Yardi® Matrix

Columbus Shakes Off Its Rust

Multifamily Report Winter 2018

Rent Growth Poised for Upshift

Property Values Continue to Climb

Construction Surge Lingers, Targets Core

Market Analysis

Winter 2018

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Alex Girda
Senior Editor

Strengthening Economy Pushes Growth

The multifamily market in Columbus is finally hitting its stride, as rent growth is coming into its own, while the rate of inventory expansion is poised to remain elevated. Some 3,800 units are projected to come online this year and demand is also on a rising tide, as the strong economic backdrop continues to push population growth, although the influx of new income has kept renting relatively affordable.

Economic diversification and growth have helped Columbus to leapfrog Cleveland and become the second-largest economy in Ohio, now trailing only Cincinnati. Improvement was highest in construction, partly due to a 1.5 million-square-foot office pipeline. Development is likely to begin soon at the Scioto Peninsula project, Buckingham Cos.' 21-acre master-planned community near downtown Columbus. Plans there call for 1,700 units, 800,000 square feet of office, 150,000 square feet of retail space and a 150-key hotel to be added in the market's core.

Roughly 4,300 rental units were underway as of January, while another 19,000 were on the drawing board. Continued inventory expansion has diluted available stock, leading to a slide in occupancy. However, developers' focus on the upscale segment has led to accelerated rent growth in Renter-by-Necessity assets. Yardi Matrix expects rents to rise 4.3% in 2018.

Recent Columbus Transactions

Worthington Meadows

City: Worthington, Ohio
Buyer: PIRHL
Purchase Price: $58 MM
Price per Unit: $109,858

Remington Station

City: Westerville, Ohio
Buyer: Cortland Partners
Purchase Price: $49 MM
Price per Unit: $141,814

The LC Greene

City: Canal Winchester, Ohio
Buyer: Dietz Property Group
Purchase Price: $46 MM
Price per Unit: $107,944

The District

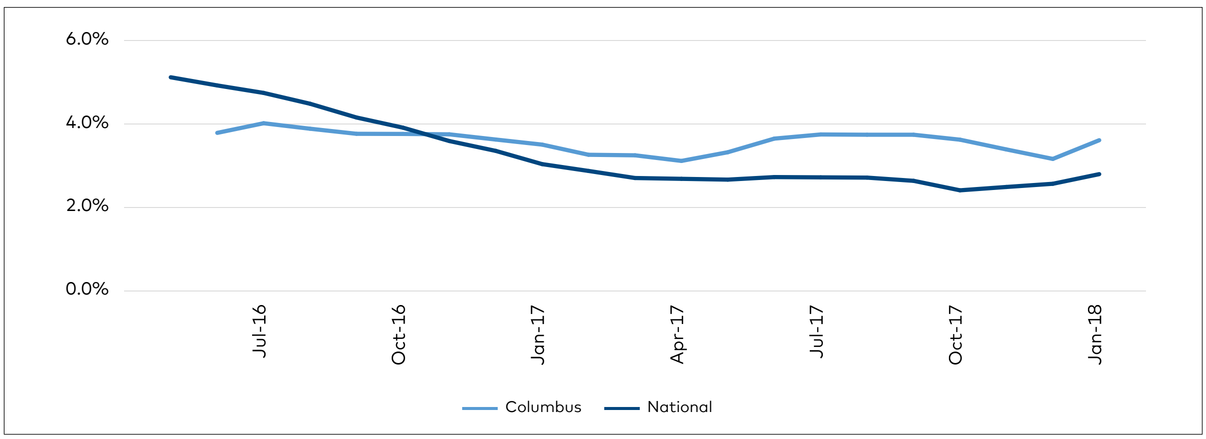
City: Columbus, Ohio
Buyer: Coy Capital Management
Purchase Price: $35 MM
Price per Unit: $152,631

On the cover: Photo by Denis Tangney Jr/iStockphoto.com

Rent Trends

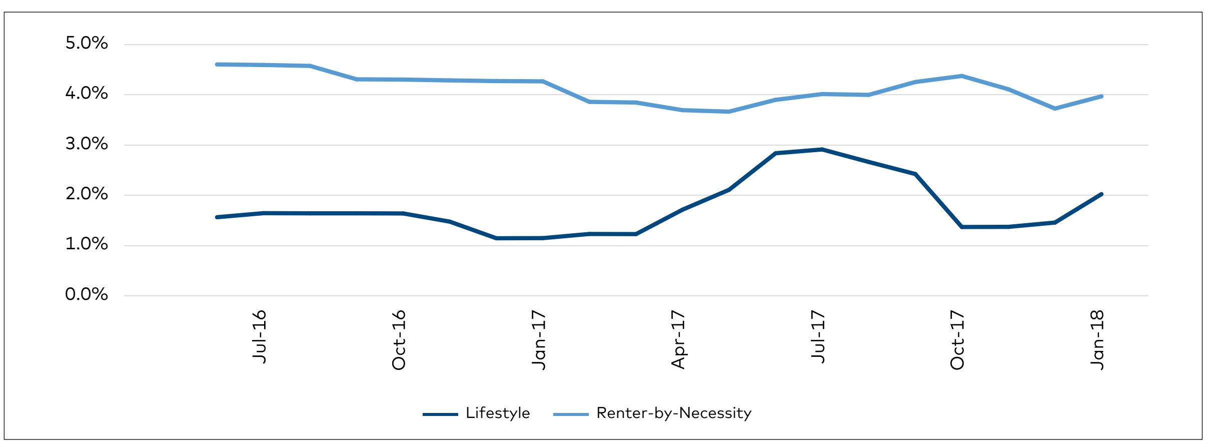
- Columbus rents rose 3.6% year-over-year in January, bettering the national rate of growth by 80 basis points. The average rent was $919, about $400 below the national rate. The metro is adding new supply at a good pace, mediating rent growth in the market and maintaining stable affordability levels for rental households.
- Rents in the working-class Renter-by-Necessity segment improved 4.0% year-over-year, to an average of $838. That was double the growth rate of Lifestyle assets through that same interval (2.0%, to $1,260). With 90% of 2017 deliveries in the upscale segment, pressure is substantial on blue-collar workers, while a diluted inventory in Lifestyle stock has moderated rent growth.
- New supply has also led to a decline in occupancy rates in stabilized assets, at 96.1% as of December, following a slide of 30 basis points over the prior 12 months. However, with new units coming to the market at a premium, rent growth is poised to register an uptick as Columbus' economy continues to expand. As a result, we expect rents to rise 4.3% by year's end.
- Submarkets from the Southern half of the market rose fastest in 2017, led by Greater Hilltop (9.6%), Far South (6.8%) and Whitehall (6.5%).

Columbus vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Columbus Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Economic Snapshot

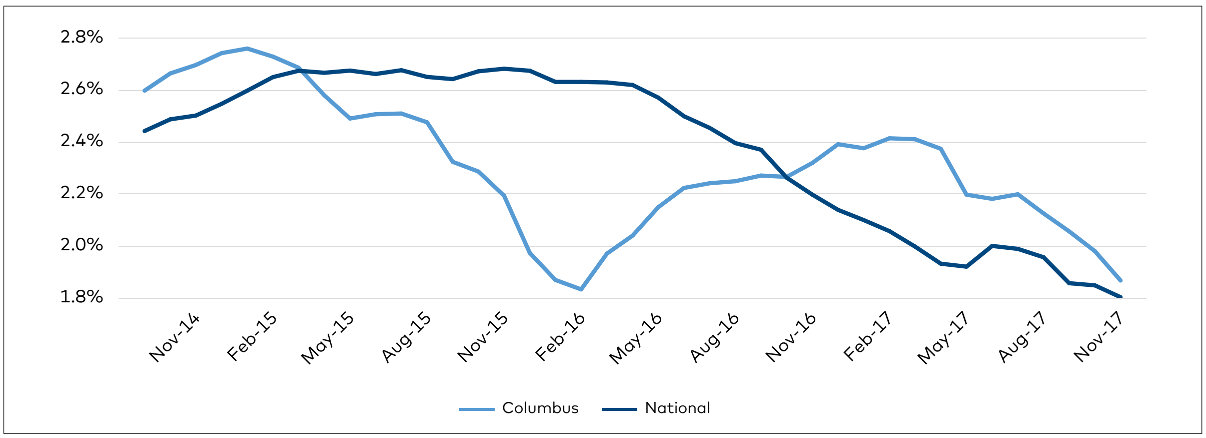
- Columbus added 9,000 jobs in the 12 months ending in November 2017, a 1.9% expansion. With the metro's economy improving, professional and business services added 4,500 jobs, leading the charge in employment growth. GDP growth outpaced the nation in 2016, and last year continued at a good pace, as the local business climate continues to be one of the most attractive in the U.S.

- An uptick in development in both commercial and residential real estate has led to a rapid improvement in the construction sector, where 3,100 jobs were added, up 7.9% year-over-year. With development at the Scioto Peninsula master-planned community set to last for the next 10 to 15 years, construction jobs will continue to be in demand in Columbus.

- The manufacturing sector continued to expand in 2017, adding 2,900 jobs and generating further economic growth. Auto manufacturer Honda's aggressive expansion significantly bolsters one of the metro's main economic drivers.

- Accelerated construction activity has led to an uptick in office vacancy over the past 12 months—around 14% at the end of 2017, according to Cushman & Wakefield data. However, continued improvement in the city's office-using sectors is likely to moderate vacancy going forward.

Columbus vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Columbus Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	189	17.2%	4,500	2.4%
15	Mining, Logging and Construction	42	3.8%	3,100	7.9%
30	Manufacturing	76	6.9%	2,900	4.0%
90	Government	179	16.3%	2,400	1.4%
40	Trade, Transportation and Utilities	209	19.1%	500	0.2%
55	Financial Activities	84	7.7%	300	0.4%
65	Education and Health Services	159	14.5%	-200	-0.1%
50	Information	17	1.5%	-200	-1.2%
80	Other Services	40	3.6%	-700	-1.7%
70	Leisure and Hospitality	103	9.4%	-3,600	-3.4%

Sources: YardiMatrix, Bureau of Labor Statistics

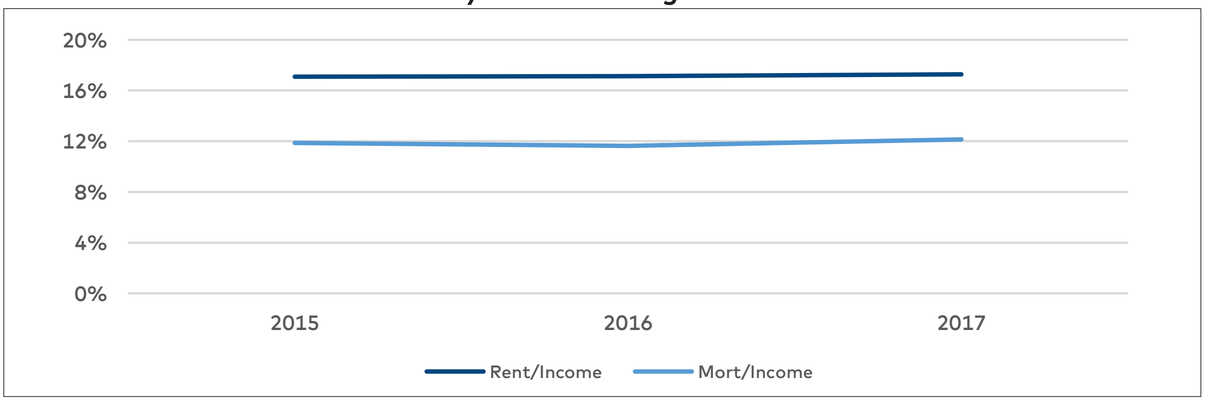
Demographics

Affordability

- The median home price in Columbus reached $165,560 last year, $6,000 over 2016 and $32,000 more than in 2009, the current expansion's low point. Steady growth also defined the city's rental market, with two years of improvement in the 3.4% to 4.0% range. However, Central Ohio has developed well, with its economic improvement being able to moderate the negative effects of property value appreciation.

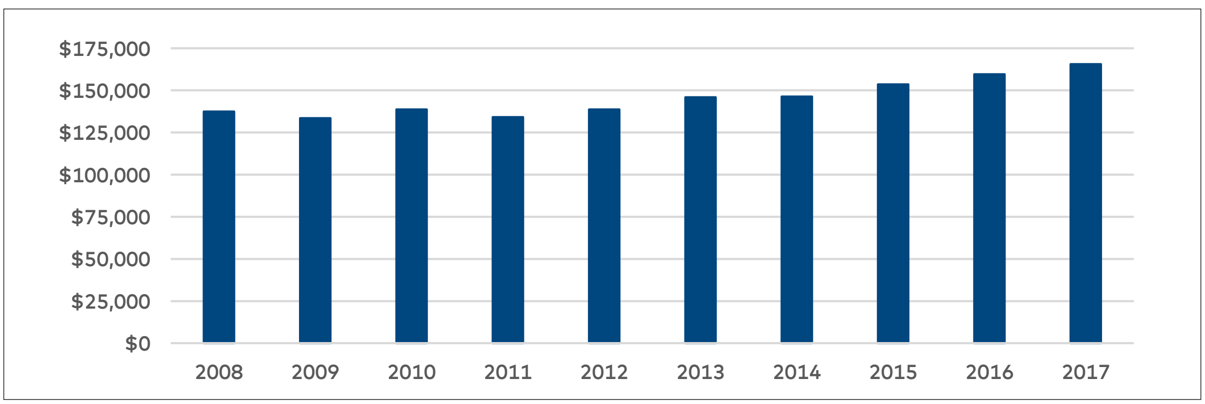
- Mortgages accounted for roughly 12% of the area's median income, despite continued home price growth, while rents have stabilized at 17% for the past three years.

Columbus Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Columbus Median Home Price



Source: Moody's Analytics

Population

- The metro gained 21,300 residents in 2016, marking a 1.1% uptick, 40 basis points above the U.S. average.

- Columbus added 95,000 residents between 2012 and 2016, a 4.9% expansion.

Columbus vs. National Population

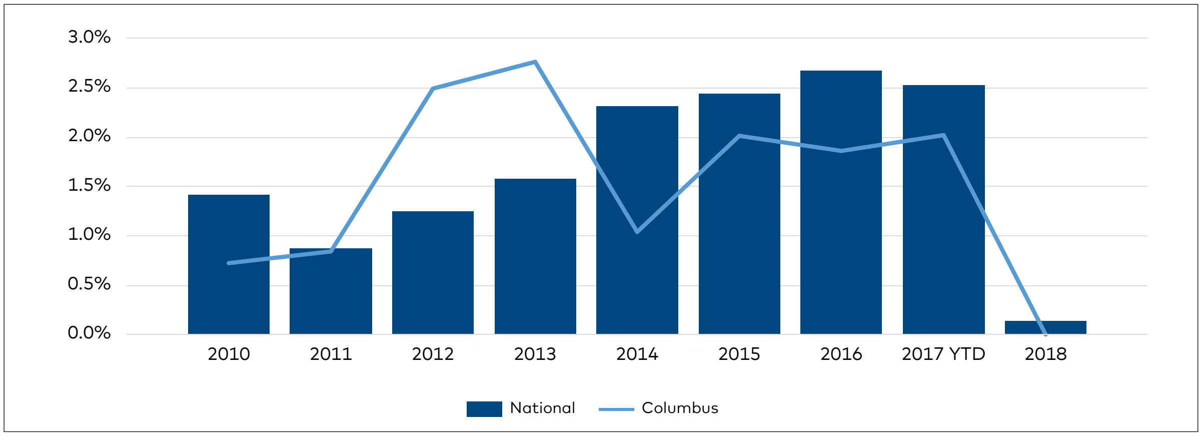
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Columbus Metro	1,946,428	1,970,123	1,996,809	2,020,144	2,041,520

Sources: U.S. Census, Moody's Analytics

Supply

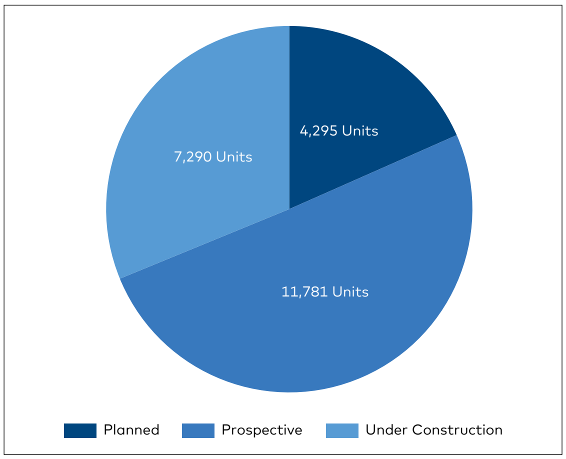
- Developers added 3,245 units in Columbus last year, which accounted for 2.0% of total stock. Some 9.200 apartments have come online since 2015, with another 3,800 units slated for delivery in 2018.
- Roughly 7,300 units were under construction as of January, and another 16,000 units were in the planning and permitting stages. Demand continues to push the need for new housing, as 2018 is expected to be the new cycle peak for inventory expansion on a national level, exacting further pressure on an already sliding occupancy. Stabilized properties in Columbus had an average occupancy rate of 96.1% as of December, 30 basis points below what it was 12 months prior.
- Construction activity is highest in Columbus–Downtown (1,031 units under construction), with development also picking up in Dublin (995 units), University (964 units) and Hillard (914 units).
- The largest community under construction in Columbus was The Greyson at Hickory Chase, a 492-unit property taking shape in Hillard. Developer Village Communities plans to complete the project in the spring of next year, while preleasing is already underway, with occupancy at nearly 25% as of January.

Columbus vs. National Completions as a Percentage of Total Stock (as of January 2018)



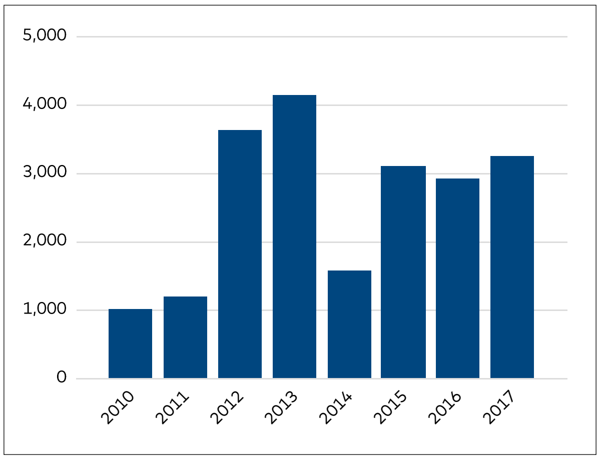
Source: YardiMatrix

Development Pipeline (as of January 2018)



Source: YardiMatrix

Columbus Completions (as of January 2018)

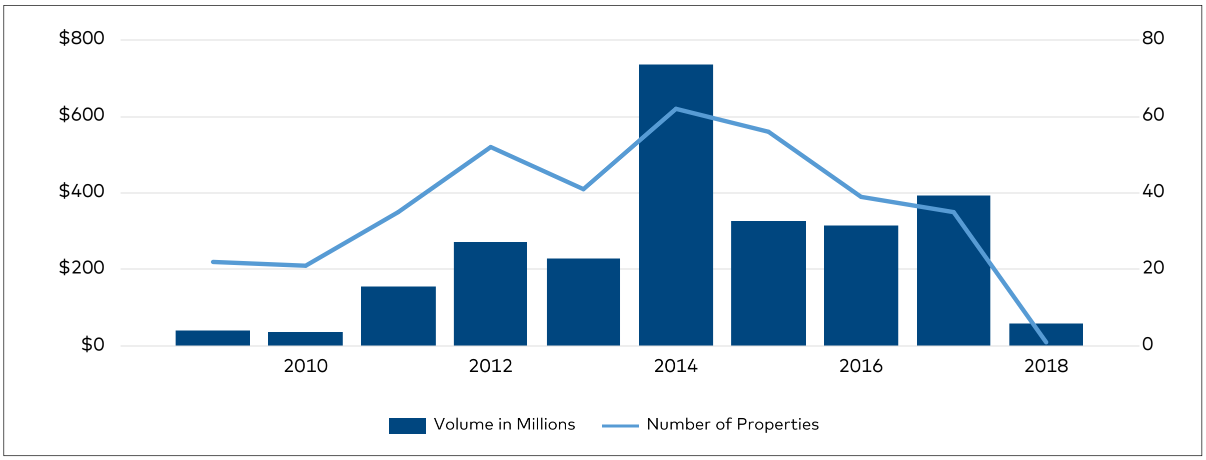


Source: YardiMatrix

Transactions

- Roughly $60 million in multifamily assets changed hands at the beginning of 2018, already 15% of last year's transaction total. While most markets recorded their cycle highs for multifamily investment in 2015 and 2016, Columbus peaked earlier in the current expansion, with $735 million in multifamily properties trading in 2014.
- Per-unit averages have risen consistently over the past four years, hitting $138,296 in 2018, albeit on a very limited sample size.
- Submarkets located north of Interstate 70 racked up the most substantial investment activity last year: Worthington ($58 million), Westerville ($49 million), Northland ($47 million) and Northwest Columbus ($32 million).

Columbus Sales Volume and Number of Properties Sold (as of January 2018)



Source: YardiMatrix

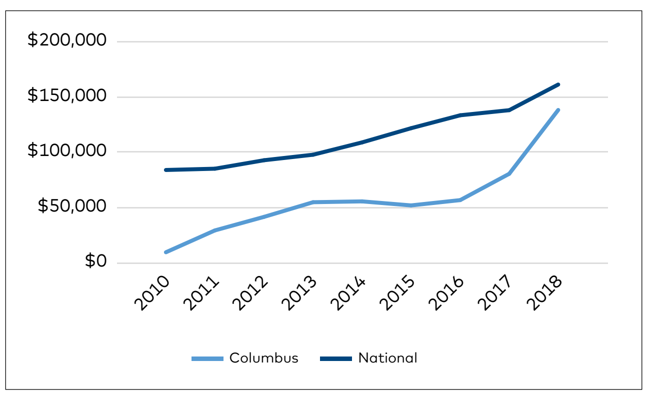
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Worthington	58
Westerville	49
Northland	47
Canal Winchester	46
Grove City	38
Hillard	35
Northwest Columbus	32
Obetz	30

Source: YardiMatrix

[1] From January 2017 to December 2017

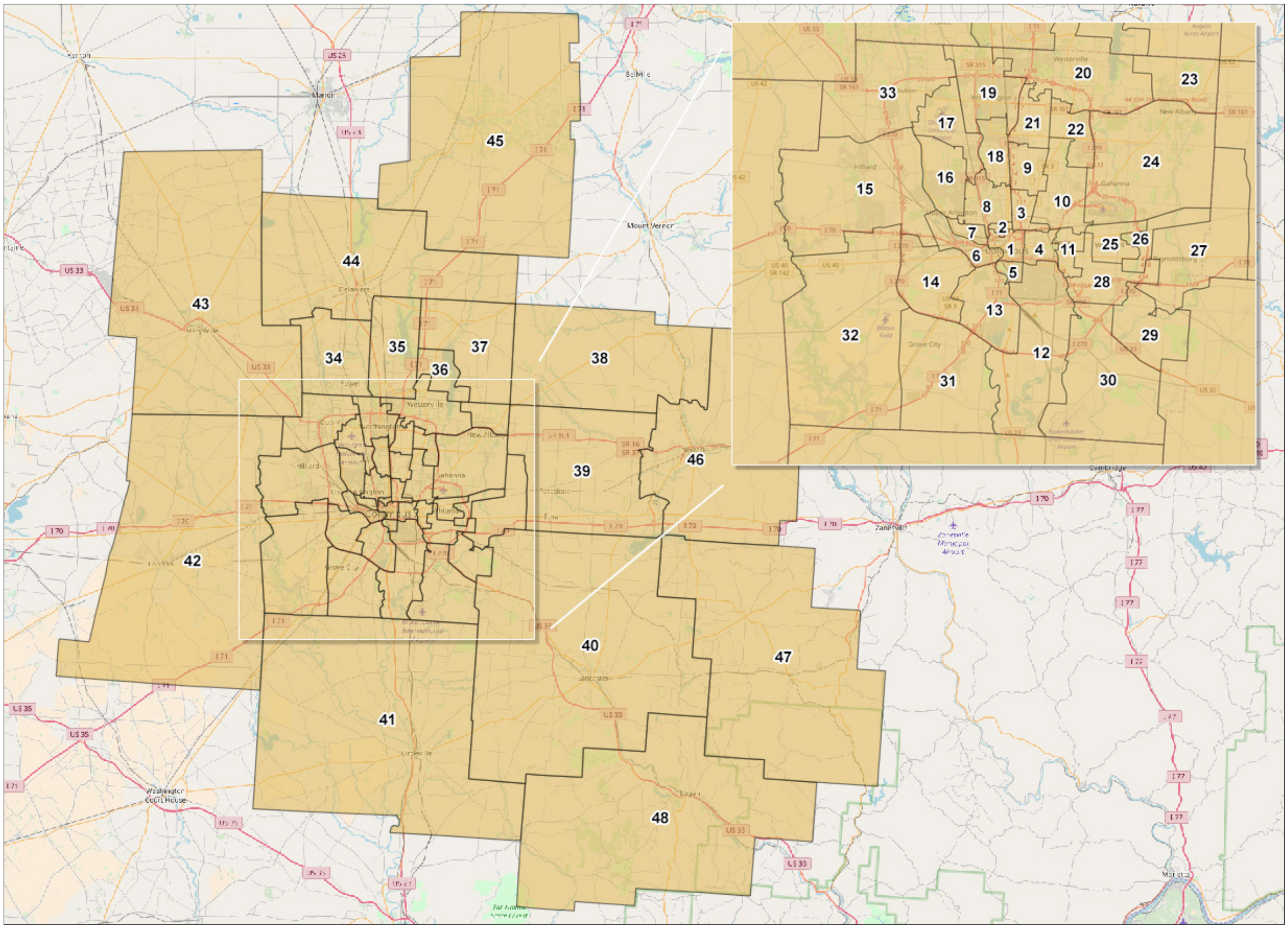
Columbus vs. National Sales Price per Unit



Source: YardiMatrix

Columbus photo by Davel5957/iStockphoto.com

Columbus Submarkets



Area #	Submarket
1	Columbus–Downtown
2	Victorian Village
3	South Linden
4	Near East
5	Columbus–Southside
6	Franklinton
7	Grandview Heights
8	University
9	North Linden
10	Northeast Columbus
11	Bexley
12	Far South
13	Southwest
14	Greater Hilltop
15	Hillard
16	Upper Arlington

Area #	Submarket
17	Northwest Columbus
18	Clintonville
19	Worthington
20	Westerville
21	Northland
22	Minerva Park
23	New Albany
24	Gahanna
25	Whitehall
26	Blacklick
27	Reynoldsburg
28	Obetz
29	Canal Winchester
30	Groveport
31	Grove City
32	Westland

Area #	Submarket
33	Dublin
34	Powell
35	Lewis Center
36	Galena
37	Sunbury
38	Johnstown
39	Pataskala
40	Fairfield
41	Pickaway
42	Madison
43	Union
44	Delaware
45	Morrow
46	Newark
47	Perry
48	Hocking

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.