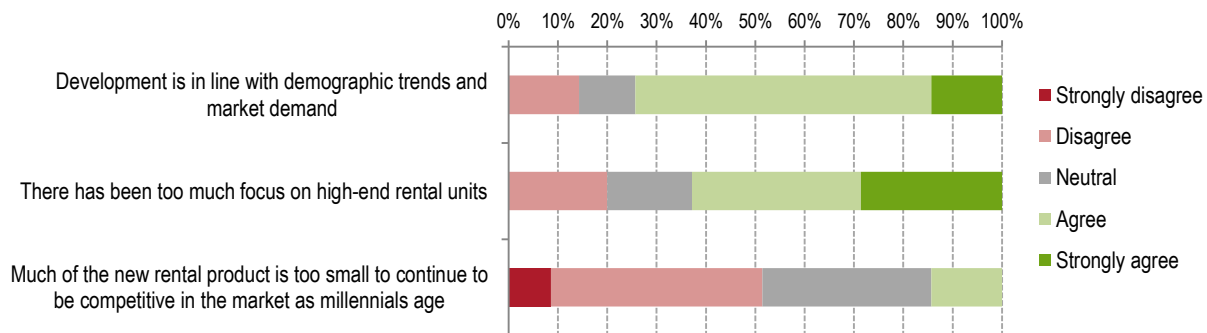
HOT TOPICS

Housing affordability

While survey respondents generally feel that the multifamily housing market has been too focused on high-end rental units, the concern is more from a social than a market perspective. Similar to the survey, interviewees are confident about the demographics and that demand will continue to be there, even for the smaller rental product. "The vacancy rate downtown is pretty low, so I think that the market is able to satisfy the creation of these luxury apartments." "We haven't overbuilt because everything is filling."

However, interviewees also recognize that high "costs are keeping some of that demand in check." "There needs to be affordable peppered into there somewhere." Developer interest in larger scale development projects could provide an opportunity "to be able to mix in affordable housing." In part due to the labor shortages discussed earlier (page 3), the "cost of construction and land is becoming more and more difficult to make [housing] affordable." Public incentives and subsidies will be required because private developers "simply can't build the [affordable housing] product. We can't afford to do that."

Sentiments on statements about multifamily rental product

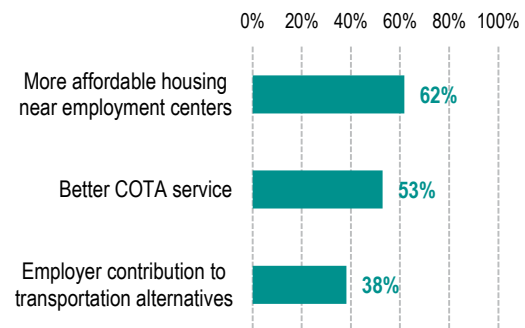


Job access

Recent initiatives at New Albany Business Park and Rickenbacker point to possible solutions around the link between housing and employment. The combination of extended COTA service and employers helping to resolve the "last-mile" problem is a major step in connecting workers to jobs. "The New Albany Smart Ride program is up from seven people when we launched to 2,000 today, a huge increase and really needed for economic development."

Car-wise "nobody is easy to get around as we are. It's a dream moving around this city." For those without their own reliable transportation, including people in lower-wage distribution, packaging, or call center jobs, "we have to come together with a real transportation plan." "How we handle transit will have everything to do with the success of our city or not. It's going to create a lot of opportunity."

Level of support for job access solutions



REAL ESTATE TRENDS IN CENTRAL OHIO 2016 TEAM

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Jack Clark * The Ohio State University	Peter Lohman * RL Partners
Derek Ehlers * American Structurepoint	Patrick Lynch * Lifestyle Communities
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SPECIAL THANKS TO:

Jung Kim, ULI Columbus Management Committee Member, Jana Hrdinova and Phil Larger of Center for Real Estate at The Ohio State University, for their advisory and technical roles throughout the project. All the online survey respondents and individual interviewees. Members of the ULI Columbus Young Leaders Group who conducted the interviews.



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