RED CAPITAL GROUP®

Market Overview

Columbus, Ohio

Multifamily Housing Update **February 2010**

EXECUTIVE SUMMARY

Like many state capitals, Columbus faces some grim fiscal realities. Although Ohio managed to balance its budget in the current year, much of the credit goes to generous federal stimulus funding. When Washington's largesse expires, the state will need to fill an $8 billion hole that portends either a reversal of the income and corporate tax reforms that improved Ohio's business competitiveness or sharp spending cuts. Neither alternative bodes well for the Capital City economy, which looks to government and education spending and entrepreneurial small– and middle-market businesses in equal measure for its stability and propulsion.

The metro employment market fared better than most in 2009, losing a total of 17,400 payroll jobs, representing a -1.7% set setback, a rate of loss less than half as fast as the nation's. But the momentum of the Columbus recovery is anything but robust and its unsteady initial efforts to get off the canvas could be undone by an abrupt shift in state spending or tax policy.

Indeed, payroll trends already hint that the local recovery is weakening. Although year-on-year payroll losses slowed to a 15,000-job, -1.6% annual pace in 4Q09, slowest in a year, preliminary December data evidenced a distinct turn for the worse. Expressed on a seasonally-adjusted basis, headcounts plunged 7,900 jobs, the first decline recorded since September and the largest loss posted since January. Likewise, year-over-year comparisons deteriorated, falling from a 13-month best 11,800-job, -1.2% November loss to a 16,400-job dip in December.

The BLS payroll re-benchmarking exercise scheduled for March is another potentially perilous moment. Data recorded in the BLS's Census of Employment and Wages suggest that the current payroll series is due for an unsettling downward correction. Based on current data, **RED Research** project a 1,700-job, 0.2% advance this year, while PNC Economics foresee no change. Next year, **RCR** predict an encouraging 15,300-job surge, but a sharp downward revision of recent trends would likely have negative forecast ramifications.

Apartment demand was commensurately weak in 4Q09. Metro apartment properties lost a net of -690 leased tenants, representing the highest negative absorption recorded in nearly six years. Making matters worse, a developer put the finishing touches on a 204-unit project near Polaris, raising the metro vacant inventory total to 11,420 units (Reis), a record sum in the service's 20-year data series. As a result, occupancy fell 70 basis points sequentially and 110 bps y-o-y to 90.8%, an all-time low metric.

Retail demand for class-A units was constructive as tenants absorbed 323 units in the quarter, pushing class occupancy 30 bps *higher* from September to 93.5%. Conversely, renters fled in droves from class-B/C properties as the competitive obsolescence of older, garden projects accelerated. Class vacancy soared 130 bps q-o-q to 10.7%, easily the highest level ever.

Rent trends were not so dire, as metro landlords managed to implement a $3 (0.5%) sequential effective rent hike to an average of $634. The gains were entirely attributable to concessions recession (face rents fell -$1), reflecting a $4 reduction in rent discounts from 7.5% of gross rent to 6.9%/$47.

Distress remained the principal motivation for sales. Investors picked up 10 properties from October 1 to February 10: only two were constructed after 1974. Pricing was largely sub-$40,000/unit and most yielded 8.5% or more at purchase, among the highest levels observed among the **R50**.

SNAP SHOT

	Y-o-Y change	Projected 2010
Vacancy (9.2% - 4Q09)	▲ 1.1%	▲ 0.6%
Effective Rents ($634 - 4Q09)	▼ 0.3%	▼ 0.5%
Cap Rate (8.5% - 4Q09)	▲ 70 bps	Neutral
Employment (929.3m - 4Q09)	▼ 15.0m	▲ 1.7m

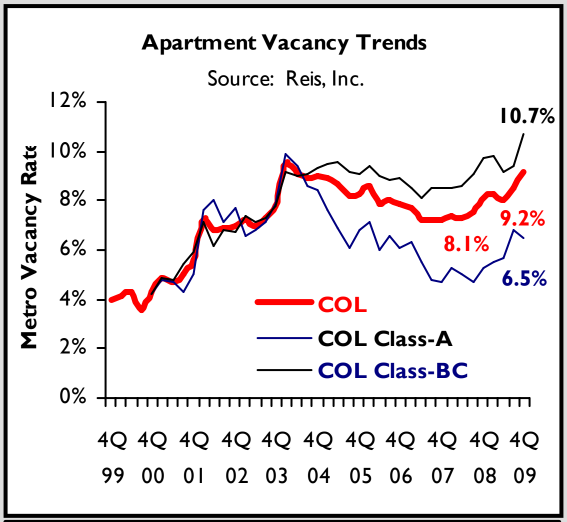
KEY POINTS

- After posting steadily improving payroll trends since July, the Columbus labor market stumbled in December. Accelerating job cuts and business closings in the transportation, retail and hospitality service sectors were largely responsible.
- **RED Research** and PNC Economics expect payrolls to be nearly flat this year. December's weak print and the prospects for a downward revision of recent payroll trends by the BLS cloud the picture considerably.
- Class-B/C properties were devestated by the loss of 1,023 leased tenants in 4Q09, causing class occupancy to plummet 130 basis points to 89.3%. Class-A projects benefited, filling a net of 323 units, the best quarter in more than two years. Class-A occupancy advanced by an average of 30 bps to 93.5%.
- Average face rents fell, dropping $1 (-0.1%) sequentially. Owners managed to trim concessions by $4, giving rise to a $3 (0.5%) advance in average effective rents to $634.
- Employing an 8.5% going-in cap rate assumption, **RCR** estimate that generic Columbus apartment investments will generate 6.3% total returns, #35 in the **R50**.

VACANCY TRENDS

- Demand for class-A apartment units during 4Q was surprisingly strong. Tenants absorbed a net of 323 units, sending class occupancy 30 basis points higher to 93.5%. Owners of older properties struggled to attract tenants, however, as a net of -1,012 lessees moved out during the quarter. Occupancy overall plunged 70 bps to an average of 90.8%.
- Properties south and southeast of Downtown were hit hard by service and transportation industry job losses and struggled to retain tenants against competition from newer, more amenity-rich properties elsewhere. Occupancy in Grove City and Southeast submarkets dropped to 79.7% and 84.7%, respectively.
- Demand for urban infill space was healthy, sending occupancy up 20 bps sequentially in the OSU / Downtown submarket to 96.5%.

RANK: 34th out of 50

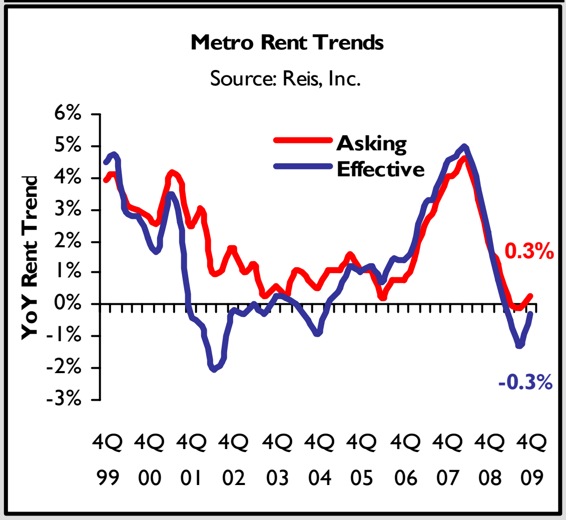


RENT TRENDS

- Reis indicate that asking rents declined materially in the fourth quarter, dropping $2 (-0.3%) and $3 (-0.4%) among class-B/C and class-A properties, respectively. The service report that concession levels eased, on the other hand, producing a meaningful increase in average effective rents, which advanced $3 (0.5%) sequentially to $634.
- The strong showing during 4Q09 elevated year-over-year effective rent trends from –1.3% in September to –0.3%. The performance ranked seventh among the **RED 50** markets. Marcus & Millichap viewed the situation differently, however, measuring a year-on-year decline of approximately -3%. Caution regarding the Reis metric is appropriate.
- In 4Q09, Dublin/Powell submarket owners cut average effective rent $9 (-1.2%), contributing to a 120 bps q-o-q occupancy boost to 94.7%.

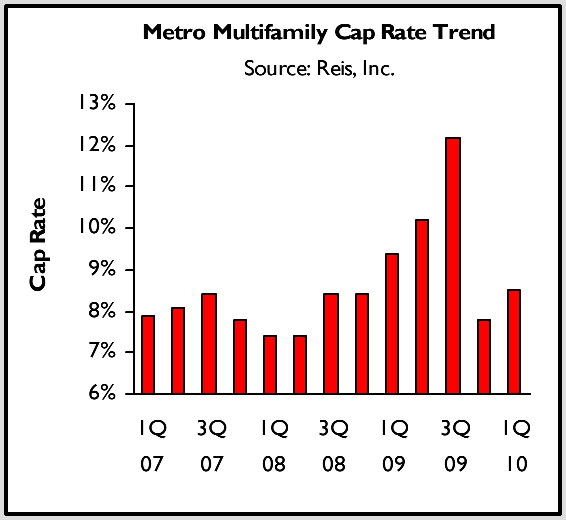
RANK: 7th out of 50

RCR estimate that average COL NOI fell -6.5% last year, ranking #8 in the **RED 50**.



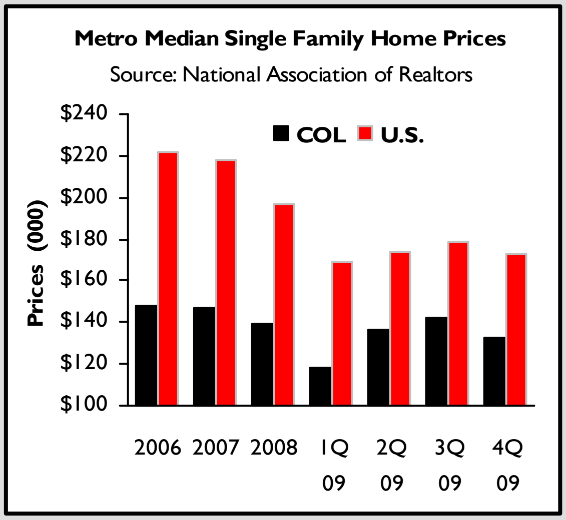
PROPERTY MARKET & CAP RATE TRENDS

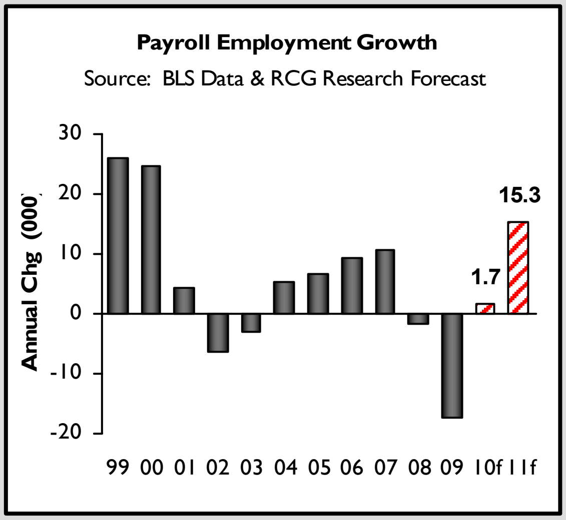
- Regional and national investors largely passed on Columbus opportunities in 2H09. Rather, trade was dominated by local players seeking cheap class-B or class-B– repositioning plays. Many traded properties were distressed or otherwise under-performing situations. Cap rates varied widely, but most were 8.5% or higher.
- The only property constructed in the last 25 years that exchanged hands was a 15-year old garden project on the Far West Side near I-70 and Hilliard-Rome Road. The 256-unit project traded for $6.9mm, equating to about $27,000 per unit. **RCR** estimate a current yield of 9% or greater. This asset was listed for $13.9mm in November 2007.
- Using an 8.5% cap rate assumption, **RCR** estimate a 6.3% expected 5-year unlevered holding period total returns from generic Columbus assets. This falls 40 bps below the 6.7% **RED 50** average. Columbus's 2.63 risk-adjusted index, conversely, ranks 22nd among the **R50.**

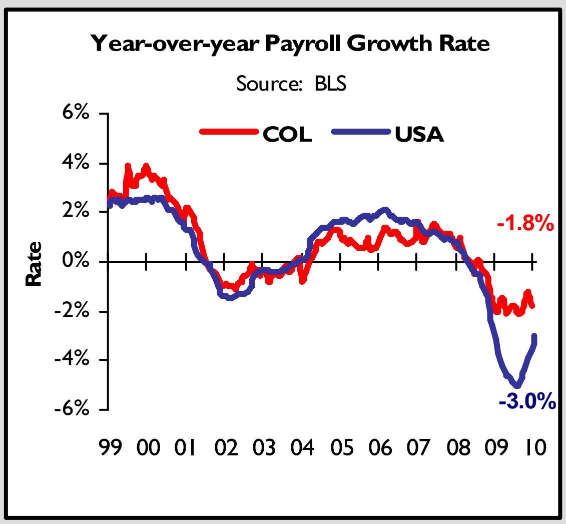


NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Thurber Gate & Square (Dwntn)	B-	11-Dec-2009	$6.2	$29,849	7.8%
Sawbury Commons (Dublin)	B	17-Nov-2009	$4.8	$59,500	7.4% p.f.
Waterford Pointe (Hilliard)	B	19-Jan-2010	$6.9	$26,992	9.5%







DEMOGRAPHICS & HOUSING MARKET

- The N.A.R. report that the median price of a Columbus home sold in 4Q09 was $132,500, representing a 4.7% increase from the same period of 2008. This compared favorably to the 1.1% and –4.1% Midwest Region and U.S. median price trends, respectively.
- The real estate market appeared to pick up steam late in the year. The Columbus Association of Realtors reported that sales volume accelerated 24.1% year-on-year September through December. Moreover, the average price increased 5% and the average home marketing time declined seven days to 92 in December compared to last year.
- Faster sales sliced 12.7% from the for-sale home inventory y-o-y.
- Columbus foreclosure activity declined -9.3% in 2009. The metro's 2.29% foreclosure rate was 60th highest among top 203 U.S. MSA.

EMPLOYMENT TRENDS

Fourth Quarter 2009

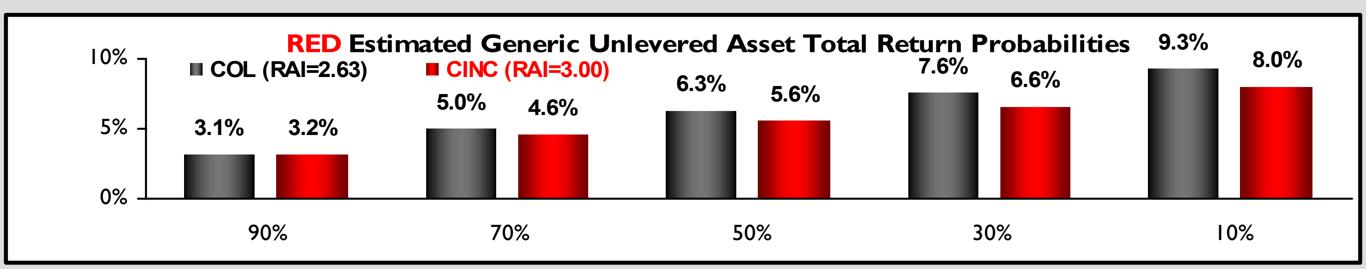
- Payroll employment fell at a monthly average 15,000-job, -1.6% year-on-year pace in 4Q09, up from 3Q's 18,800-job, -2.0% setback.
- Gains were attributable to a 2,600-job advance in the business service sector (reversing 3Q's 1,200-job retreat) and slower attrition in construction, retail trade and financial services. Sharp decreases in food service and lodging headcounts were partially offsetting.
- Total employment figures obtained from the BLS Household Survey were less robust. This measure, which includes self employed individuals, showed an average 33,100-position, -3.6% y-o-y decline.

December 2009

- Payrolls fell by 16,400 jobs in the twelve months ended in December, down sharply from a loss of only 11,800 jobs year-over-year in November. The December retreat was attributable to a dramatic deterioration in transportation and warehousing jobs coupled with accelerating weakness in the retail trade and retail service super-sectors.
- After advancing 2,800 jobs in October and November, seasonally-adjusted payrolls fell 7,900 jobs in December, representing the weakest monthly job report posted since January 2009.
- The unemployment rate surged 50 bps to 9.0% in December, largely due to a nearly 13,000-job decline in reported total employment.

Forecast

- Based on the BLS Current Employment Series data, **RED Research** expect Columbus to return to year-over-year payroll growth by 3Q10. For the year, the group's econometric model foresees a net add of ***1,700 jobs***, held back by continued high-five digit losses in 1Q10. Next year, Columbus is projected to enjoy a ***15,300-job*** gain. The prospect of a downward revision of the BLS data series in March looms, however, with potential negative forecast implications.

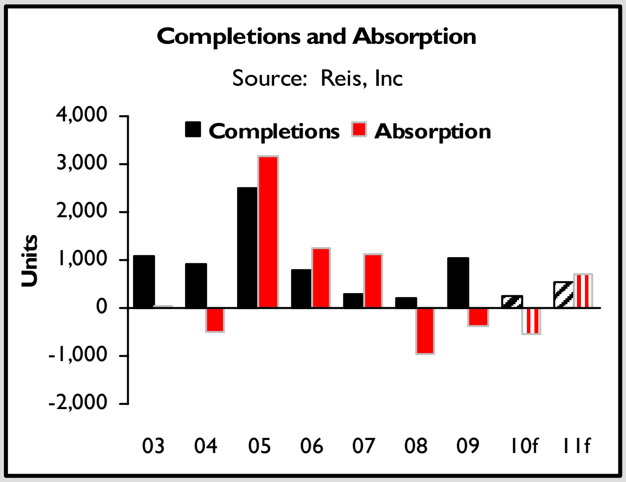


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	4Q08	4Q09	Change	4Q08	4Q09	Change
University / Downtown	$743	$739	-0.5%	4.3%	3.5%	-80 bps
Upper Arlington/No Columbus	$688	$683	-0.7%	6.9%	5.6%	-130 bps
Bexley	$609	$602	-1.1%	6.8%	8.3%	150 bps
Dublin / Powell	$719	$703	-2.2%	4.3%	5.3%	100 bps
Whitehall / Gahanna	$608	$597	-1.8%	8.9%	9.1%	20 bps
Sharon / Worthington	$623	$619	-0.6%	6.2%	8.4%	220 bps
Hilliard / Far West Side	$668	$673	0.7%	5.4%	6.1%	70 bps
Northeast / Minerva Park	$568	$563	-0.9%	9.9%	10.1%	20 bps
Westerville / Polaris	$762	$775	1.7%	4.8%	8.0%	320 bps
Grove City	$587	$593	1.0%	18.4%	20.3%	190 bps
Groveport / Canal Winchester	$586	$584	-0.3%	8.7%	8.4%	-30 bps
Southeast	$484	$486	0.4%	8.9%	15.3%	640 bps
Metro	**$636**	**$634**	**-0.3%**	**8.1%**	**9.2%**	**110 bps**

SUPPLY TRENDS

- Developers completed 1,023 units in the metro area in 2009, according to Reis analysts. Nearly 65% of the total was delivered to the Westerville submarket, which added four projects, two each in the Polaris and New Albany environs. Dublin and Whitehall accounted for most of the balance.
- Reis expect supply pressures to ease significantly over the next two years. The service foresees delivery of only two projects this year encompassing a total of 230 units. One consists of a third phase of an existing Groveport project. The other is a second phase of an innovative infill flat and townhome development Downtown in the rapidly redeveloping River South District. The service expects 2011 supply to reach 558 units. But current construction activity with potential 2011 delivery dates total less than one-half that amount.
- A local developer bowed to real estate realities in November and had a parcel intended for single-family homes rezoned for multifamily. The company plans to build a 272-unit class-A garden project on the 40-acre parcel near the New Albany Links golf and housing community. The project is budgeted at about $73,500 per unit, according to ***Columbus Business First***.
- Builders pulled permits authorizing construction of 1,137 multifamily units in 2009, down only 16% from 2008.



- A repurposed condo in Italian Village absorbed about five units a month after receiving final C.O. in 1Q09. The property was about 92% occupied in December at $1,161 average rent.
- The median occupancy of newer assets in the 43215 zip code Downtown was 99% in December. Rents averaged $1,111.

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