

## SINGLE-FAMILY HOUSING MARKET AIDING CLASS A PERFORMANCE

Ongoing instability within the Columbus for-sale housing market is driving renter demand for top-tier apartments, while job losses in lower-paying sectors are challenging owners of Class B/C complexes. Over the past year, conservative financing and job cuts have limited demand for single-family homes, leading to lower prices. In fact, single-family homes are currently selling at prices last recorded in 2003, though sales velocity has fallen close to levels previously achieved in 2002, prior to the housing boom. As it stands, more people are staying in apartments, and those most qualified to buy are leasing Class A units, resulting in an average vacancy rate for top-tier properties that is 360 basis points below that in Class B/C assets. Operators of apartment buildings rented by lower-wage-earning individuals, primarily complexes constructed in the 1970s, are facing the greatest operational struggles. As of the second quarter, vacancy in these properties was averaging in the low-14 percent range, compared to the market average of 8 percent. Looking forward, steady demand from the large student population in the University/Downtown submarket will support the tightest vacancy marketwide, with Class A properties in the area expected to post vacancy below 3 percent through year end.

Transaction velocity in the Columbus metro has fallen considerably since the beginning of the year, dropping 73 percent compared to the corresponding period in 2008. Due to concerns over the near-term direction of the market, investors are targeting more stable areas that will maintain tenant demand, such as the Westerville and University/Downtown submarkets. Despite investors' flight to Class A properties, overall prices are receding as a result of expectations for increased concessions and higher vacancy rates. The median price in deals made year to date is 34 percent lower than the median price recorded during the same period last year. Longer-term opportunities may arise through the repositioning of older properties in the Grove City submarket; currently, Class B buildings in the area are operating at vacancy of around 8 percent, while some Class C assets are nearly 20 percent vacant.

## 2009 ANNUAL APARTMENT FORECAST



**Employment:** In 2009, employers in Columbus are forecast to eliminate 15,000 jobs, a 1.6 percent decline. Last year, approximately 13,400 positions were removed from the market.



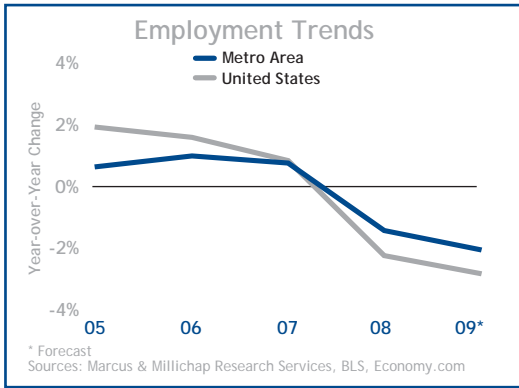
**Construction:** Apartment completions are expected to jump to 1,000 units this year, expanding rental inventory by 0.8 percent. About 200 units were added in 2008.



**Vacancy:** Supply growth and soft demand for rental housing are projected to push up vacancy 150 basis points to 9.7 percent in 2009. Last year, vacancy rose 90 basis points.



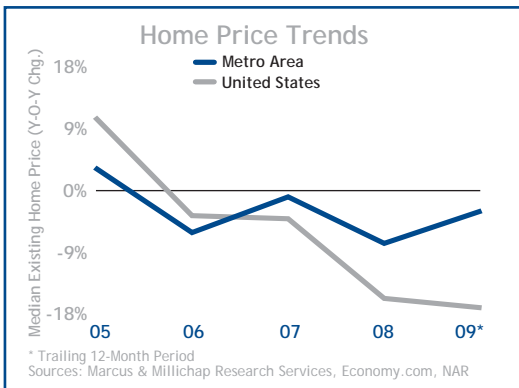
**Rents:** Asking rents are forecast to drop 2.1 percent to \$663 per month this year while effective rents recede 2.8 percent to \$616 per month. In 2008, asking rents increased 2 percent, and effective rents advanced 2.3 percent.



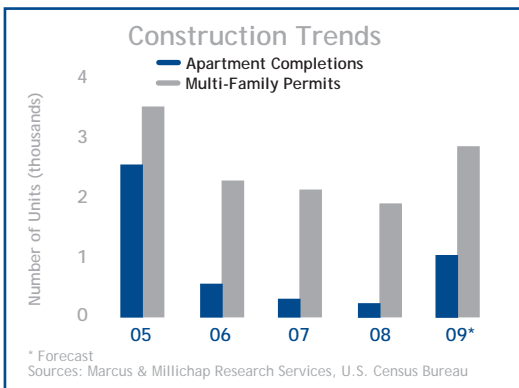
## ECONOMY

- ◆ The pace of employment reductions has increased considerably. In the first six months of 2009, nearly 4,300 positions were removed from local head counts, compared with the trimming of 1,600 jobs in the corresponding period last year.
- ◆ One of the leading sectors for job growth in the past year was education and health services, which added 6,300 positions. In contrast, 4,800 manufacturing positions were eliminated during that time, primarily due to cutbacks in the auto industry.
- ◆ As of the second quarter, the unemployment rate in Columbus was 8.8 percent, compared to 5.5 percent one year earlier. Rising unemployment will lead to higher vacancy through year end.
- ◆ **Outlook:** In 2009, employers in Columbus are forecast to eliminate 15,000 jobs, a 1.6 percent decline. Last year, approximately 13,400 positions were removed from the market.

## HOUSING AND DEMOGRAPHICS



- ◆ Permits for nearly 2,800 units of multi-family housing have been issued over the past 12 months, down from 4,900 units in the preceding year. Permits for single-family housing have declined nearly 31 percent in the last year to 8,100 units.
- ◆ During the year ending in the second quarter, the median price of an existing single-family home fell an estimated 3 percent to \$104,400, while the median household income dipped 4.5 percent to \$41,100 per year. The median price of a single-family home is now at the same level as was recorded in the spring of 2003.
- ◆ Homes remain affordable, as the median household income is 62 percent greater than the income needed to meet the monthly mortgage obligations on a median-priced residence. Despite increased affordability, tighter mortgage lending requirements will keep more people in the renter pool.
- ◆ **Outlook:** While the decline in home prices may lure a higher number of residents into homeownership, more conservative mortgage financing and concerns over the near-term stability of the job market will continue to support apartment demand in Columbus.

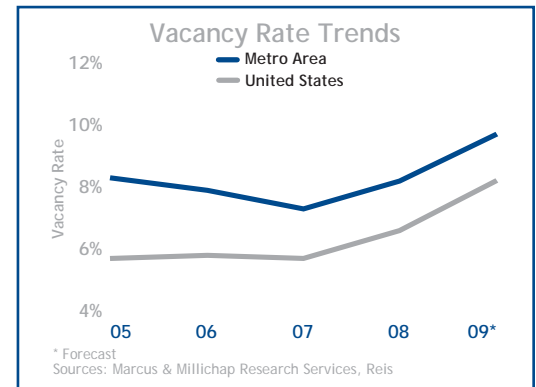


## CONSTRUCTION

- ◆ The inventory of apartments in the metro rose 0.2 percent, or by 200 units, year over year in the second quarter. In the preceding 12-month period, rental stock expanded 0.2 percent with the addition of roughly 265 units.
- ◆ There are nearly 2,100 rental units planned in Columbus, including nearly 700 units proposed for the University/Downtown submarket.
- ◆ Apartment stock within the Westerville submarket is expected to increase by 5.7 percent in 2009 with the delivery of 580 units. Inventory growth in the Whitehall/Gahanna/Reynoldsburg submarket will amount to 3.3 percent, or 680 units.
- ◆ **Outlook:** Apartment completions are forecast to jump to 1,000 units this year, expanding rental inventory by 0.8 percent. About 200 units were added in 2008.

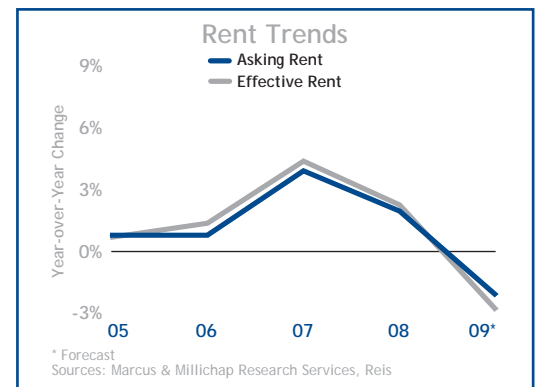
## VACANCY

- ◆ The Columbus metro's average vacancy rate was 8 percent in the second quarter, an increase of 60 basis points from one year earlier and up 20 basis points since year-end 2008.
- ◆ The Class A segment has recorded a 70 basis point uptick in vacancy over the past year, pushing the rate to a still-healthy 5.6 percent. Demand for high-end units remains firm as the most qualified renters opt to stay out of the for-sale market.
- ◆ In the Class B/C segment, vacancy of 9.2 percent in the second quarter was 60 basis points higher than in the second quarter of 2008. Job losses among lower-wage earners caused demand to decline for Class B/C apartments over the past 12 months.
- ◆ **Outlook:** Supply growth and soft demand for rental housing are projected to increase vacancy 150 basis points to 9.7 percent in 2009. Last year, vacancy rose 90 basis points.



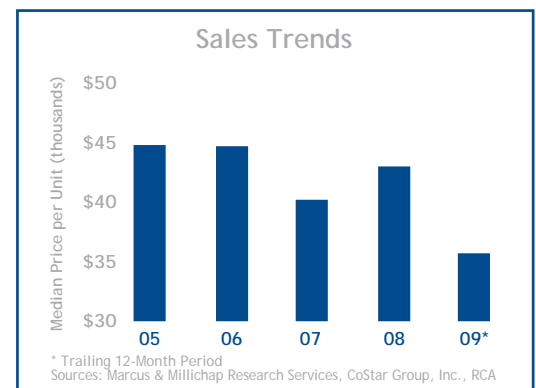
## RENTS

- ◆ Asking rents of \$679 per month in the second quarter were unchanged from the first quarter and down 0.1 percent year over year. Effective rents were \$633 per month in the second quarter, 0.5 percent less than in the second quarter of 2008. Owners are offering greater leasing incentives due to currently weak economic conditions.
- ◆ Class B/C asking rents dipped 0.2 percent to \$609 per month during the year ending in the second quarter, while a 0.2 percent increase to \$819 per month was posted in the Class A sector.
- ◆ Revenue growth has decelerated as a result of rising vacancy. Over the past year, gross revenues have fallen 1.7 percent, compared to a 4.7 percent increase in the previous year.
- ◆ **Outlook:** Asking rents are forecast to drop 2.1 percent to \$663 per month this year while effective rents recede 2.8 percent to \$616 per month. In 2008, asking rents rose 2 percent, and effective rents advanced 2.3 percent.



## SALES TRENDS\*\*

- ◆ During the past 12 months, transaction velocity has decreased 49 percent due to investors' expectations for weaker operations, in addition to more conservative lending. In the preceding year, velocity ticked up 21 percent.
- ◆ The median price of \$35,600 per unit recorded over the last year is 11 percent less than the median in the previous 12-month stretch. Since peaking at \$51,000 per unit in 2003, the median price has receded 30 percent.
- ◆ In the past 12 months, cap rates have averaged from 7.8 percent for Class A assets to more than 9 percent for lower-tier properties, marking an increase of about 75 basis points over the last year.
- ◆ **Outlook:** Continued instability within the housing market and conservative mortgage financing will support tenant demand for Class A and Class B properties. Lower-tier assets will continue to face greater operational challenges, however, and will require more aggressive pricing to attract investor interest.



\*\* Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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## CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ During the first quarter, multi-family mortgage originations were 61 percent below year-earlier levels and 79 percent lower than the late-2006 peak. Though considerable, the reduction in apartment originations remains less significant than declines among other core commercial property types, due largely to the availability of financing through Fannie Mae and Freddie Mac.
- ◆ Portfolio lenders are issuing apartment financing at all-in rates of 6.0 percent to 6.3 percent for three-year loans and up to 6.8 percent to 7.5 percent for a 10-year term. Loan-to-value requirements range from 55 percent to 75 percent.
- ◆ Agency lenders are offering five-year loans at all-in rates of 4.8 percent to 5.0 percent with 10-year mortgages available at rates averaging 5.35 percent and 5.7 percent, respectively. Maximum leverage among agency lenders ranges from 55 percent to 75 percent.
- ◆ Freddie Mac recently completed a \$1 billion securitization of multi-family debt, the first issuance to hit the market since last June. The securities, dubbed "K Certificates," vary from traditional CMBS in that buyers are provided a guarantee by Freddie Mac. In addition to the potential for another similar offering, government programs designed to increase credit flows into commercial real estate could be operational by late summer/early fall.

## SUBMARKET OVERVIEW

- ◆ Inventory expansion in the Westerville submarket will cause vacancy among Class A properties to rise nearly 120 basis points to the high-5 percent range this year. As a result, leasing incentives are expected to tick up to 8.8 percent of asking rents by year end.
- ◆ The University/Downtown submarket remains a focal point for construction activity. Commercial and residential developers have invested about \$150 million in the area over the past five years. Currently, approximately 800 apartment units are under way, and 700 units are in planning.
- ◆ Call-center operator Teleperformance announced in late July that it may cut up to 218 positions at its Dublin location over the next few months. The pending staff reductions could cause apartment demand to wane in the Dublin/Powell submarket.

## SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	University/Downtown	3.9%	-40	\$754	2.3%
2	Dublin/Powell	4.7%	-310	\$711	16.2%
3	Westerville	5.2%	-30	\$768	22.5%
4	Hilliard	5.3%	70	\$667	-8.1%
5	Upper Arlington/North Columbus	5.4%	50	\$686	1.8%
6	Bexley	5.9%	-190	\$610	3.4%
7	Sharon/Worthington	5.9%	-50	\$619	0.2%
8	Groveport/Canal Winchester	7.2%	-20	\$589	2.8%
9	Whitehall/Gahanna/Reynoldsburg	8.5%	280	\$604	-18.8%
10	Southeast	8.9%	-160	\$476	-0.4%