

FUNDAMENTALS WEAKER, BUT MARKET RIDES OUT RECESSION

In Columbus, vacancy is forecast to increase and rents will fall over the rest of 2009 as the lingering effects of the recession modestly suppress housing demand. Despite the prospect of fundamentals weakening further as the downturn persists, apartment properties in Columbus have held up well to date. Since the start of the recession, apartment demand has decreased only 0.9 percent, resulting in a 130 basis point rise in vacancy. Several areas remain strong, as seven of the market's 12 submarkets post vacancy rates of less than 6 percent. In addition, half of the submarkets have recorded a decline in vacancy thus far in 2009, reflecting the resilience of demand drivers such as a large student population. Rents, nevertheless, have started to decrease recently, and concessions are inching upward. Still, submarkets such as Bexley and University/Downtown have maintained concessions of around 3 percent, as rental housing demand in these areas has been steady. On the supply side, completions are on track to increase this year, while permit issuance is falling.

In the investment arena, Columbus has always been a low-velocity market, and deal flow over the past 12 months has been especially slow. Investors remain concerned about the near-term direction of property fundamentals and the gradual creep of concessions. Additionally, financing standards continue to be conservative, as loan-to-value ratios are considerably lower than two years ago. Despite its history as a strong rental housing market and its diverse local economy, investors and lenders tend to group Columbus with other metro areas in the Midwest that are experiencing greater economic distress. Such comparisons work in Columbus' favor, however, as statewide unemployment is 10.8 percent, while the rate in Columbus is in the mid-9 percent range. Indeed, the resilience of the Columbus market during the recession may be overlooked by investors. Estimated cap rates in the 8 percent range are attractive, and the low cost of properties enables investors to build portfolios quickly.

2009 ANNUAL APARTMENT FORECAST



Employment: Reductions in employment will ease over the remainder of the year as the economy stabilizes. Employers will cut 10,000 positions this year, a decline of 1.1 percent but an improvement from 2008, when 13,400 jobs were shed.



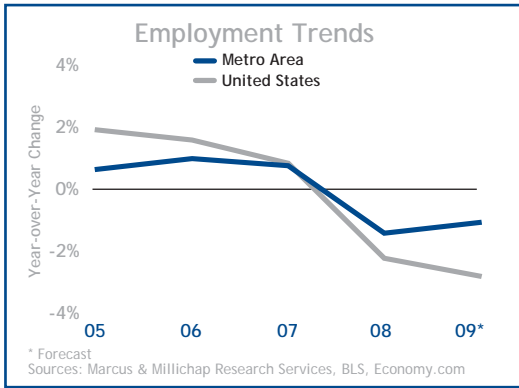
Construction: In 2009, 1,000 units will be delivered, although the approximately 200 units slated for delivery in the fourth quarter may be delayed until 2010 if pre-leasing is subdued. Last year, developers added only 204 units.



Vacancy: New product will come online while demand falters due to the lingering effects of the recession. Accordingly, the vacancy rate is projected to increase 70 basis points this year to 8.9 percent.

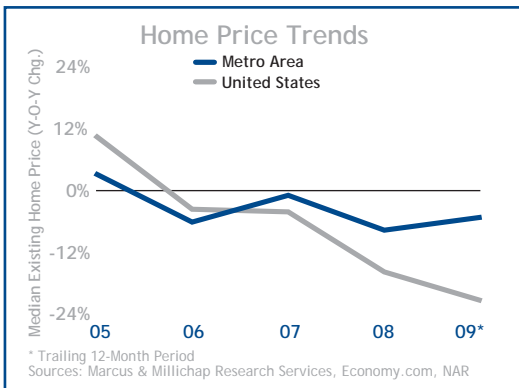


Rents: Softer demand for rental housing will underpin a 1.9 percent decrease in asking rents to \$664 per month. Effective rents are projected to decline 3 percent to \$615 per month. Asking rents rose 2 percent last year, accompanied by a 2.3 percent bump in effective rents.



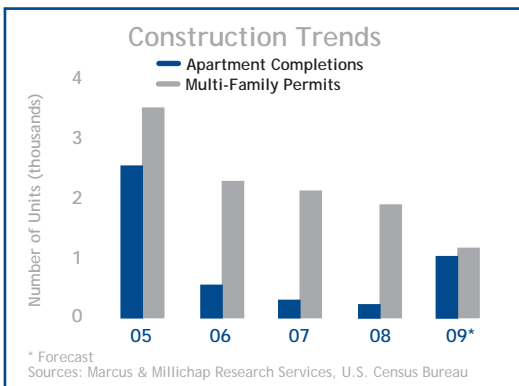
ECONOMY

- ◆ Employers cut an estimated 3,200 jobs in the third quarter. With the reduction, total employment in the past 12 months has contracted 2.2 percent, or by 20,500 positions.
- ◆ Trade, transportation and utilities employment, which includes the market's large warehouse and distribution segment and the headquarters operations of many retailers, has shed 7,500 jobs in the past year, a 4 percent drop. Approximately 3,000 positions were axed in the third quarter.
- ◆ Budget cuts have led to the elimination of 2,200 state government employees since the third quarter of last year, a decline of 3.5 percent. Nearly all of the jobs have been eliminated in 2009, including 1,600 positions in the third quarter.
- ◆ **Outlook:** Reductions in employment will ease over the remainder of the year as the economy stabilizes. Employers are expected to cut 10,000 jobs this year, a decrease of 1.1 percent but an improvement from 2008, when 13,400 positions were shed.



HOUSING AND DEMOGRAPHICS

- ◆ Multi-family permitting has declined. In the 12 months ending in the third quarter, permits for 1,200 units of multi-family housing have been issued, a 41 percent drop from the preceding year.
- ◆ In the single-family market, transaction velocity has picked up modestly over the past 12 months. The median price, however, has fallen about 9 percent to \$125,900 and has decreased 17 percent from the peak level recorded in 2005.
- ◆ The drop in the median price has made homeownership affordable for Class A renters. One year ago, the monthly payment on the median-priced home exceeded Class A asking rents by \$63. Currently, Class A asking rents are \$100 per month more than the mortgage obligations on a \$125,900 home.
- ◆ **Outlook:** While single-family homes are now affordable for residents of high-end rentals, the effects on Class A vacancy may be muted until the economy improves. Instead, completions of new complexes in the near term will most significantly affect vacancy in the top tier.

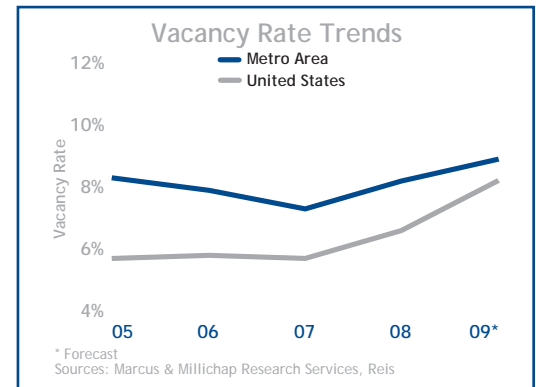


CONSTRUCTION

- ◆ The completion of projects consisting of 558 units in the third quarter has accounted for most of the 854 rentals brought online over the past 12 months. Deliveries in that time have expanded rental stock 0.7 percent, compared with only a modest increase in the preceding one-year span.
- ◆ In the third quarter, 150 units in the first phase of the Farms at New Albany Park in New Albany were delivered. A pair of 204-unit projects – Mercer Square and Alexander Square – also were put into service.
- ◆ An additional 768 units are being built in the market, including about 200 units that are tentatively slated to come online in the fourth quarter. Other projects under way are scheduled to be completed next year.
- ◆ **Outlook:** In 2009, 1,000 units will be delivered, although the approximately 200 units due for addition in the fourth quarter may be delayed until 2010 if pre-leasing is subdued. Last year, developers brought online only 204 units.

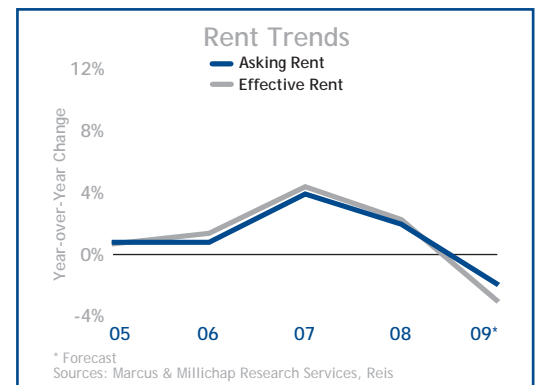
VACANCY

- ◆ New supply and diminished demand raised vacancy an estimated 60 basis points in the third quarter to 8.6 percent. In the past 12 months, the vacancy rate has increased 100 basis points.
- ◆ In the Class A segment of the market, supply growth in the third quarter exceeded a slight drop in demand, leading to a 130 basis point surge in vacancy to 6.9 percent. Since the third quarter of 2008, vacancy has climbed 160 basis points, as more than 700 new units have been placed in service.
- ◆ Preliminary figures suggest that the Class B/C vacancy rate ended the third quarter at 9.4 percent, 20 basis points higher than in the preceding quarter. Year over year, however, vacancy in the lower tiers has inched up 30 basis points on weakened demand stemming from job losses.
- ◆ **Outlook:** New product will come online while demand falters due to the lingering effects of the recession. Accordingly, the vacancy rate is projected to increase 70 basis points in 2009 to 8.9 percent.



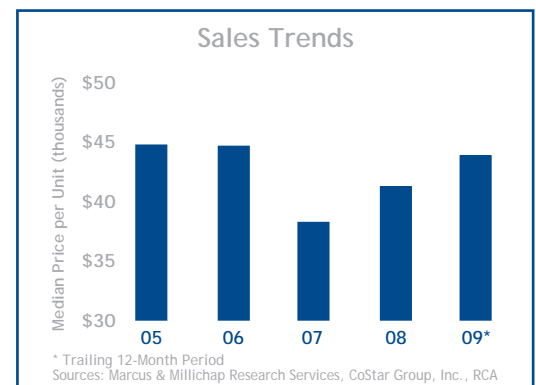
RENTS

- ◆ Asking rents slid 0.4 percent in the third quarter to \$676 per month and were down 0.6 percent over the past year. Effective rents declined 0.9 percent during the quarter to \$627 per month as owners raised concessions. Year over year, effective rents have receded 1.5 percent.
- ◆ The Class B/C sector accounted for the greatest contribution to the drop in asking rents in the third quarter, logging a 1.3 percent decrease to \$601 per month. The delivery of higher-priced new units, meanwhile, helped to push up Class A asking rents 0.5 percent to \$823 per month.
- ◆ The decline in effective rents elevated concessions to 7.2 percent of asking rents in the third quarter, compared with 6.8 percent of asking rents in the preceding three-month period. Concessions were 6.3 percent of asking rents in the third quarter of last year.
- ◆ **Outlook:** Softer demand for rental housing will underpin a 1.9 percent decrease in asking rents this year to \$664 per month. Effective rents are projected to fall 3 percent to \$615 per month.



SALES TRENDS**

- ◆ In the past 12 months, transaction velocity has declined 42 percent, primarily as a result of conservative lending standards. Only a few deals have been executed so far this year.
- ◆ The median price of properties sold in the last 12 months was \$43,800 per unit, a slight increase from the preceding year. A limited number of deals, however, makes comparisons to earlier periods difficult.
- ◆ Cap rates are estimated in the 8 percent range and are still somewhat less than their long-term average despite creeping up over the past year.
- ◆ **Outlook:** Deal flow will continue to remain modest in the near term. More financially distressed assets are likely to emerge, although relatively strong fundamentals are sustaining some operations at some vulnerable properties.



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

Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

Visit www.NationalMultiHousingGroup.com or call:

Linwood C. Thompson

Senior Vice President, Managing Director

National Multi Housing Group

Tel: (678) 808-2700

lthompson@marcusmillichap.com

Marcus & Millichap

Real Estate Investment Services

Prepared and edited by

Art Gering

Senior Market Analyst

Research Services

For information on national
apartment trends, contact

John Chang

National Research Manager

Tel: (602) 687-6700 ext. 6803

john.chang@marcusmillichap.com

Columbus Office:

Michael Glass

Regional Manager

mglass@marcusmillichap.com

21 E. State Street

Suite 2300

Columbus, Ohio 43215

Tel: (614) 360-9800

Fax: (614) 360-9810

Price: \$150

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CAPITAL MARKETS

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

- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 100 basis points to 150 basis points lower. The government's creation of a conservatorship for Fannie Mae and Freddie Mac has most likely boosted confidence in the two GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties, as the conservatorship is due to expire at the end of the year.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

SUBMARKET OVERVIEW

- ◆ The 134-unit Annex project is currently scheduled for delivery in the fourth quarter. The rental property is located at Front and Town streets in the University/Downtown submarket.
- ◆ Only 1,500 units are planned in the market, an amount equal to 1.2 percent of existing stock. Most of the planned projects are in the University/Downtown submarket, though a recent addition to the planning pipeline is the 200-unit second phase of the Liberty Place complex in the Grove City submarket.
- ◆ The drop in vacancy in the Westerville submarket is attributable to the Class A segment, where vacancy has dipped 80 basis points to 5.1 percent in the past year. Concessions for all properties in the submarket have risen slightly to 8.5 percent of asking rents.

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%	10	\$711	-2.1%
3	Westerville	5.2%	-50	\$768	3.2%
4	Hilliard	5.3%	40	\$667	-1.0%
5	Upper Arlington/North Columbus	5.4%	-90	\$686	-1.0%
6	Bexley	5.9%	-190	\$610	-0.3%
7	Sharon/Worthington	5.9%	40	\$619	-1.3%
8	Groveport/Canal Winchester	7.2%	30	\$589	0.9%
9	Northeast/Minerva Park	10.0%	260	\$567	-1.0%
10	Grove City	18.9%	220	\$586	-0.7%