Yardi® Matrix

A Bright Midwestern Spot

Multifamily Report Fall 2019

Transaction Volume Remains Elevated

Rent Growth Drops Behind US Average

Education, Health Services Drive Job Gains

Market Analysis

Fall 2019

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Downtown Leads Development Pipeline

Multifamily rents in Columbus have moderated in recent quarters, after several years of above-trend growth and solid absorption. Rents were up 2.7% year-over-year through September, 50 basis points below the national average and down from a 3%-4% growth range during 2016-18. The deceleration was caused by weakening job growth while the metro digested a large amount of new supply. However, with Columbus' population increasing twice as fast as the national average, demand should remain healthy and spur further growth in the near future.

Despite a slowdown, job growth remains healthy. Franklin County added 10,900 jobs in the 12 months ending in July, led by education and health services. Ohio State University's $1 billion investment in a new hospital and ambulatory center is among the largest in the state. Although many of the projects under construction are in the city's urban core, Columbus' Rickenbacker International Airport is also on track for $15 million in runway repairs.

With 1,784 units delivered through the first three quarters and another 8,600 units underway, multifamily completions will most likely have another strong year. With occupancy in line with national levels—at 95.1% as of August—we expect rents to continue growing, albeit at a slower pace.

Recent Columbus Transactions

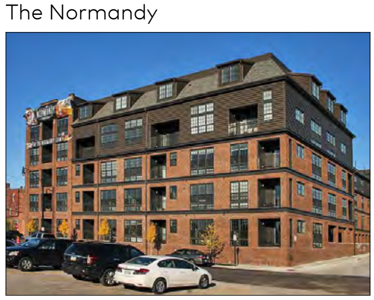
The Pointe

City: Hilliard, Ohio
Buyer: Pacific Equities Group
Purchase Price: $31 MM
Price per Unit: $143,547

Hibernia

City: Columbus, Ohio
Buyer: Birge & Held Asset Management
Purchase Price: $31 MM
Price per Unit: $89,080

The Normandy



City: Columbus, Ohio
Buyer: Coastal Ridge Real Estate
Purchase Price: $16 MM
Price per Unit: $126,759

Ashley Village

City: Columbus, Ohio
Buyer: AndMark
Purchase Price: $14 MM
Price per Unit: $65,708

Rent Trends

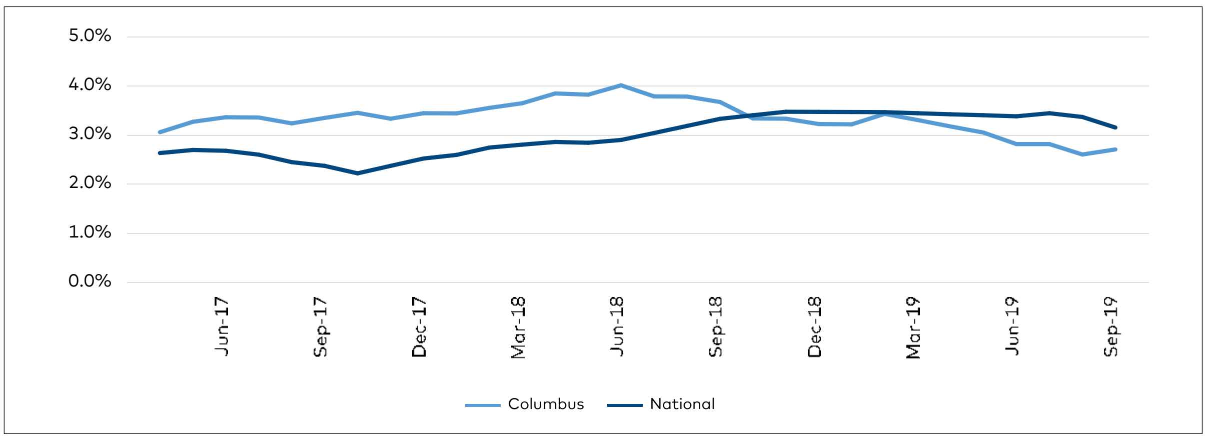
- Rents in Columbus were up 2.7% year-over-year through September, 50 basis points below the U.S. rate. After peaking at 4.0% in June 2018, rent growth has slowly decelerated, partly due to heavy development, as an average of 3,400 units were added annually between 2015 and 2018. The average Columbus rent reached $985 in September, significantly below the $1,471 national figure, but largely in line with other major cities in the Buckeye State, including Cincinnati ($991) and Cleveland ($938).

- Columbus' population continues to expand rapidly, twice as fast as the U.S. rate. This, along with Central Ohio's diversifying economy, is expected to keep demand healthy and rent growth steady.

- Despite its downward trajectory, the working-class Renter-by-Necessity segment led rent growth at 2.5%, reaching $891. Lifestyle rates increased by 2.1%, to $1,332. Demand across asset classes is fueled by the relatively low cost of living and above-trend demographic expansion.

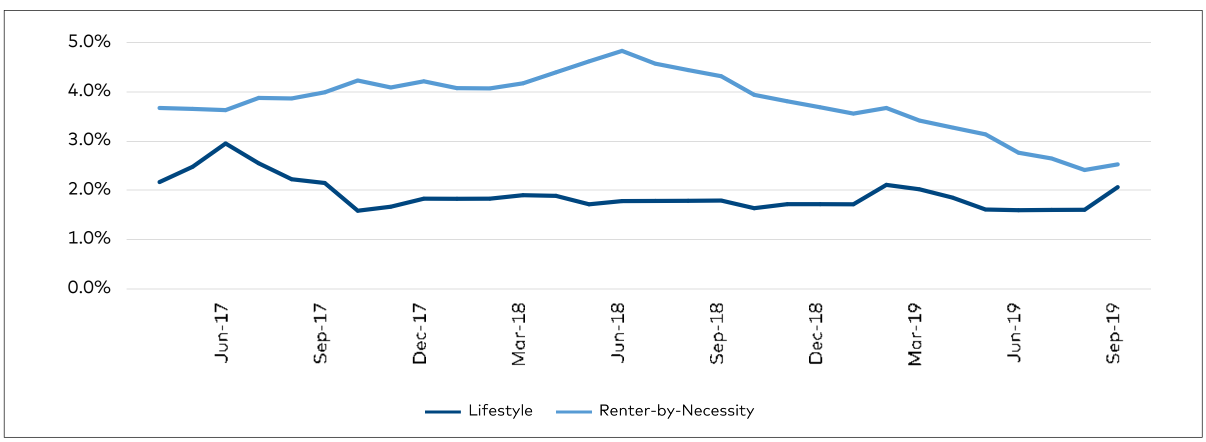
- Submarkets outside and near the Interstate 270 loop recorded the highest rent gains: Powell (8.9%), Madison (7.0%), Groveport (6.8%) and Pataskala (6.5%). However, urban core submarkets remained the most expensive, with Victorian Village ($1,724) leading the way, followed by Columbus–Southside ($1,372), Grandview Heights ($1,365) and Columbus–Downtown ($1,350).

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

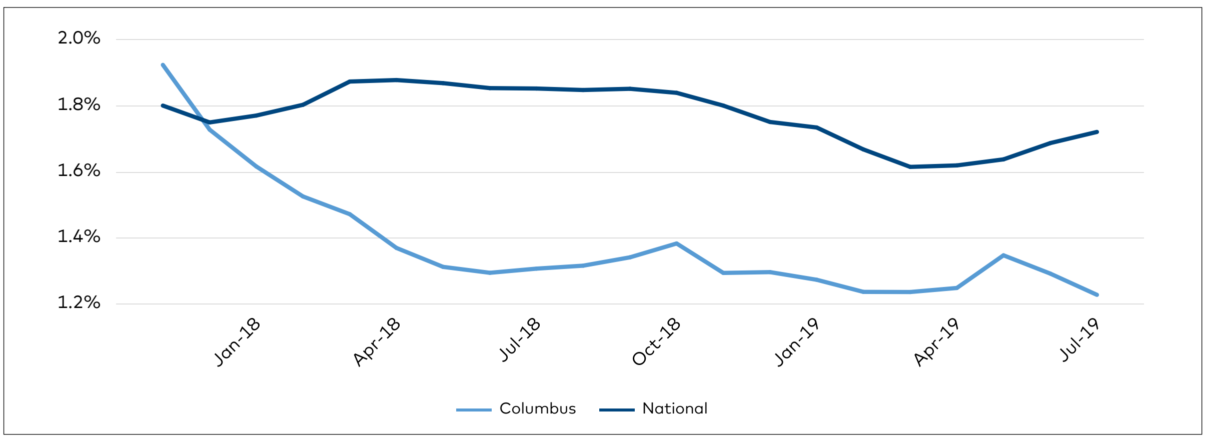
Economic Snapshot

- Franklin County gained 10,900 jobs in the 12 months ending in July, up 1.2% year-over-year, with growth led by education and health services (6,900 jobs). The sector will likely attract more talent, with anchor employers such as Ohio State University, whose medical teaching school is among the largest in the country. The university is investing more than $1 billion to build an 840-bed medical center tower and ambulatory center. The property, Wexner Medical Center, is expected to be completed in 2025.

- Mining, logging and construction gained 2,800 jobs, for a 6.3% expansion, as work is underway on several large projects. One example is a $300 million, 20,000-seat soccer stadium built for the Columbus Crew. Moreover, Facebook is preparing extensions at its upcoming $750 million data center. Through an affiliate, the company purchased another 414 acres near its New Albany site. Meanwhile, work at the 429,000-square-foot Franklin County Jail has also kicked off. The $175 million building is part of a two-phase process, with a groundbreaking for the $160 million second phase anticipated to take place early next year.

- Financial activities and trade, and transportation and utilities lost a combined 4,500 positions. Insurance company Nationwide cut nearly 4% of its workforce across the country, with 350 affected workers living in Columbus.

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	%
65	Education and Health Services	170	15.3%	6,900	4.2%
15	Mining, Logging and Construction	47	4.2%	2,800	6.3%
90	Government	172	15.5%	1,700	1.0%
60	Professional and Business Services	185	16.6%	1,600	0.9%
30	Manufacturing	76	6.8%	1,600	2.2%
70	Leisure and Hospitality	114	10.2%	1,200	1.1%
50	Information	17	1.5%	-100	-0.6%
80	Other Services	42	3.8%	-300	-0.7%
55	Financial Activities	86	7.7%	-1,100	-1.3%
40	Trade, Transportation and Utilities	205	18.4%	-3,400	-1.6%

Sources: YardiMatrix, Bureau of Labor Statistics

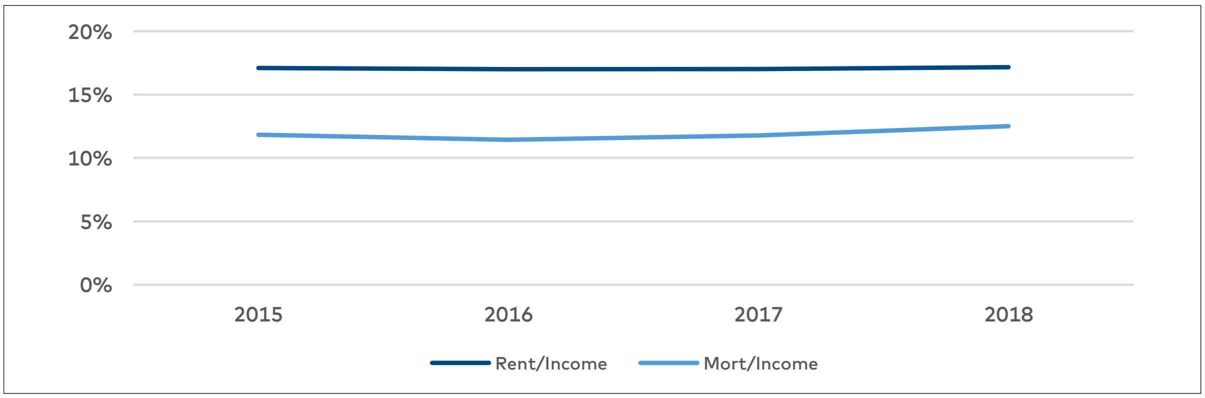
Demographics

Affordability

- The Columbus median home price increased 4.7% in 2018, to a new cycle high of $171,125. However, the metro remained significantly more affordable than other Midwestern cities such as Chicago ($235,080) and the Twin Cities ($242,578). The affordability advantage, coupled with Columbus' smart city ambitions and emerging tech hub status, is rapidly turning the area into a viable alternative to overly priced coastal metros, particularly for highly skilled professionals looking to relocate.

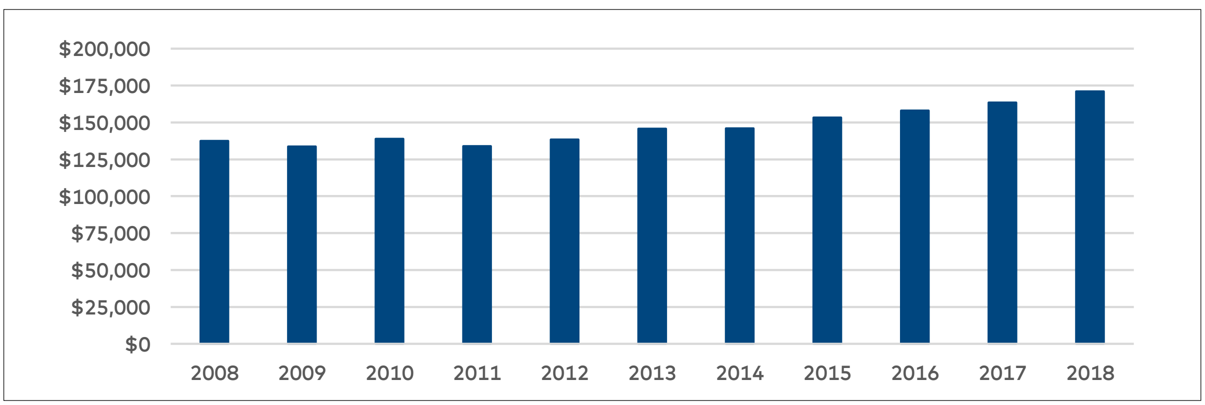
- Despite the steady rise in home values, the average mortgage payment equated to only 13% of the area median income last year, while the average rent accounted for 17%.

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 added 24,066 residents last year for a 1.2% uptick, double the U.S. rate.
- According to a Building Industry Association study, Columbus is set to gain an estimated 1 million residents by 2050.

Columbus vs. National Population

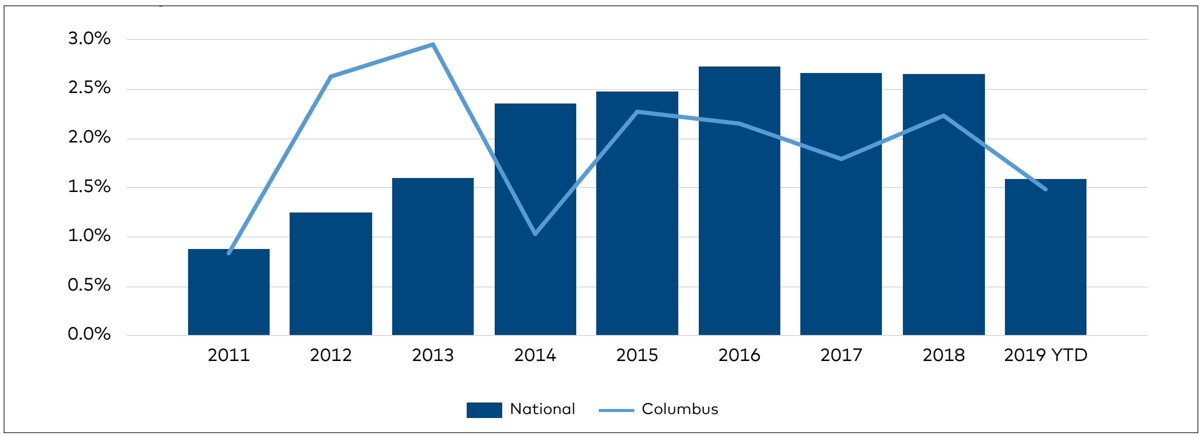
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Columbus Metro	2,001,776	2,027,559	2,051,957	2,082,475	2,106,541

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

Supply

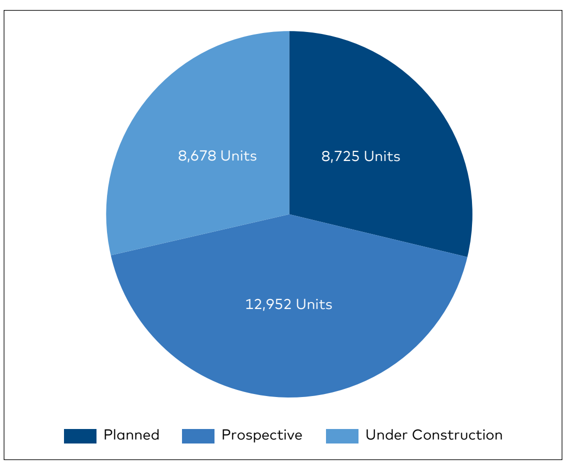
- Columbus developers had 8,678 units underway as of September, 90% of which are geared toward high-income renters. As a result, Renter-by-Necessity stock is likely to continue driving rent growth. The metro's average occupancy rate in stabilized properties was 95.1% as of August, down a consistent 70 basis points over 12 months, but on par with the national rate.
- A total of 1,784 units came online in 2019 through September, on the heels of last year's supply of 3,717 units. Several projects are expected to be delivered near the end of 2019, which could push this year's completions above 3,000 units, roughly in line with the metro's 3,041-unit five-year average.
- Downtown Columbus had the largest pipeline as of September (2,247 units underway), followed by the northwestern submarket Dublin (1,516 units). The city's urban core has been a focal point for developers: Of the 134 properties completed between 2014 and 2019, 20 are in the downtown Columbus submarket, which is also home to the largest development underway within city limits. Lifestyle Communities is adding phases II-IV to LC RiverSouth. The two-building project, near the Scioto River, will include 370 units.

Columbus vs. National Completions as a Percentage of Total Stock (as of September 2019)



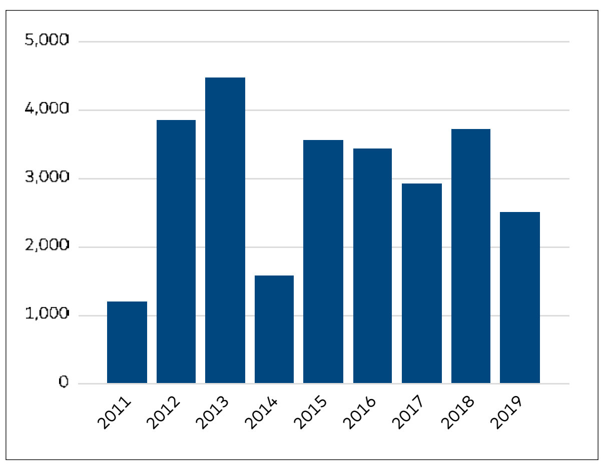
Source: YardiMatrix

Development Pipeline (as of September 2019)



Source: YardiMatrix

Columbus Completions (as of September 2019)



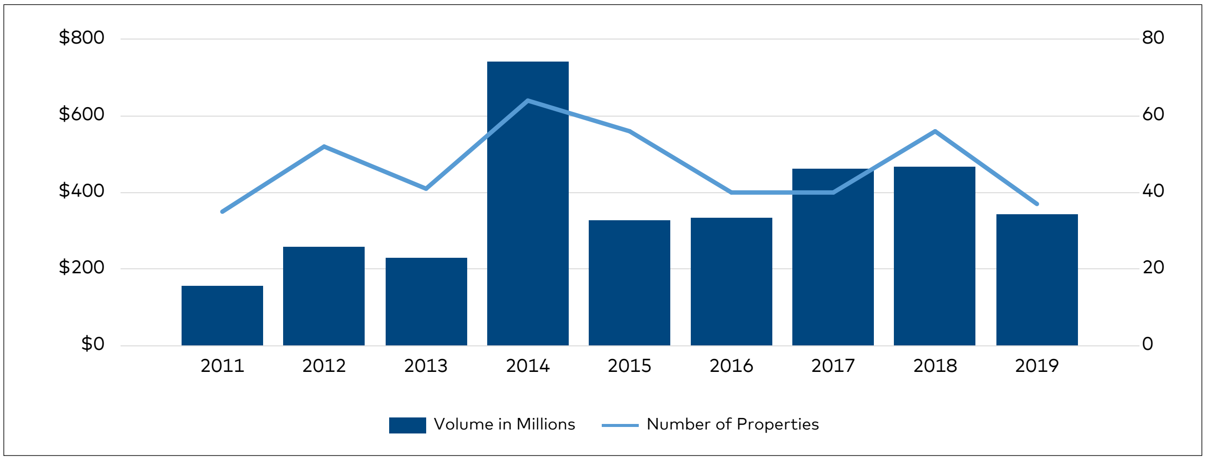
Source: YardiMatrix

Transactions

- Transaction activity totaled $344 million in the first three quarters of 2019. This followed a solid 2018, when volume topped $450 million, but was still well behind the $742 million cycle peak of 2014. Since almost 80% of the assets that traded in 2019 were in the Renter-by-Necessity segment, the average price per unit was $72,883, less than half the $158,670 U.S. figure.

- Investor appetite has continued to grow steadily since 2015, partly due to the metro's large stock of workforce housing with upside potential, which is starting to attract more institutional investors. Acquisition yields climbed above 8.0% for suburban Class C properties. In the 12 months ending in September, capital was mainly distributed across submarkets on the western side of the metro's urban core, with Northwest Columbus (46 million) leading the way, and Birge & Held Asset Management among the most active investors.

Columbus Sales Volume and Number of Properties Sold (as of September 2019)



Source: YardiMatrix

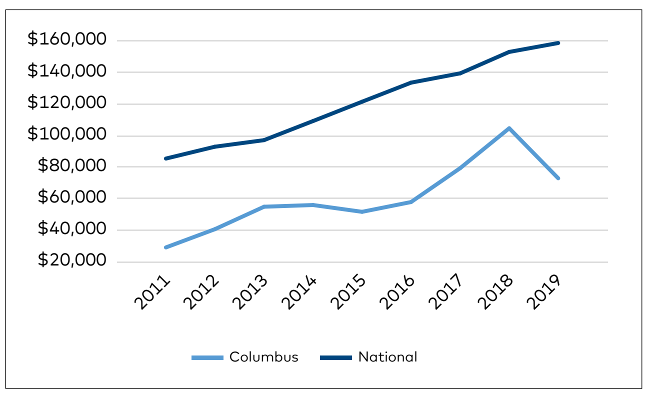
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Northwest Columbus	46
Westland	44
Hilliard	42
Obetz	40
Canal Winchester	33
Dublin	31
Blacklick	31
Groveport	30

Source: YardiMatrix

[1] From October 2018 to September 2019

Columbus vs. National Sales Price per Unit



Source: YardiMatrix

Executive Insight

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Multifamily Development Trends: Becoming Part of the Community

By Roxana Baiceanu

With Columbus' population growing at twice the national average rate, all eyes are on the metro's multifamily market. The largest project underway is Phases II–IV of LC RiverSouth, a two-building development near the Scioto River. The development belongs to Lifestyle Communities, one of the top property owners in Columbus. When fully completed early next year, the property will include 370 units.

Senior Vice President Rob Zelina discussed the project's impact on the metro's multifamily market in the interview below.

Have trade tensions been an issue in completing ongoing construction projects?

In most cases, no, this is not an issue for our company. We have been doing business with several subcontractors since we launched the business in 1996, and because we continually have projects in the pipeline, we can offer longevity and long-term security for our construction team members.

What is attracting investors to Columbus right now?

Yield, simply put. The Midwest has been largely overlooked by national players, as the focus was on gateway cities and the South. Columbus is one of the fastest-growing cities in the Midwest due to its diverse economy, strong university presence, governmental presence and a burgeoning health care market. The city is home to Fortune 500 companies, Fortune 1000 companies and a growing number of startups across all industries. Columbus also boasts one of

the highest populations of college students in the country, with over 50 college and university campuses. This ensures a talented pipeline of workers in a top-ranked location. Together, these factors point to a healthy city and continued economic and population growth.

What are the metro's emerging submarkets for investment?

Columbus has many great emerging submarkets for investment, including the River South district, Franklinton, Old Town East and Italian Village, among others. In 2009, we identified River South as an emerging neighborhood with long-term potential that we could invest in. Today, we have over 600 units in River South.

Tell us about LC's most recent project, and what it represents for the course of the market.

Our RiverSouth investment is over 600 units and totals over $150 million. LC RiverSouth is not just apartments, but truly a mixed-use development that serves a greater purpose for the neighborhood. LC RiverSouth provides a mix of community-inspired food and beverage offerings like The Goat, a lively restaurant and social space dedicated to bringing our residents and the neighborhood together. It also includes CODE, a community-focused, inclusive wellness program. LC RiverSouth is an indicative example of the investments being made in the urban and near-urban core and represents a shift from the strong focus on suburban expansion.

News in the Metro

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AndMark Expands Portfolio

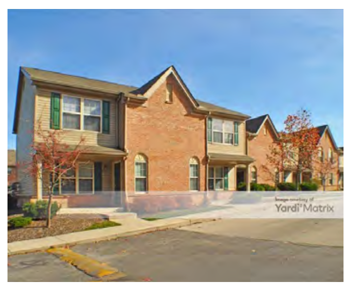
The investment fund currently owns 1,300 units in the market after buying a portfolio of three neighboring apartment communities. NKF secured a $34.8 million Freddie Mac acquisition loan for the buyer.

Keybank Originates $32M in Financing For New Assets

New Life Multifamily Management owns the two communities, which total 747 units, and are located 13 miles from the city's downtown.

Fortress Real Estate Developing New Community

The development is near Scioto Country Club, Ohio State University and downtown Columbus. Gateway Lofts is scheduled to encompass a total of 269 units after its 2020 completion.



POAH Acquires Multifamily Portfolio

The deal included Waggoner Grove, a partially affordable Class B suburban community with 175 units and 50 condominiums. Citibank originated a $6.5 million Freddie Mac acquisition loan for the buyer.

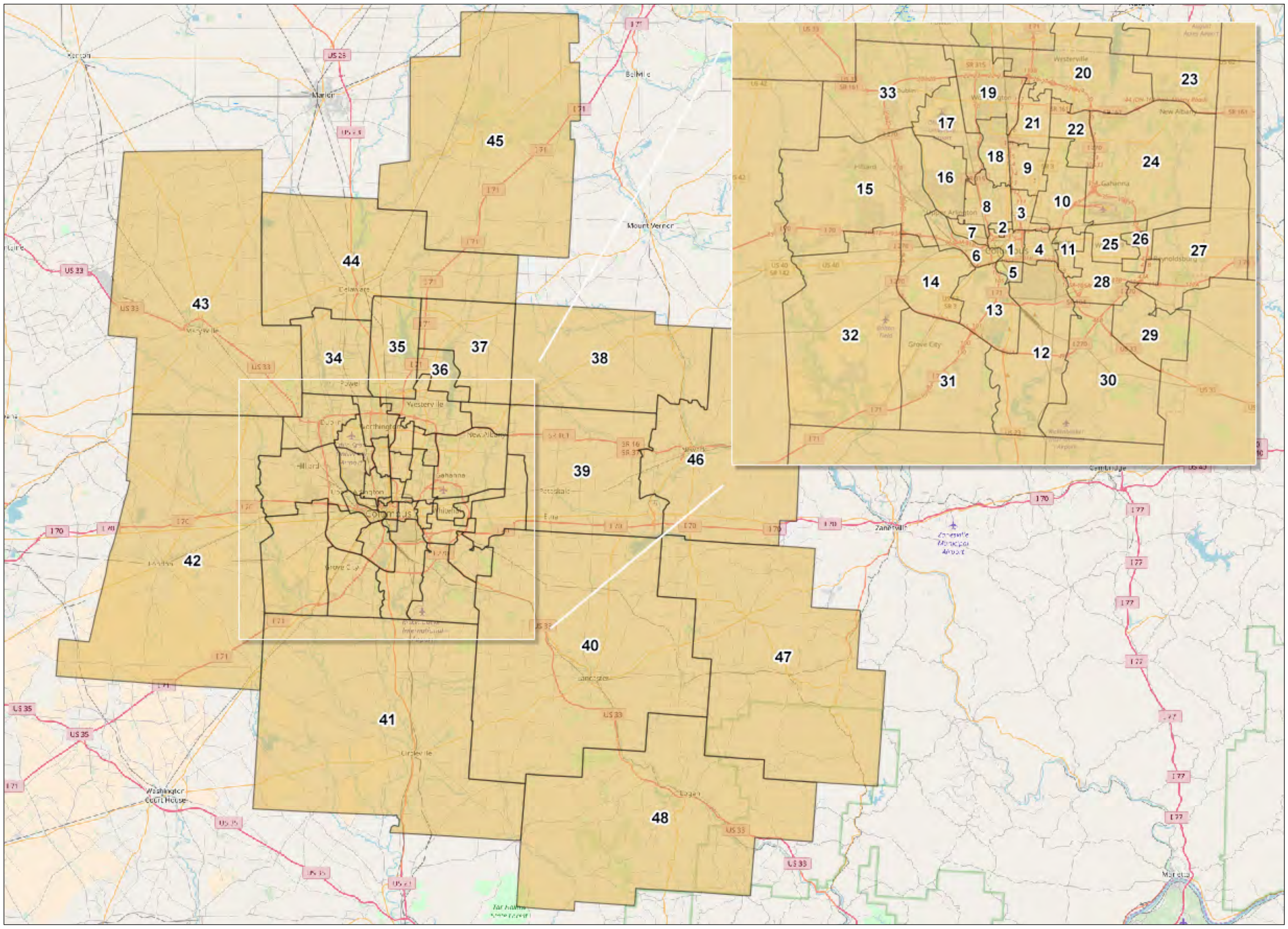
Steele Properties Buys Affordable Ohio Community

The firm has expanded its portfolio with the acquisition of a 112-unit property. The asset will receive $44,000 per unit in hard cost rehabilitation.

Pizzuti Expands Existing Community

The first phase in the company's redevelopment of the former Grant Oak Apartments is underway. Phase two will add a new five-story building.

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	Hilliard
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.