

**COLUMBUS, OHIO OFFICE MARKET 3RD QUARTER 2018**

**Economic Overview**

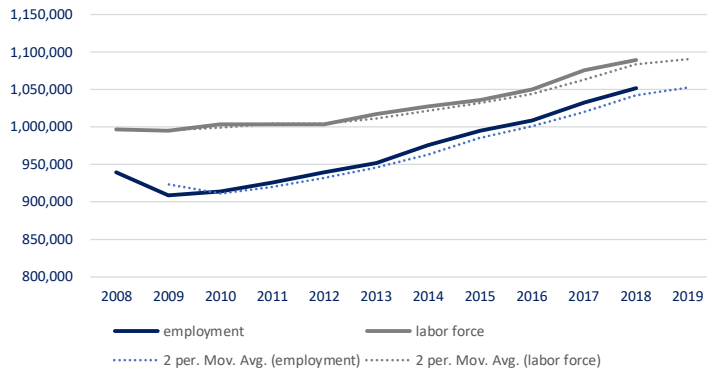
Columbus is now the second largest city in the Midwest next only to Chicago. The Columbus MSA has a current population of 2,075,642 and has the fastest growing population, in terms of percentage growth, of any major Midwest metro area with at least 1 million in population. The MSA is projected to continue to add another ±17,000 residents a year over the next five years.

| Demographic Category         | Current Level |            | 2010      |            | % Change |       |
|------------------------------|---------------|------------|-----------|------------|----------|-------|
|                              | MSA           | State      | MSA       | State      | MSA      | State |
| Population                   | 2,075,642     | 11,965,711 | 1,901,974 | 11,874,389 | 9.1%     | 0.8%  |
| Households                   | 818,160       | 4,826,641  | 748,517   | 4,744,117  | 9.3%     | 1.7%  |
| Labor Force                  | 1,090,390     | 5,813,989  | 1,004,296 | 5,846,886  | 8.6%     | -0.6% |
| Unemployment                 | 3.5%          | 4.2%       | 9.0%      | 10.3%      | -5.5%    | -6.1% |
| Median Household Income      | \$62,129      | \$54,880   | n/a       | n/a        | n/a      | n/a   |
| % with Bach Degree or Higher | 20.9%         | 17.2%      | n/a       | n/a        | n/a      | n/a   |

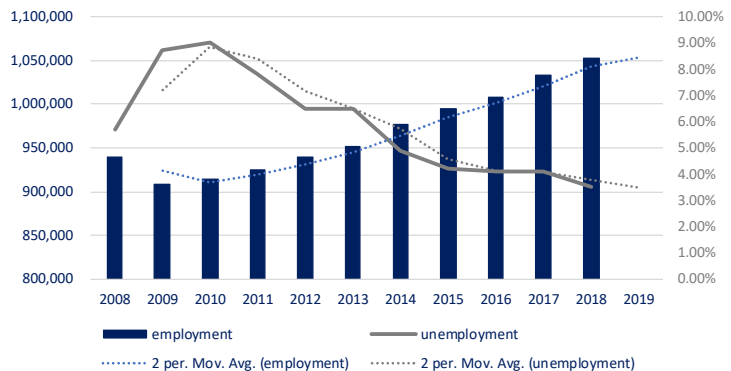
Columbus has one of the top performing economies in the Midwest. It benefits from the city’s designation as the state capital and from being home to The Ohio State University, one of the largest universities in the nation. The presence of The Ohio State University as well as 11 other institutions of higher learning has created a highly skilled and well-educated work force which is key component behind employers choosing Columbus. Of the population aged 25 years or older, 33% have a bachelor’s degree or higher in Columbus compared with 25% in Ohio as a whole. Graduates in the area continue to choose to remain in Columbus at a high rate thanks to a strong local job market.

The economy is noted for being well diversified as no single major industry sector represents more than 18% of employment. There is a solid base of demand from employers in government as well as prominent business sectors including insurance, food service, fashion and financial services. Columbus’ is home to 25 Fortune 500 companies including Cardinal Health, Nationwide Insurance, AEP, L Brands and Big Lots. J.P. Morgan Chase also has a large presence in the city. Over 11,000 employees

Columbus Metro Labor Force



Columbus Metro Annual Employment



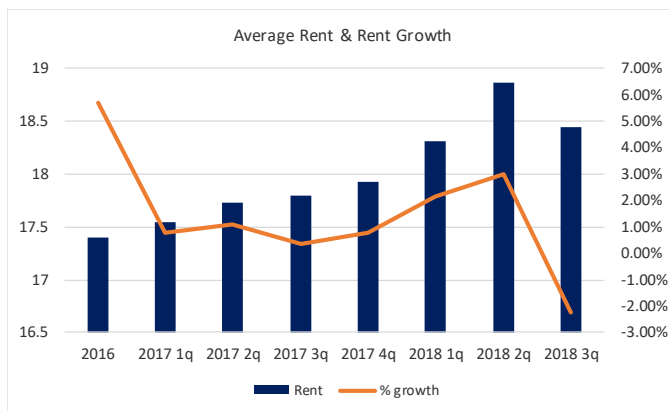
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work at the McCoy Center in Columbus, the second largest concentration of their employees behind only their corporate headquarters in New York City. In 2017 Forbes rated Columbus among the best cities for young professionals, citing relatively high salaries, comparatively. The city added roughly 20,000 jobs in 2017 which outpaced population gains and saw the unemployment rate continue to drop. The current unemployment rate in the MSA is 3.5%, the lowest of all the major metro areas in Ohio, and well below the state unemployment rate of 4.2%. Accounting for seasonal adjustments, the Columbus unemployment rate is near its lowest point since 2008.

**Market Overview**

Demand for office space in Columbus continues to be strong. The city has a pro-business tax structure and highly educated workforce, along with lower costs of business than both Cincinnati and Cleveland. Its central location makes it easily accessible by major rails and highways, and rents are relatively cheap when compared to other major Midwestern metros. This has brought new ideas and new companies into the metro, and according to the Kauffman Index of Entrepreneurship, Columbus has more businesses that grew to 50 or more employees in their first 10 years than any other metro in the country. Columbus also found itself on the list of 20 finalists for Amazon’s new headquarters which promises to add 50,000 jobs to whichever market it selects. While recent announcements indicate Columbus will not land the new headquarters the fact it made the final 20 is indicative of a very positive perception of the Columbus market from a national outlook.

**Rent and rent growth**

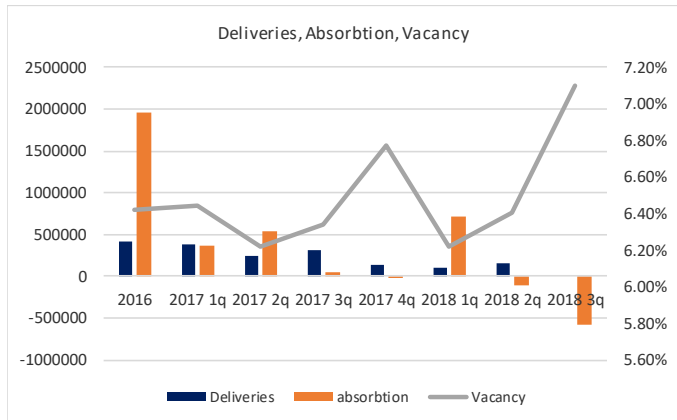


- Rent growth was negative in the last quarter. This is the first time this has happened in over 8 quarters. The negative rent growth corresponded with a slight uptick in vacancy. Both the short-term downward pressure on rents and the uptick in vacancy are an outlier and are the result of a few large tenants moving into new buildings this quarter. Most notably Nationwide Insurance vacated 157,550 sf while Central Ohio Primary Care left 246,444 sf.
- Despite the negative 3<sup>rd</sup> quarter, rent growth on the year remains positive at a healthy 2.89% and will finish the year in positive territory. We expect rent growth will continue to be positive in 2019 but will be below the highs seen in late 2017 early 2018.

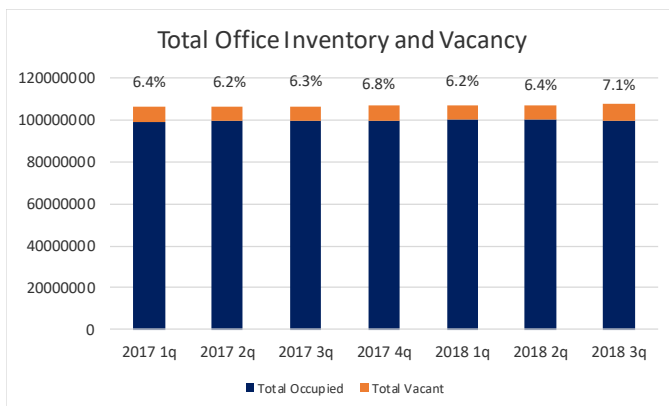
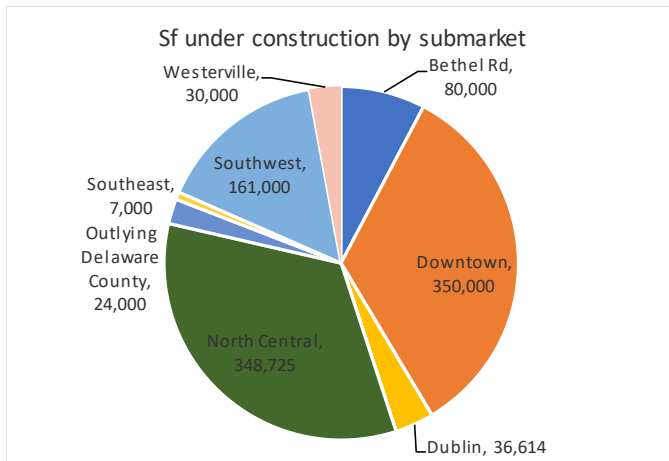
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**Deliveries, Absorption & Occupancy**

- Net absorption was ±10,000 square feet over the last 4 quarters. There has been ±712,000 sf of space delivered into the market over the last 4 quarters.
- The Columbus office market saw the vacancy rate go from 6.4% in the previous quarter up to 7.1%. The increase was the result of a few large tenants vacating current spaces in favor of new ones.
- We expect vacancy to stabilize around the 7.0% number over the next few quarters as the recent increase in the rate of deliveries has caused supply to begin to catch up to demand.



**Inventory and Construction**

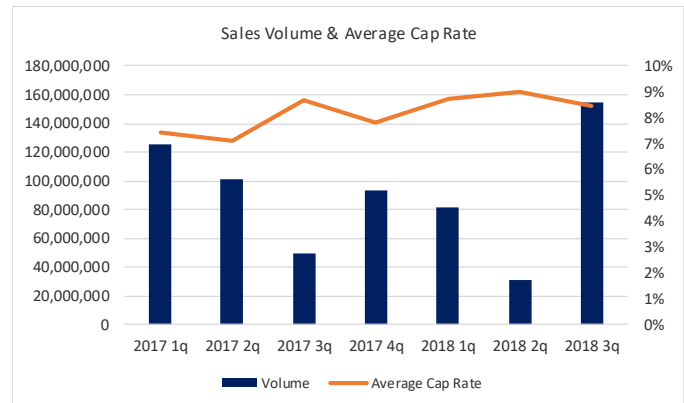
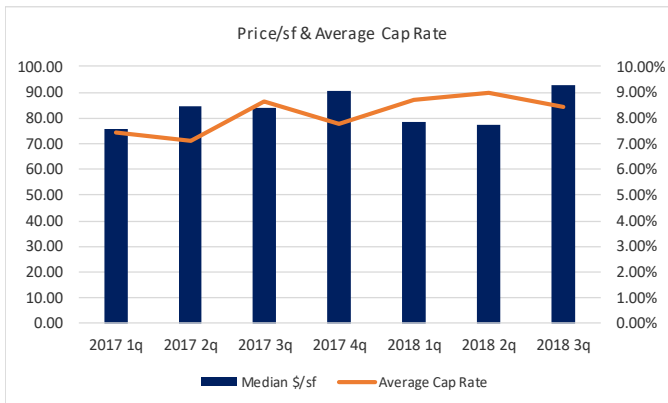


- The chart to the left identifies the amount of space under construction in each submarket. Only submarkets with space currently under construction are shown.
- The largest submarkets for current construction are Downtown and North Central. All of the square footage under construction in the downtown area is part of the 350,000 sf Kaufman project going up at 80 E Rich Street. The project is reportedly ¾ of the way leased. Root Insurance, a Columbus based car insurance start-up recently signed a lease for 64,000 sf of space in the building. The North Central submarket includes the Short North area and such projects as 711 North High Street which will add 133,425 sf of Class A office space and is already 88% pre-leased.
- Total office inventory in the Columbus market area amounted to 107,350,146 square feet in 5,045 buildings.
- There is currently about 1,037,339 sf of space under construction which represents ±0.97% of current inventory. This space is a healthy 66.6% pre-leased.

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**Sales Volume, Price and Cap Rates**

- Sales volume in the third quarter of 2018 was nearly \$155 million. The median sale price was for \$93/SF, with a ±8.4% cap rate. Rates have been fairly stable over the last 8 quarters however this quarters decrease in average cap rate of 0.6% is the first decrease since the 4<sup>th</sup> quarter of 2017.
- Volume totals in Columbus are higher than in the nearby cities of Cincinnati and Cleveland which is likely the result of the strength of Columbus’s economy in comparison to the other Ohio markets.



**Financing**

- MSF has a history of success financing commercial assets. This year we have closed construction loans, mezzanine and secured permanent debt. We partner with a diversified group of strong financial institutions which cover the spectrum of debt options. Recent deals of note closed this year include:
  - Waters Edge I, II, III and IV. \$32,500,000 financed. Financing for this ±174,000 sf office building was secured via one of our many life insurance company partners. Loan terms were based on 65% of stabilized value at 4.45% rate, 10-year term, 25-year am.
  - One Mill Run. Financing for this ±174,000 sf office building was secured at 70% of stabilized value (\$17,000,000). An interest rate at 248 bps over the 7-year UST at closing was secured with 25-year am.
  - Bridge Park A Block was financed by one of our many commercial banking relationships. A total of \$15,000,000 in financing was secured for this ±75,000 sf Class A, office building in the thriving Bridge Park development. Loan terms were based on 85% of construction costs, interest rate at LIBOR + 2.75%, 10-year term with 25 year am with 2 years of interest only payments.

**About MSF Real Estate Capital**  
*Our goals are to identify and execute the debt and equity solutions you need to capitalize on opportunities. As owners and investors in commercial real estate we understand the interest of borrowers and lenders. For over 30 years our full-service mortgage banking firm has worked with the very best commercial real estate developers and owners and has closed virtually every committed loan we have arranged for clients.*

The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. The information was compiled by MSF Real Estate Capital on December 1, 2018. Primary Data Source: CoStar