Vogt Strategic Insights

Columbus Apartment Association

Housing Trends & Outlook

What Happened
&
Where Are We Headed?

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Vogt Strategic Insights (VSI)
February 27, 2024

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Where We've Been

- Nearly 5-years out from the start of the COVID-19 Pandemic.
- Factors have impacted housing:
  - Mandatory lock-downs.
  - Remote work-environment & changes in companies' office space needs.
  - Initial out-migration from cities (especially those with stricter COVID restrictions, lock-downs and regulations).
- "Supply" & "Demand" changes:
  - "Supply" is an easier variable to track (permits issues, construction starts and units completed)
  - "Demand" is much more nuanced
- Changes in demand for housing and personal housing preferences:
  - Increase in "renters-by-choice"
  - Increase in high-income ($100,000) renter households

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COVID-19's Impact on Housing

- Mid-2020 generated "out-migration" from cities to rural & resort locations, the sunbelt, mountain-towns, etc.
- Low mortgage rates generated an increase in home purchases.
- Increase in roommate "decoupling" increased demand for studio & 1-bedroom units.
- Remote-work allowed working white-collar professionals to work from anywhere.
- States and cities with stricter lockdown policies/requirements (like California, for example) lost population to states that were more favorable to travel/entertainment, business and housing development (Texas).

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The “Remote-Work Environment”

Traditional Work “Norm”

COVID-Inspired Work Environment

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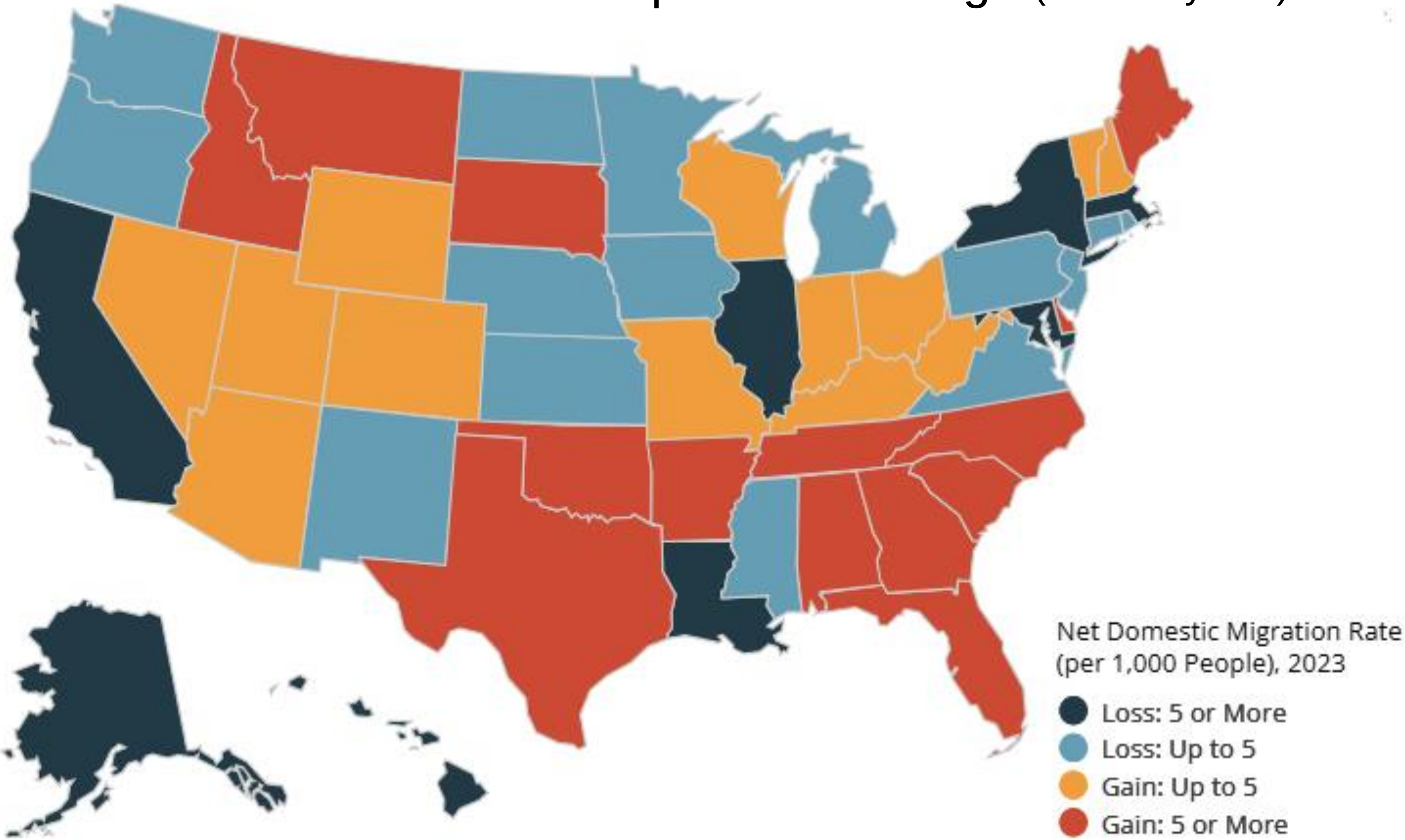
Domestic Migration Driving State Population Change (Past 10 years)



Source: Harvard University – Joint Center for Housing Studies

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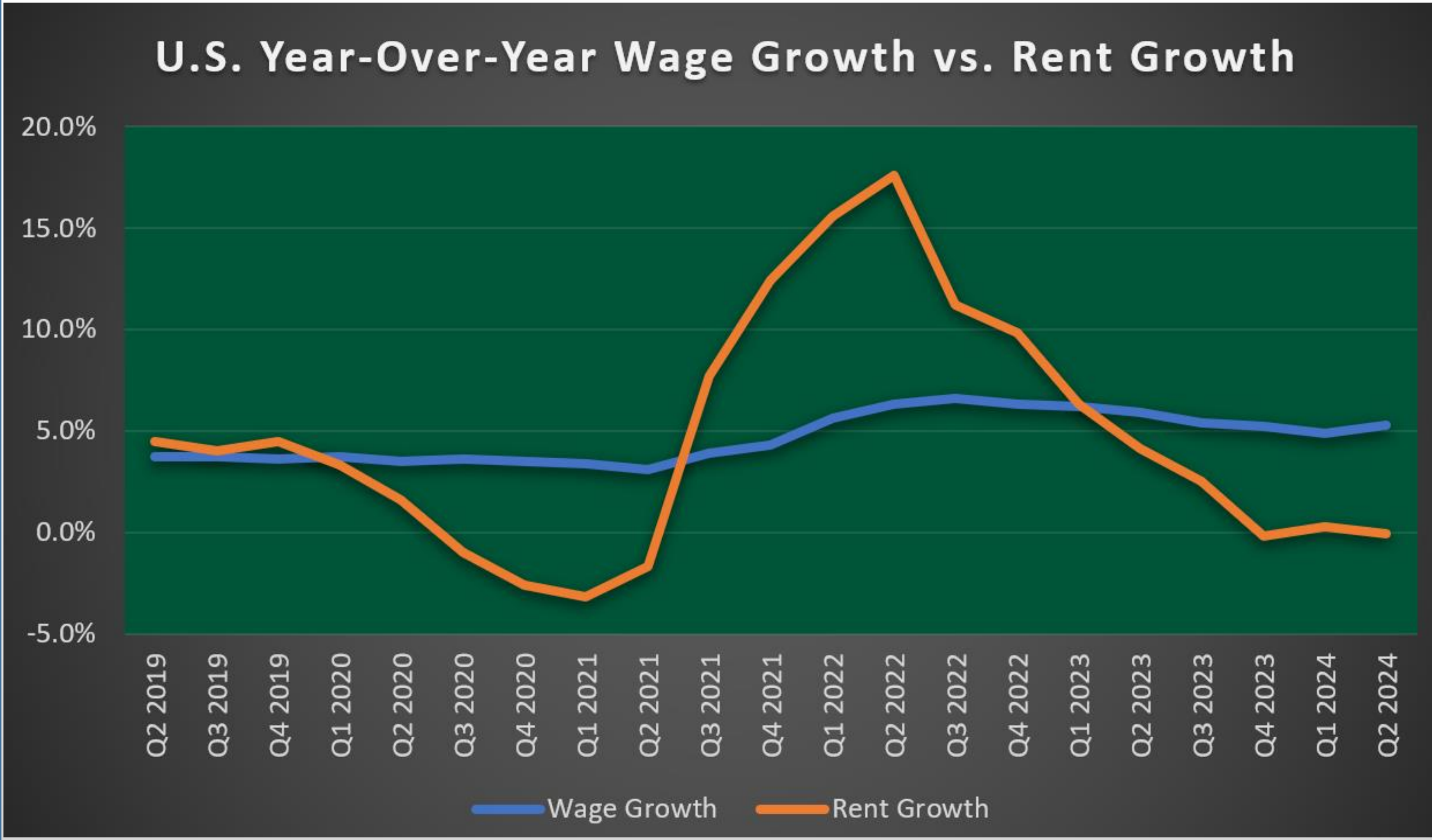
High Occupancies & Demand For Rental Housing Resulted in Significant Rent Growth in 2021 & 2022



Source: VSI, Federal Reserve Bank of Atlanta Wage Tool, Moody's Analytics-REIS

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Despite Notable Rent Growth (20%-30%), "Affordability" of Homeownership Increased Faster

U.S. Estimated Cost of Homeownership				
Year	Median Existing Home Price	Median Mortgage Rate	Monthly P&I Mortgage Payment	% Change in Est. Cost
2019	$274,600	4.04%	**$1,054**	-3.1%
2020	$300,200	3.17%	**$1,035**	-1.8%
2021	$357,100	3.01%	**$1,206**	+16.5%
2022	$392,800	5.40%	**$1,765**	+46.4%
2023	$394,100	6.88%	**$2,072**	+17.4%
2024*	$412,400	6.81%	**$2,153**	+3.9%
Total % Change in Median Existing Home Price (since 2019)				**+50.2%**
Total % Change in Estimated Cost of Homeownership (since 2019)				**+104.3%**

Source: National Association of Realtors – Housing Affordability Index

*Preliminary Figures

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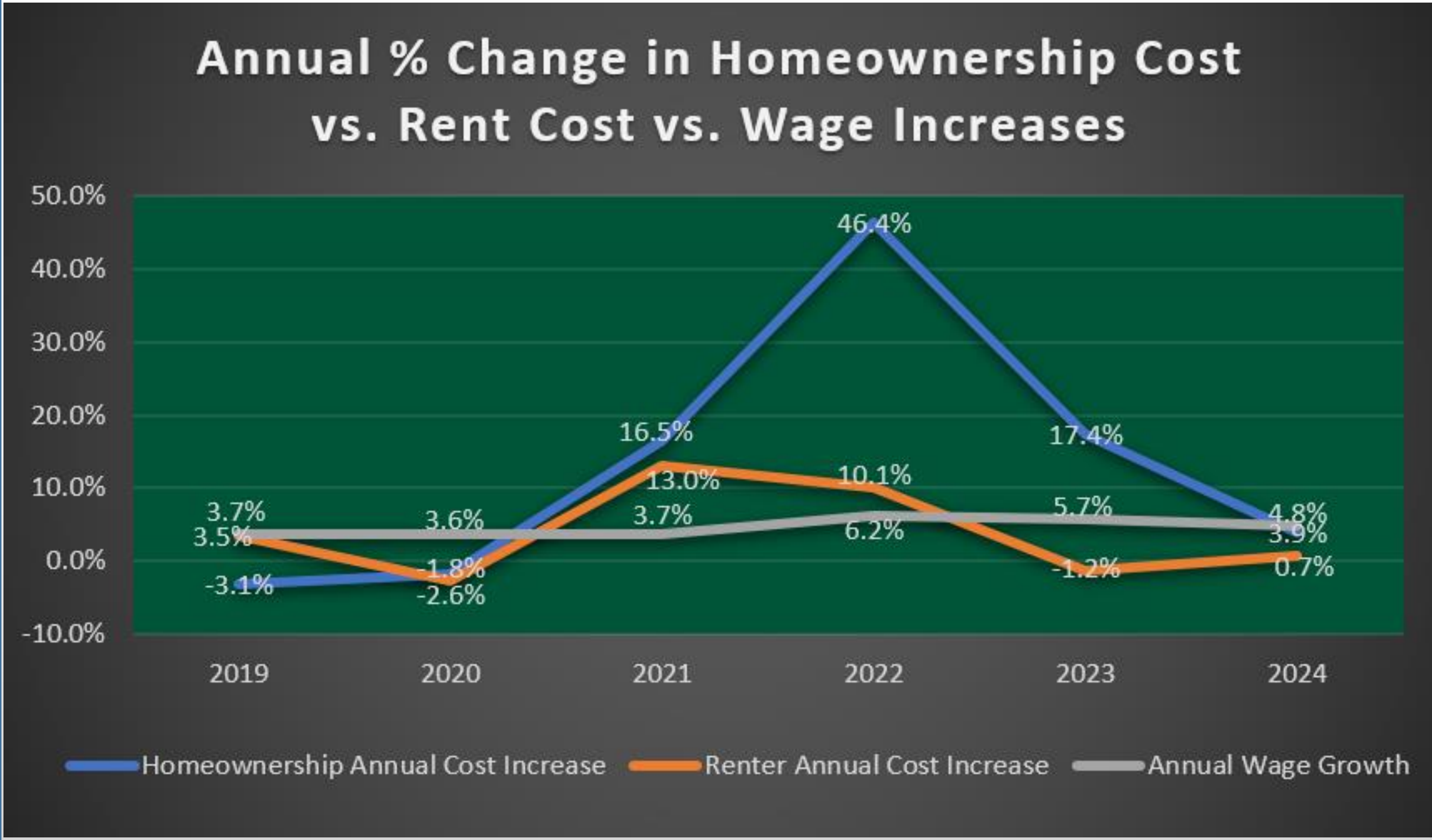
Homeownership/Affordability Became Increasingly Unattainable



Source: VSI, Federal Reserve Bank of Atlanta Wage Tool, Moody's Analytics-REIS, National Association of Realtors

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<u>NO Surprise</u>: Increases in Home Prices & Mortgage Rates Resulted in Significant Slow-Down of Existing Home Sales

U.S. Existing Homes Sales Volume

Source: National Association of Realtors

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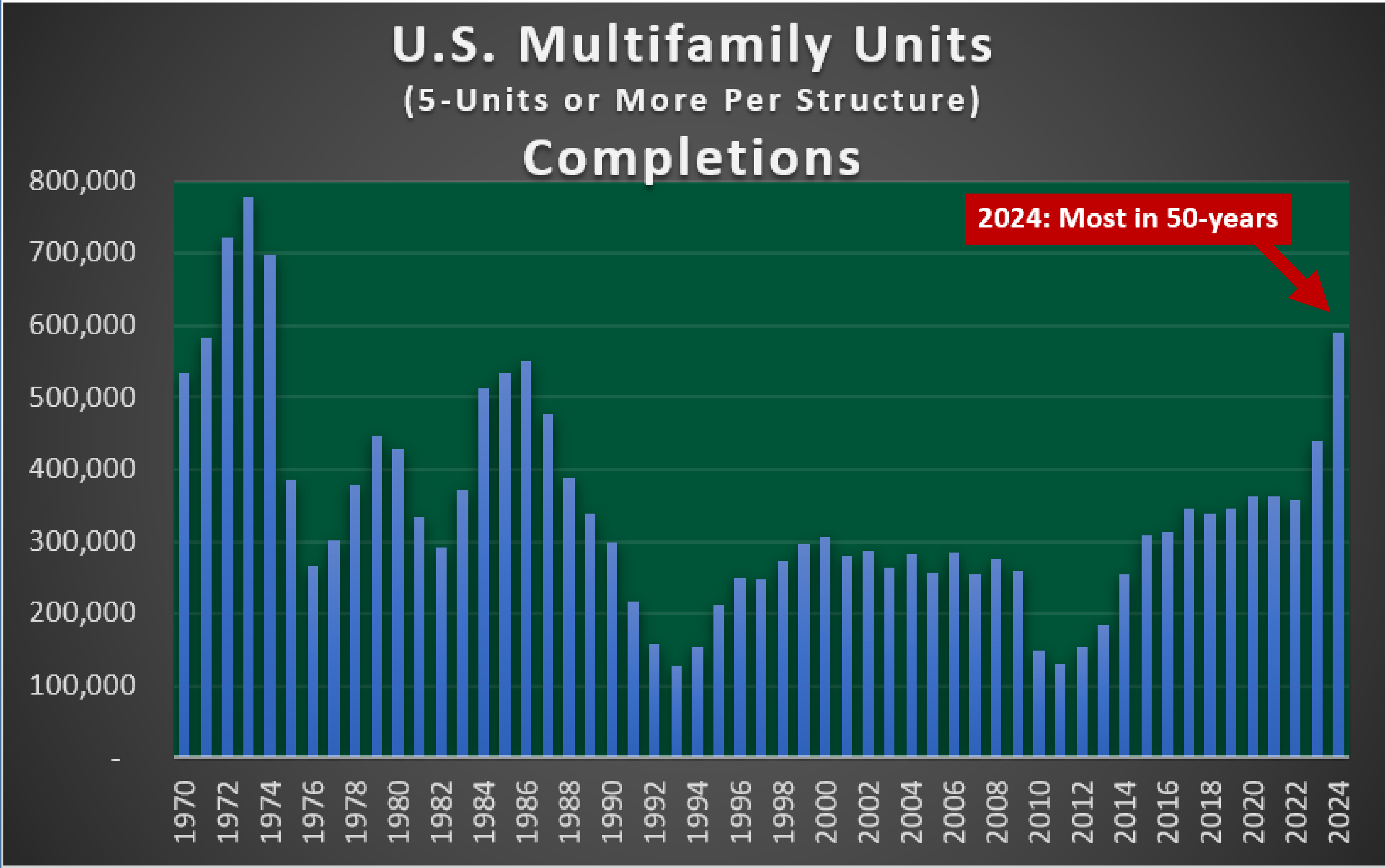
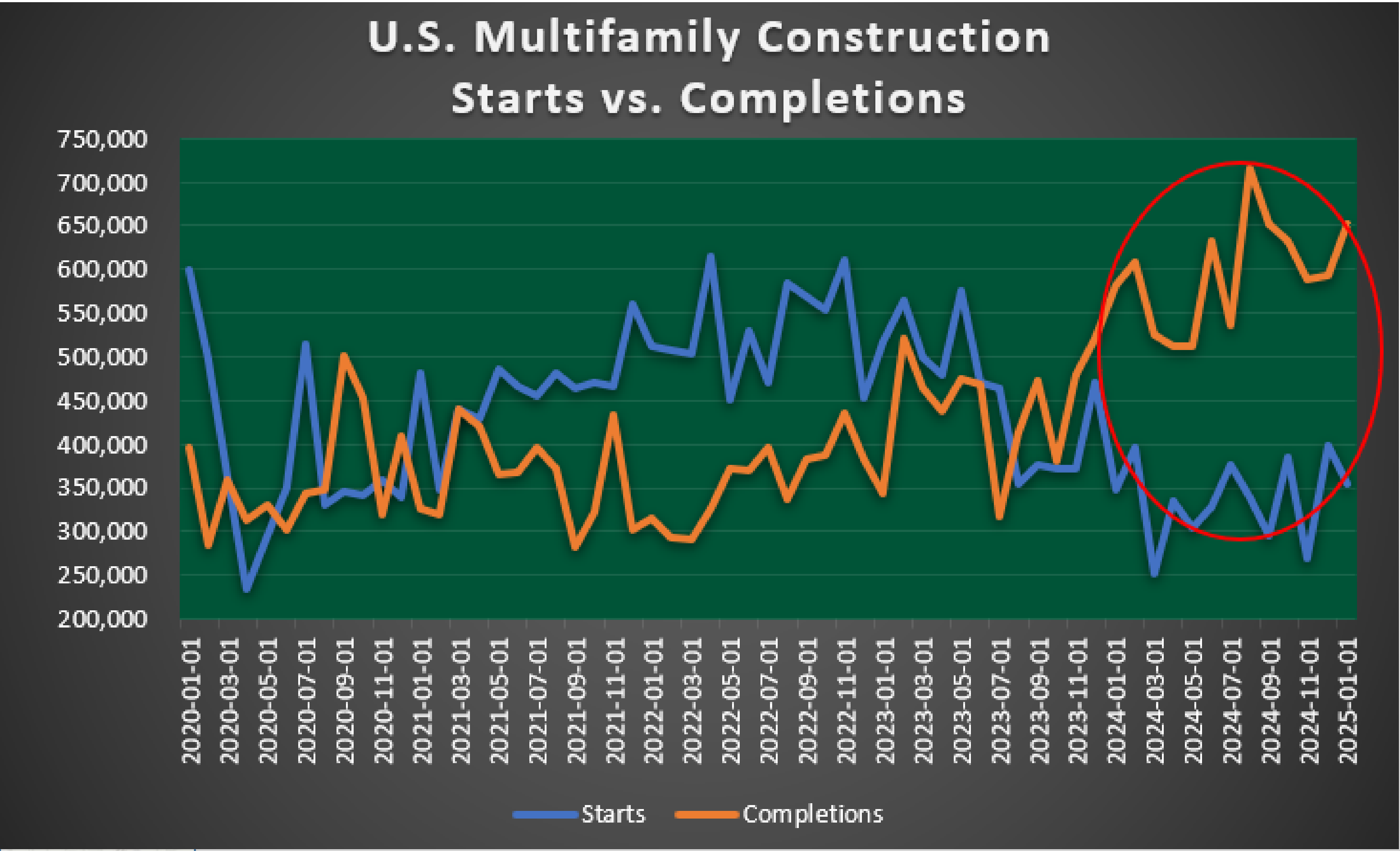
2021 & 2022 Rent Growth, Low Lending Rates & High Rental Occupancies (in-part) Drove Record-Levels of Multifamily Construction, Resulting in Significant Number of New Units Coming Online In Past 2 Years



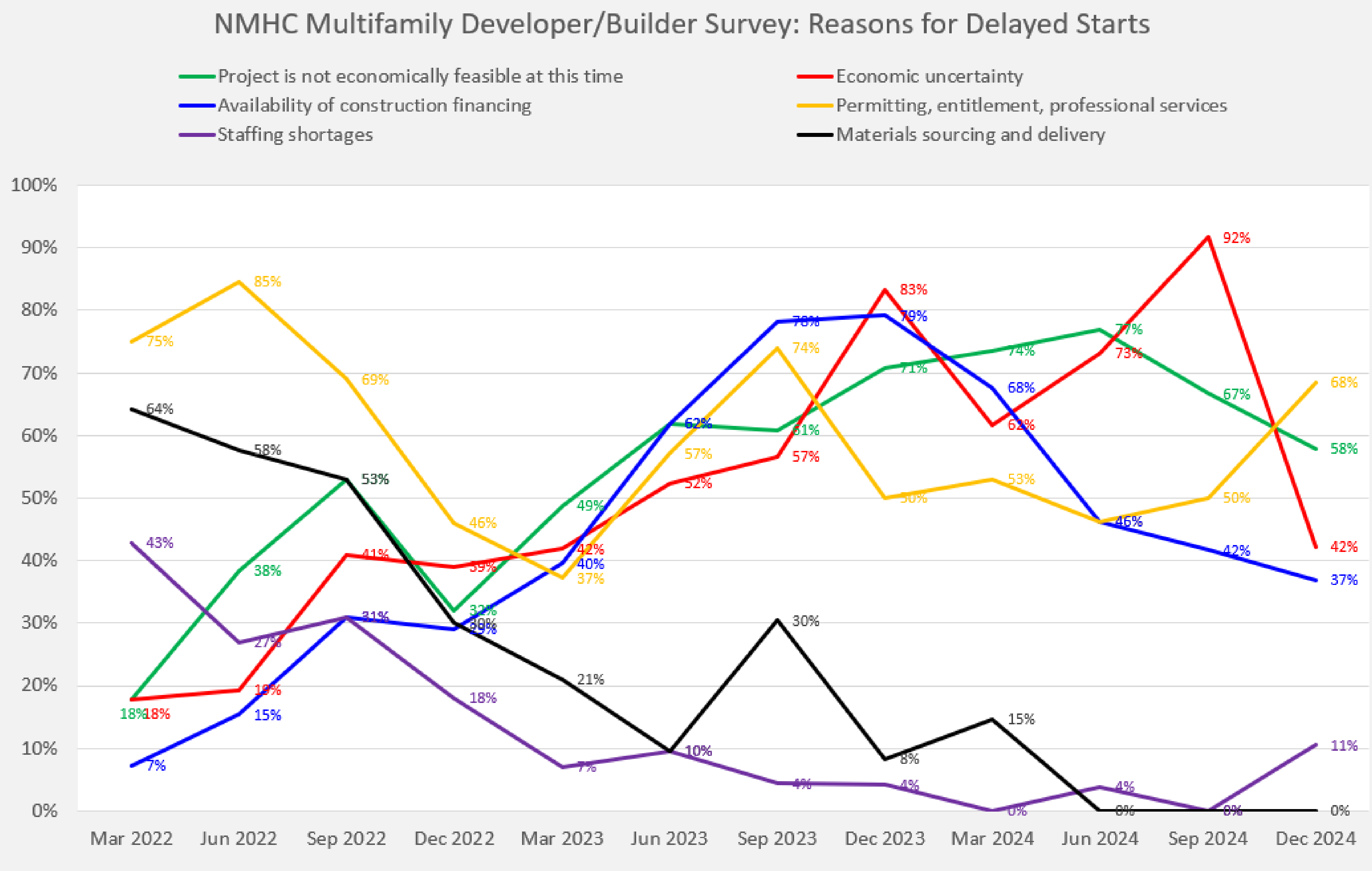
Source: VSI, HUD, Federal Reserve Economic Data (FRED)

Record Levels of Construction Resulted in Significant Number of New Units Coming Online In Past 2 Years

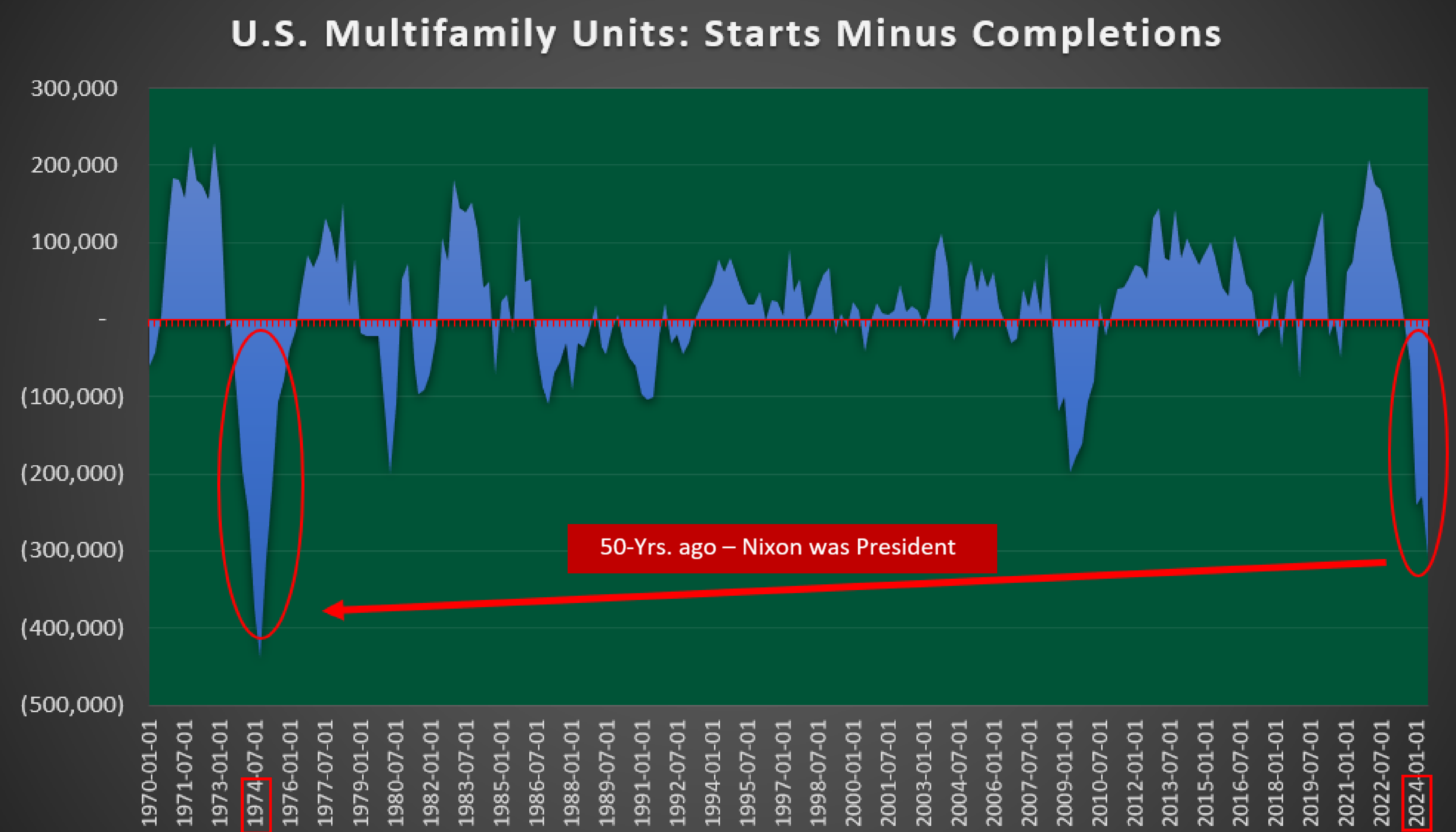


Source: VSI, HUD, Federal Reserve Economic Data (FRED)

According to the National Multifamily Housing Council: “Economic Unfeasibility” Replaced “Permitting” & “Material-Sourcing/Delivery” as #1 Reason for Multifamily Deals Not Moving Forward between 2022 and mid-2024. Sentiment has improved through 2nd half of 2024.

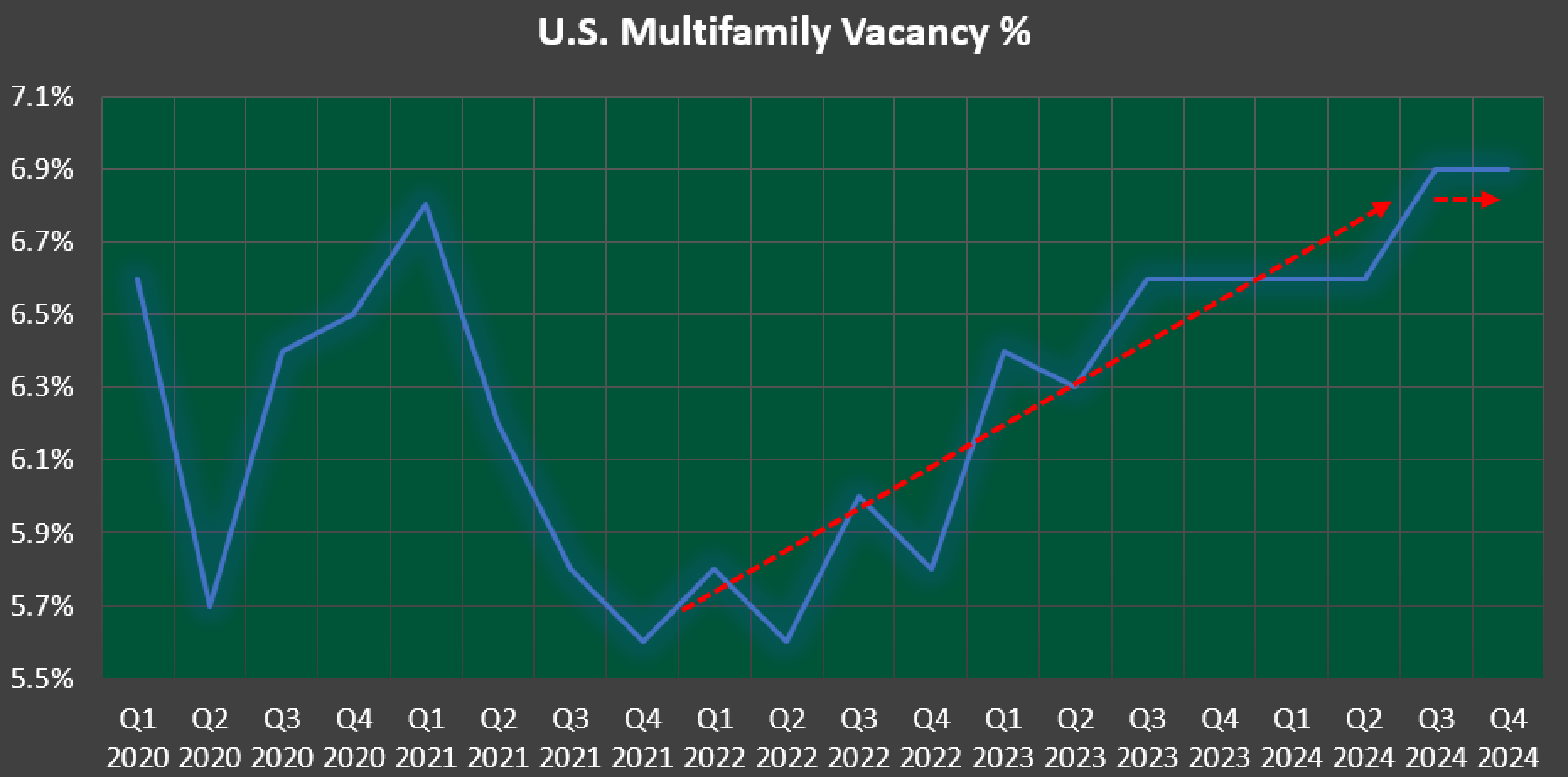


January 2025 Starts: approximately 355,000
January 2025 Completion: approximately 652,000
Difference = approximately **-297,000**



Source: VSI, HUD, Federal Reserve Economic Data (FRED)

Adding Multifamily Units (Construction "Completions") Resulted in Increased Vacancies **BUT appear to have stabilized, nationally.**



Source: VSI, HUD, Federal Reserve Economic Data (FRED)

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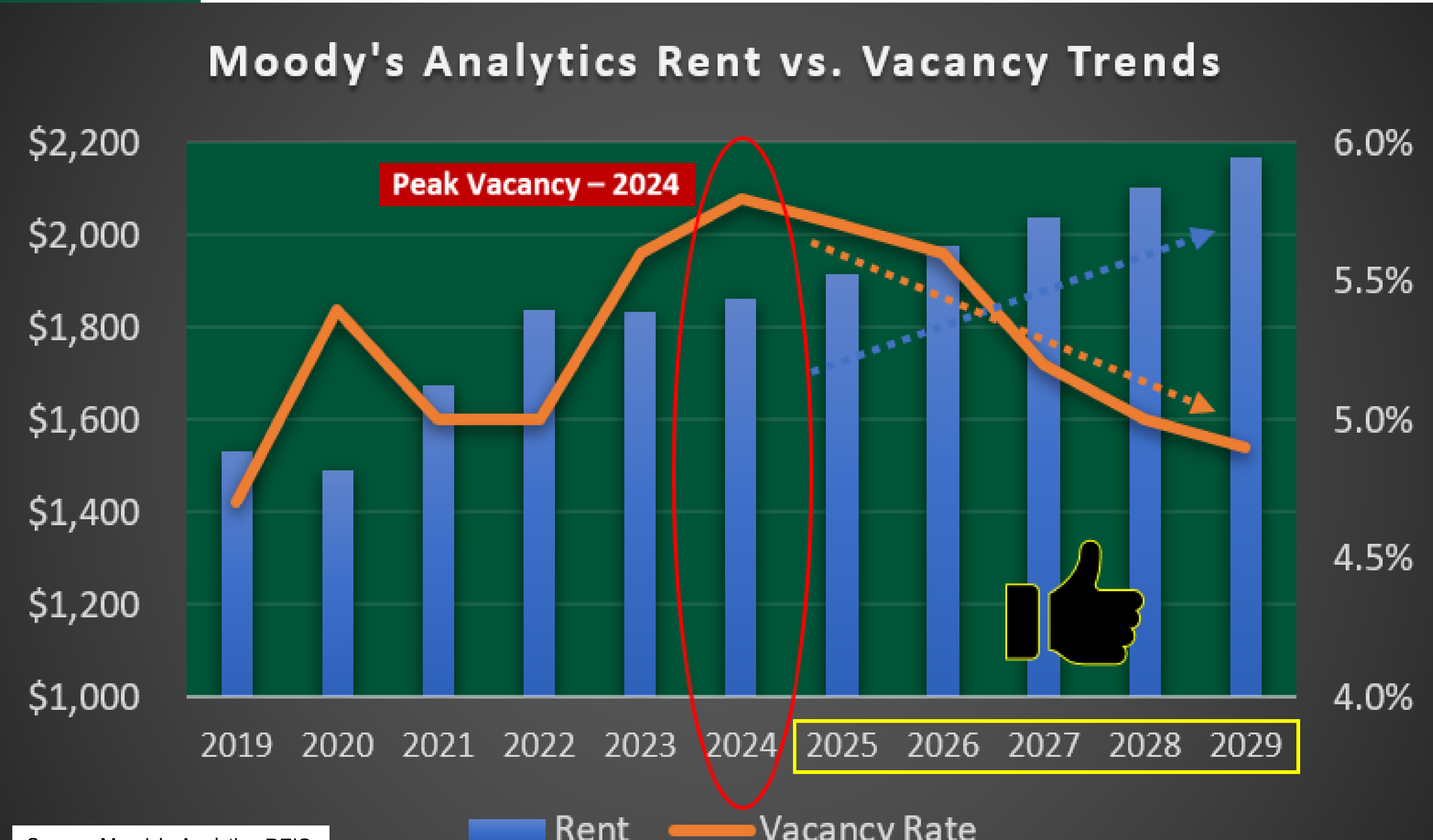
Multifamily "Completions" Will Continue into 1st Half of 2025, BUT May Soon Dwindle (significantly), Due to Limited # of Construction "Starts.



Source: Moody's Analytics-REIS

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The Worst is Over!

Zillow CEO says the worst of the housing crisis may be over: ‘We’re past the eye of the hurricane’

BY JANE THIER
August 29, 2024 at 2:54 PM EDT

Source: Fortune Magazine

- **Declining Interest Rates Will Improve “For-Sale” Market Trends**
- **Declining New Apartment Construction & “Completions” Will Improve Multifamily Market Trends (Rent Growth/Vacancy Decline)**
- **Workforce Environment (Remote/Hybrid/In-Person) Will Impact & Shape Housing Demand**
- **The “Affordability Crisis” is REAL**

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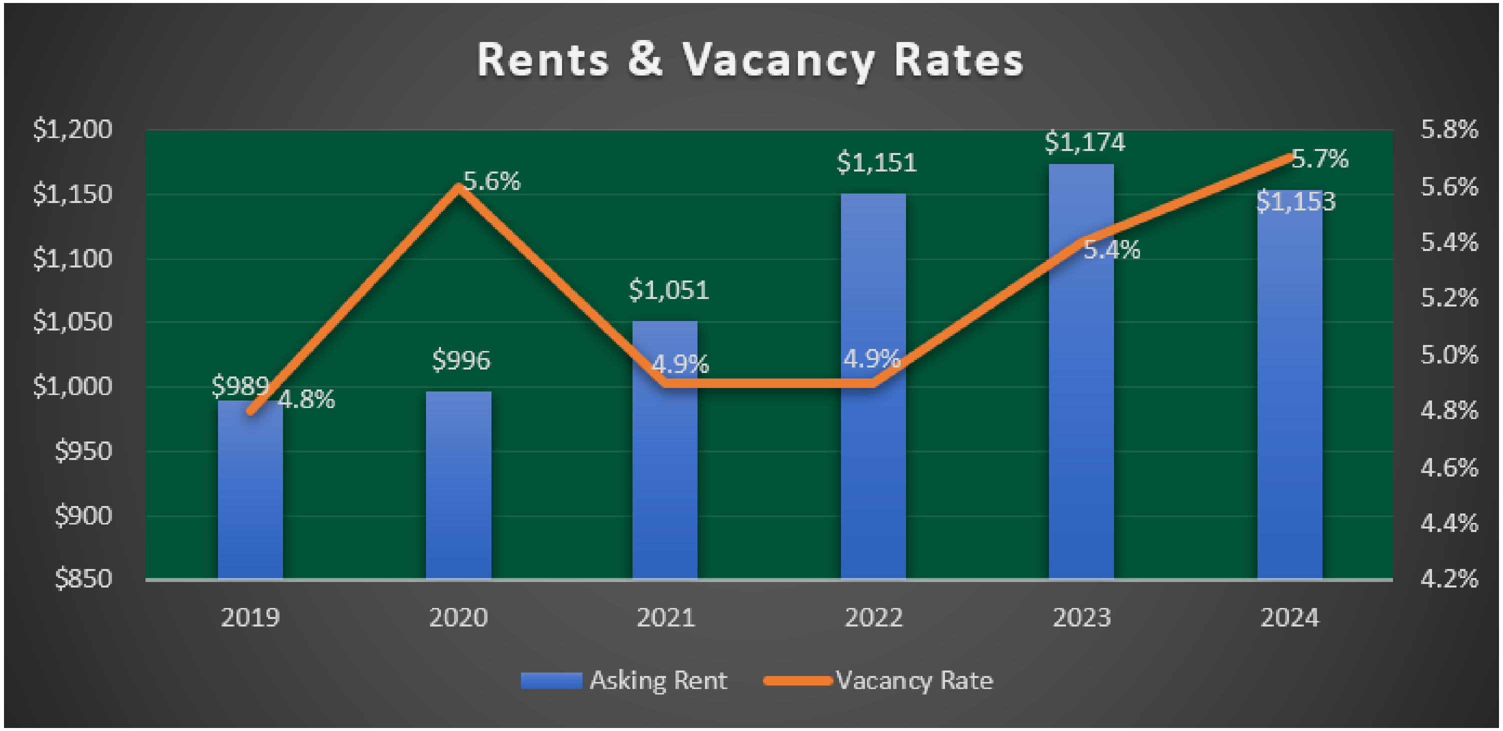
HOWEVER…

<u>Real Estate</u> is VERY local:

“Location, Location, Location!”

Columbus Metro

Change in Inventory, Vacancy Rates & Rents							
Year	Inventory	Completions	Vacant Stock	Vacancy Rate	Net Absorption	Asking Rent	Asking Rent % Change
2019	157,151	2,858	7,548	4.8%	4,635	$989	+3.6%
2020	160,090	2,939	8,924	5.6%	1,563	$996	+0.7%
2021	163,969	3,879	8,073	4.9%	4,730	$1,051	+5.6%
2022	165,893	1,924	8,203	4.9%	1,794	$1,151	+9.5%
2023	170,745	4,852	9,203	5.4%	3,852	$1,174	+2.0%
2024	174,034	3,289	9,929	5.7%	2,563	$1,153	-1.7%



Source: Moody's Analytics – REIS Columbus Metro report

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Newer/more expensive units are experiencing higher vacancies than older, less expensive units, exemplifying the current affordability challenges.

Asking Rent by Age of Property

Year Built	2019	2020	2021	2022	2023	2024	Vacancy Rate 2024
Before 1970	$782	$800	$866	$972	$978	$989	3.9%
1970 – 1979	$781	$796	$847	$952	$987	$1,013	3.6%
1980 – 1989	$990	$1,014	$1,110	$1,251	$1,261	$1,302	4.9%
1990 – 1999	$998	$1,042	$1,127	$1,226	$1,301	$1,402	3.7%
2000 – 2009	$1,107	$1,129	$1,195	$1,412	$1,431	$1,489	6.6%
2010 – 2019	$1,396	$1,357	$1,443	$1,646	$1,590	$1,627	7.5%
2020 & After	-	$1,415	$1,595	$1,686	$1,657	$1,662	11.5%
All Properties	**$989**	**$996**	**$1,051**	**$1,151**	**$1,174**	**$1,153**	**5.7%**

Source: Moody's Analytics – REIS Columbus Metro report

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Downtown is performing poorly (12.2% vacant), due to inventory/supply/new units.
The highest-performing submarkets (Whitehall/Worthington/Southeast) are the lowest-rent submarkets, exemplifying need for "affordability".

Performance by Submarket – Columbus Metro

Submarket	Inventory	Asking Rent	Vacancy
Whitehall/Gahanna/Reynoldsburg	22,091	$889	1.80%
Sharon/Worthington	7,828	$900	2.70%
Southeast	8,279	$767	3.20%
Dublin/Powell	13,654	$1,248	4.50%
Grove City	13,927	$1,162	4.90%
Westerville	20,461	$1,284	4.90%
Northeast/Minerva Park	15,023	$964	5.20%
Hilliard	20,150	$1,253	5.50%
Bexley	5,473	$1,017	6.40%
Upper Arlington/North Columbus	11,426	$1,101	6.70%
Groveport/Canal Winchester	11,305	$1,006	7.20%
Delaware North	2,919	$1,227	11.10%
University/Downtown	21,498	$1,643	12.20%
All Properties	**174,034**	**$1,153**	**5.7%**

Source: Moody's Analytics – REIS Columbus Metro report

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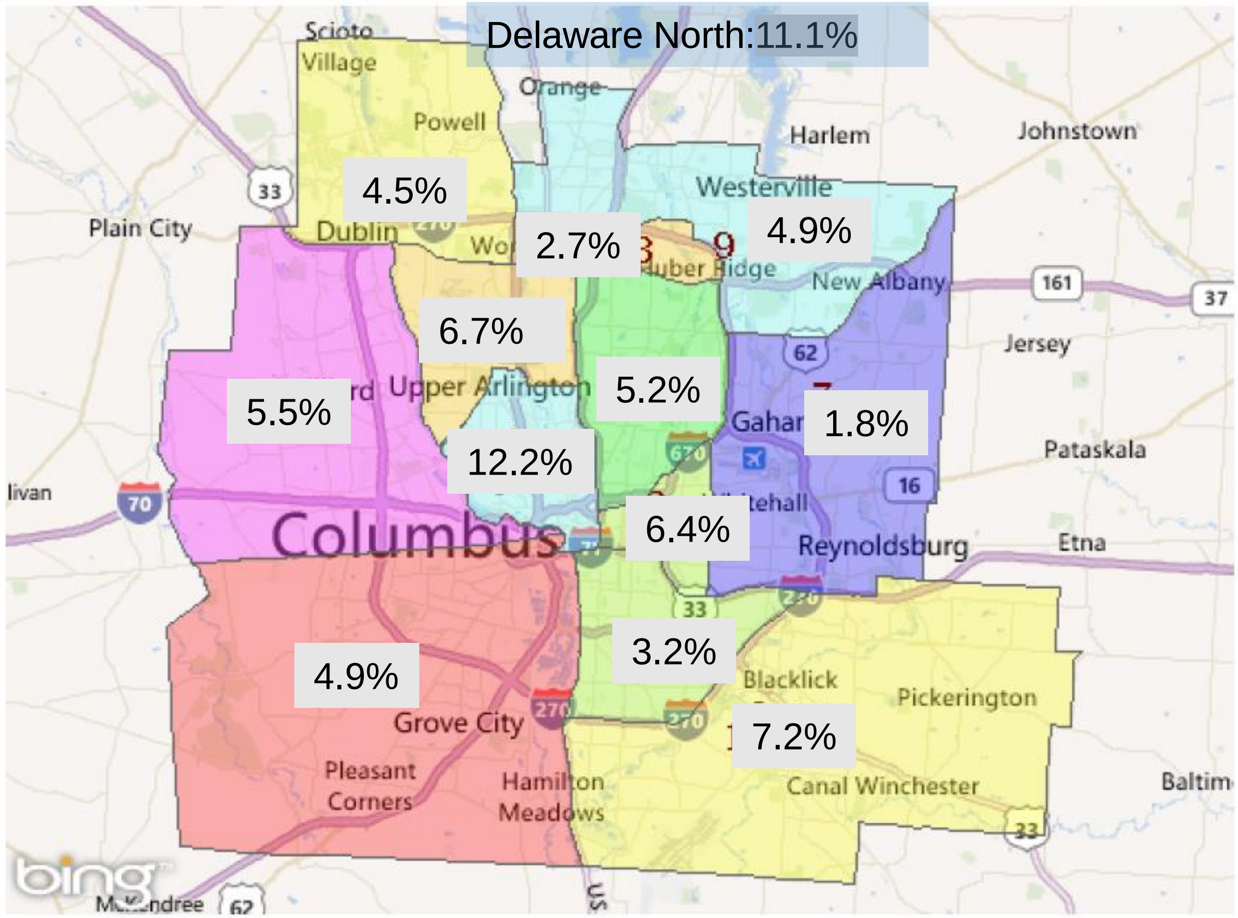
Vacancy Rate by Submarket



Columbus Submarkets

1	University/Downtown	2	Bexley	3	Sharon/Worthington
4	Dublin/Powell	5	Hilliard	6	Grove City
7	Whitehall/Gahanna/Reynoldsburg	8	Northeast/Minerva Park	9	Westerville
10	Southeast	11	Groveport/Canal Winchester	12	Upper Arlington/North Columbus

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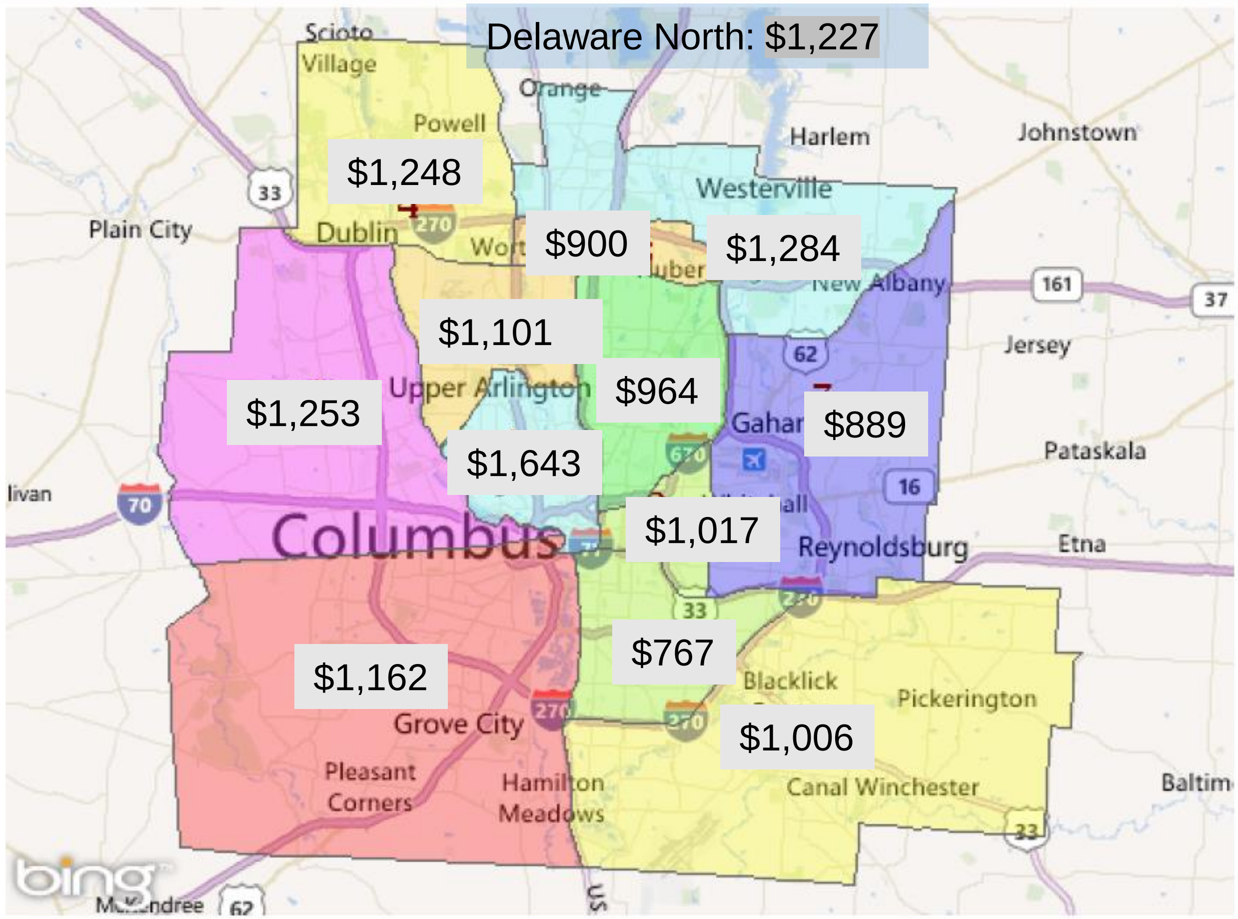
Asking Rent by Submarket



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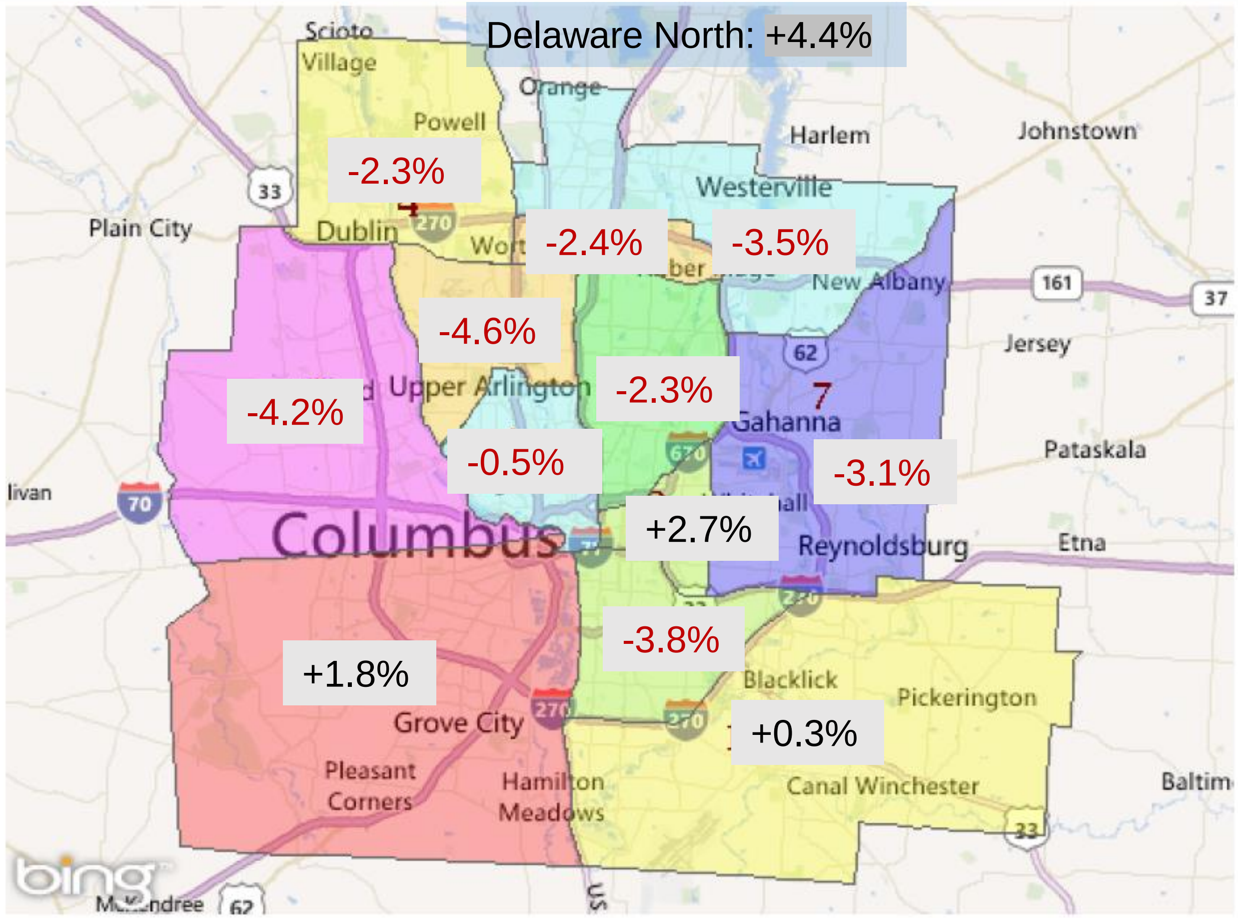
Change in Rent 2023-2024



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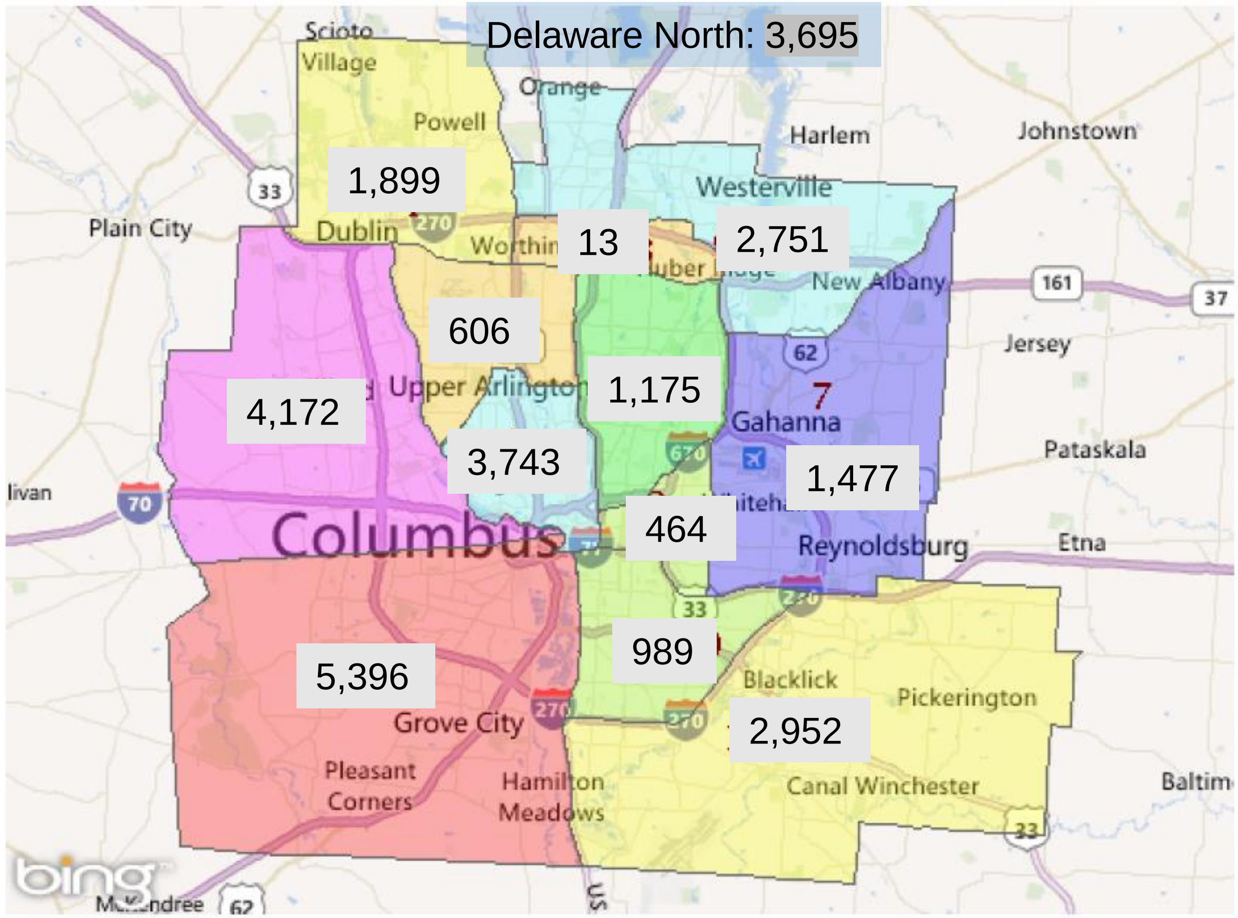
Planned and Proposed by Submarket



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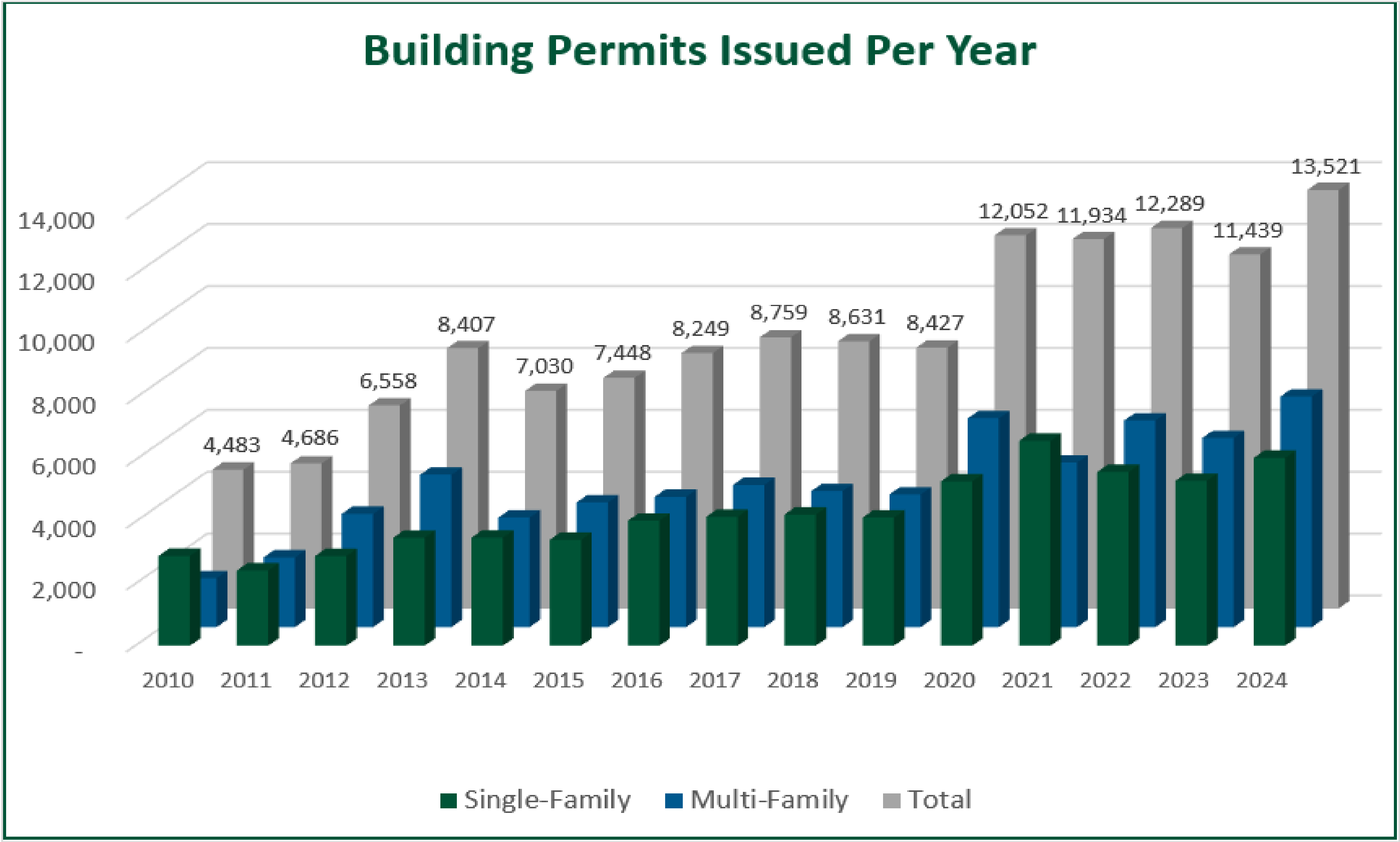

Source: HUD SOCDS Building Permit Database

What Happened to the Downtown Apartment Market?

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- Despite national slowdown of apartment construction, Columbus continues to see positive growth (much of which is needed).
- The headlines are for a continued need for ***housing***.
- The vast majority of the need is for ***"affordable"*** or ***"missing middle"*** housing.
- Unfortunately, downtown has generated a disproportionate share of the new housing over the past few years.
- Most of this housing is at the high-end.
- Downtown has a 12% vacancy rate.
- Downtown rents have declined by -4.8% in the past two years.
- Approximately 1,500+ downtown apartment units currently under construction and thousands more in "initial planning" stages.
- Additional vacant parking lots and land available for continued downtown development.
- Employment is slowly returning to downtown, which could help future demand.

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Although national trends indicate a slowing development pipeline by late-2025 and into 2026, Downtown Columbus will continue with robust market-rate apartment development through 2026.

Under Construction Properties				
Name	Location	Project Type	Total U/C Units	Expected Completion
Two Twenty Vine	220 Vine St. Columbus, OH	Market-Rate	124	Early-2025
The Luminary	723-766 Mount Vernon Ave. Columbus, OH	Market-Rate	75	Mid-2025
Jaeger Square	850 E. Jaeger St. Columbus, OH	Market-Rate	262	Mid-2025
Diehl Whittaker Apts.	720 E. Long St. Columbus, OH	Market-Rate	90	Summer/Fall-2025
The Gilbert	195 E. Broad St. Columbus, OH	Market-Rate	139	Summer/Fall-2025
River and Rich Phase II	241 McDowell St. Columbus, OH	Market-Rate	234	Late-2025
Edwards Urban	100 N. High St. Columbus, OH	Market-Rate	152	Late-2025 to Early-2026
Continental Centre	150 E. Gay St. Columbus, OH	Market-Rate	406	Early-2026
The Merchant Building	475 N. Wall St. Columbus, OH	Market-Rate	174	Late-2026

Source: VSI Surveys

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Suburban Development Increases & Adds New Competitive Overlap with Downtown

- Apartment development in the suburbs (outside downtown) has been increasing – especially among large "mixed-use" and "planned-development" projects.
- Creating a "Sense of Place" has brough significant potential to suburban communities.
- "Downtown" Grove City experiencing development – new Broadway Live mixed-use project.
- Beulah Park development is also bring many more units to Grove City.
- Dublin's Bridge Park has brought hundreds of new apartment units and for-sale condominiums.
- TruePointe in Hilliard will add hundreds of new homes.
- Nationwide's Grandview Yard development continues to add new housing.
- Thrive's Grandview Crossing and Quarry Trails adding hundreds of new homes.

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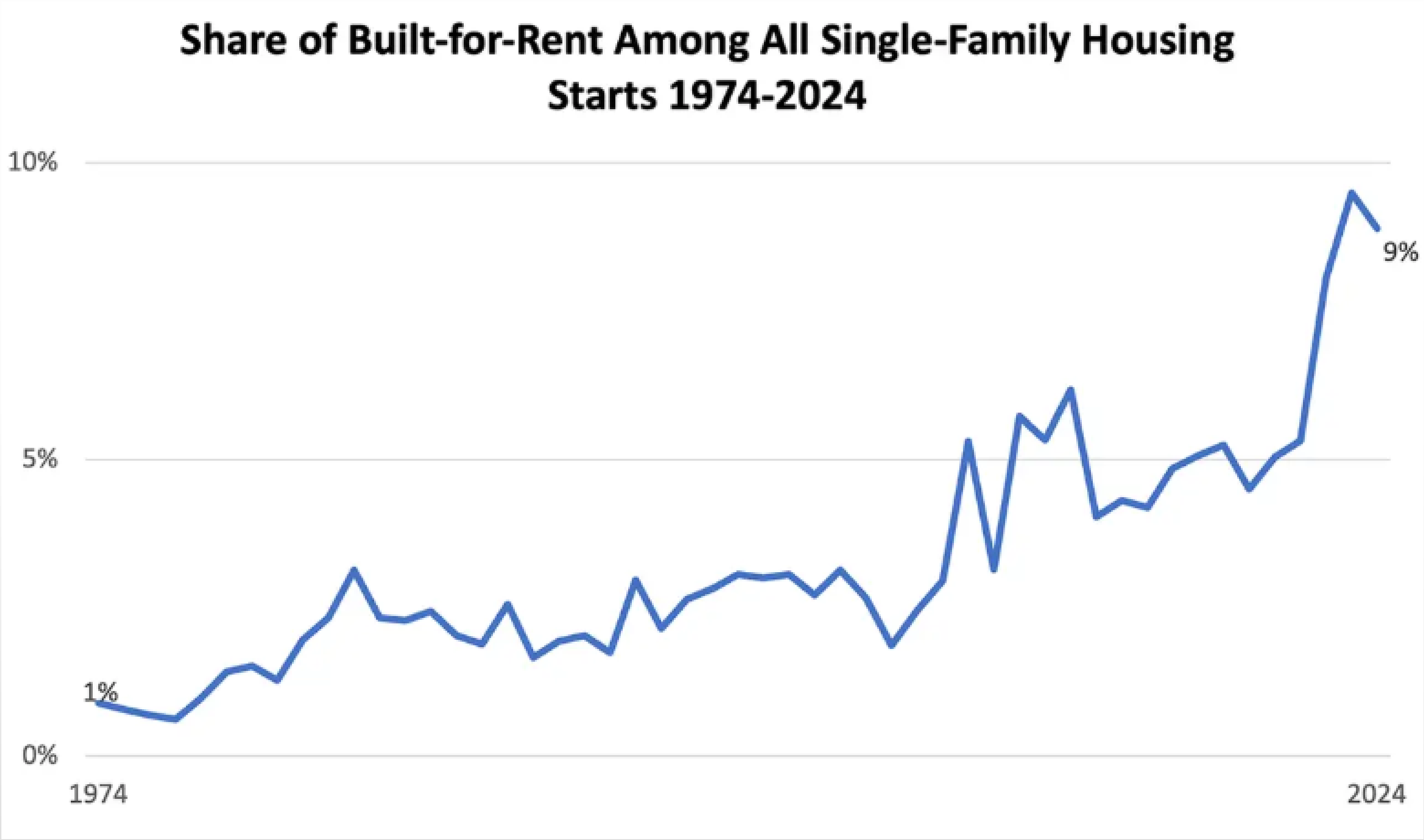

- National trends indicate an increasing demand for “Build-for-Rent” single-family home neighborhoods.
- “Sunbelt” markets have already experienced significant growth in this sector.

Family-Oriented
“Build-for-Rent”

VS.

Active Senior
“Build-for-Rent”

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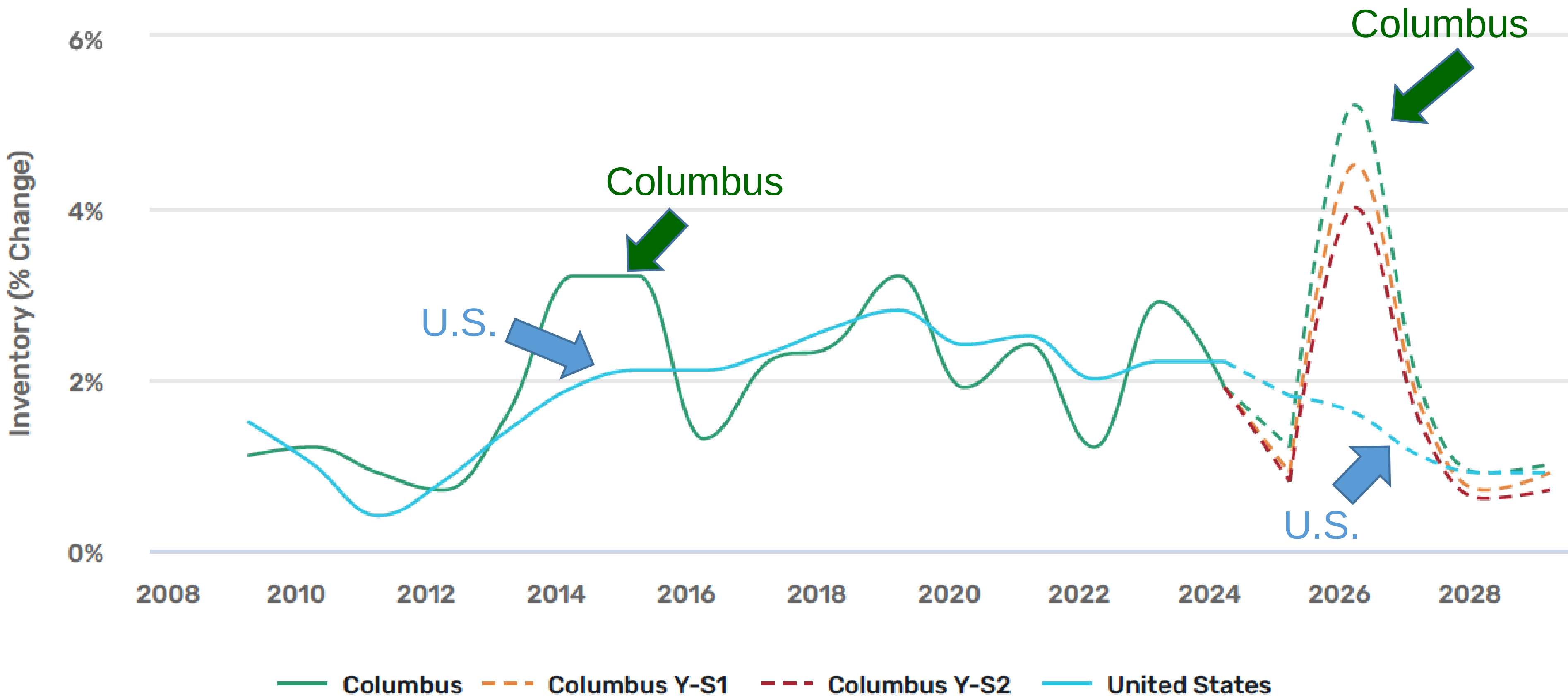
Future Predictions

- REIS forecasted a 2024 vacancy rate of 5.5% and we ended up at **5.7%**.
- REIS forecasted a 2024 rent growth of +2.6% and we ended up experiencing a **-1.7%** decline.
- REIS is currently forecasting a 5.5% vacancy rate for year-end 2024.
- VSI expects vacancies to be slightly higher than this in 2024 due to pipeline – potentially approaching 6.0%.
- REIS is currently forecasting asking rents will increase by +1.5% in 2024 in Columbus. In the Midwest, they are forecasting a +2.6% increase.

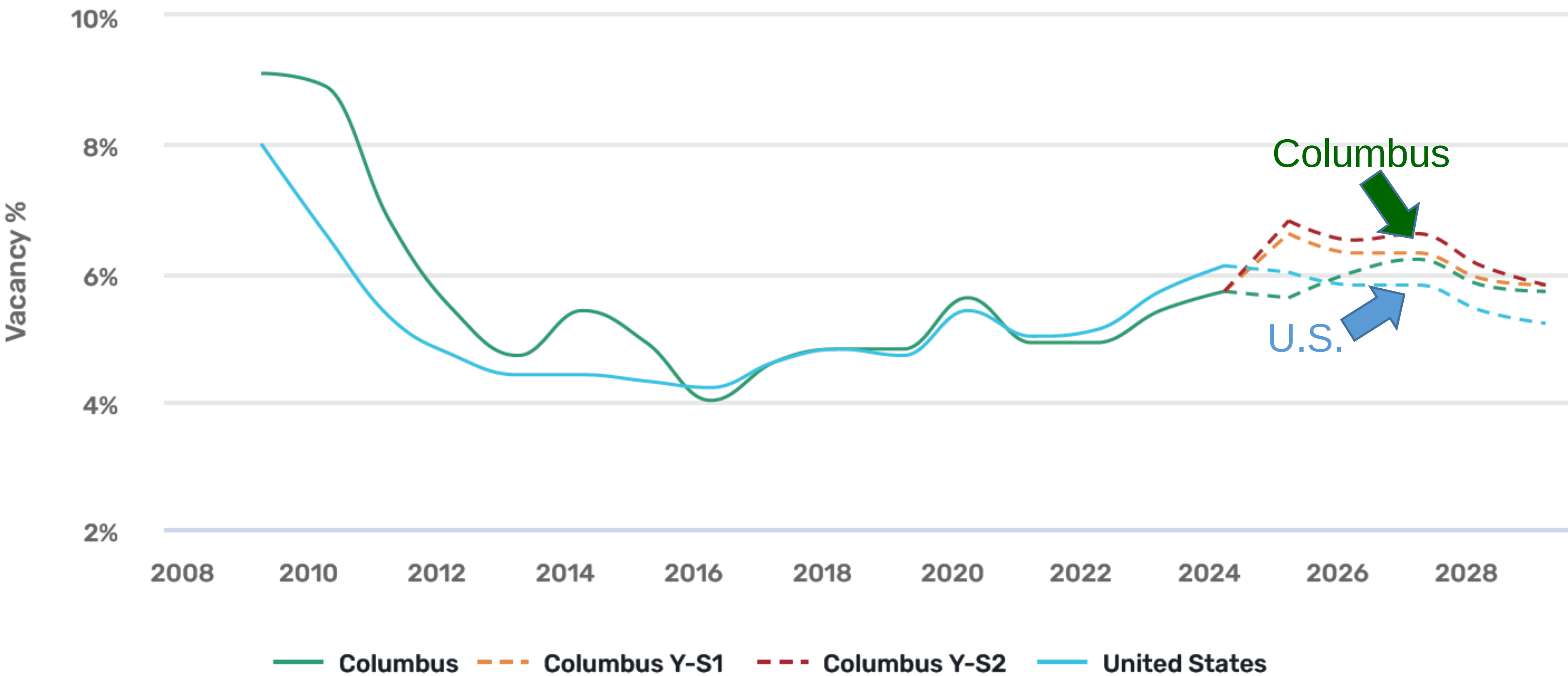
Inventory Projection
(% Change)



Source: REIS Year End 2024 Columbus Metro report

- REIS projects a significant greater share of inventory growth in Columbus, compared to the U.S.

Vacancy Rate Projection



Source: REIS Year End 2024 Columbus Metro report

- REIS projects slightly higher vacancies in Columbus, as compared to the U.S.

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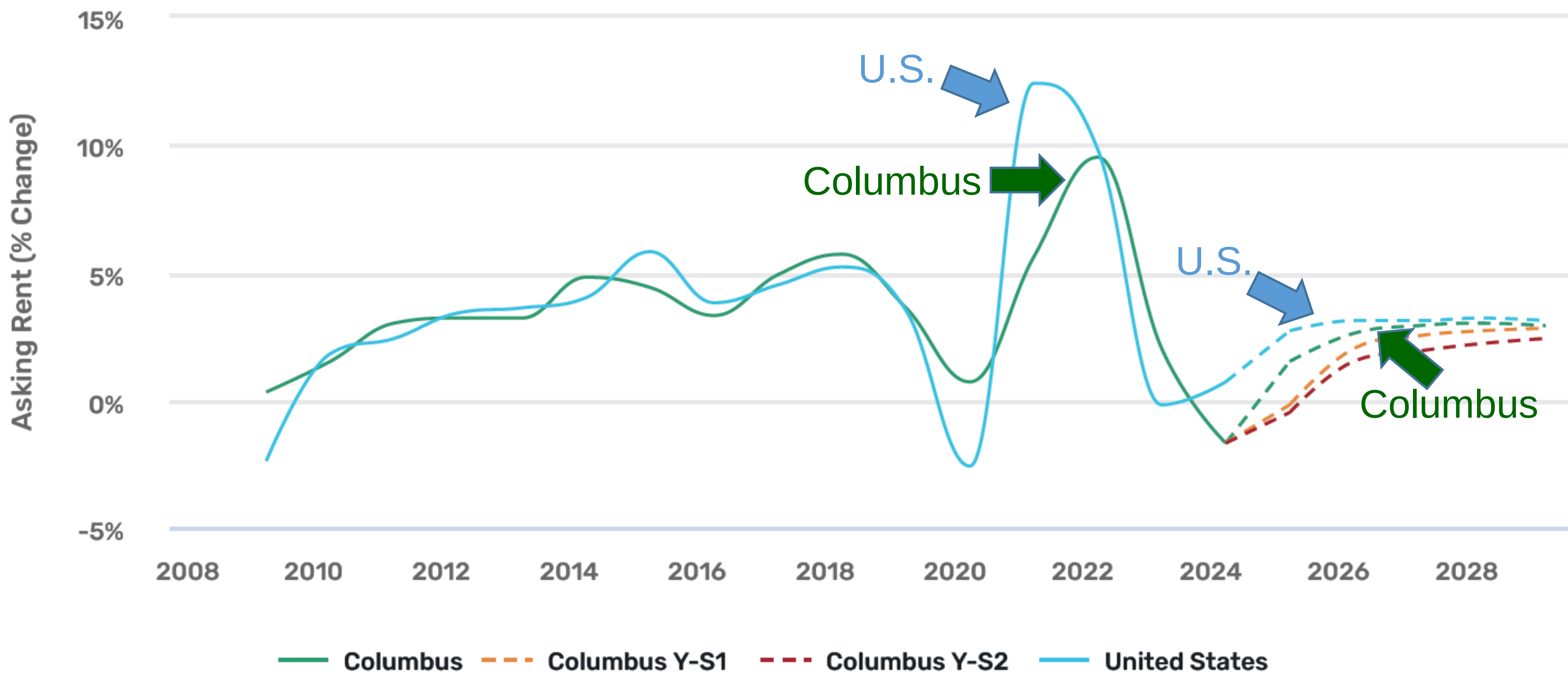
Asking Rent Projection



Source: REIS Year End 2024 Columbus Metro report

- REIS projects slightly less rent growth in Columbus, compared to the U.S. as a whole in 2025 & 2026.
- By 2027 & 2028, Columbus rent growth will likely return to national averages.

What To Watch

- Will employment continue to return to downtown, resulting in improved performance and adequate absorption of new downtown apartments?
- Impact of city's tax abatement plan?
- Will we see additional new public-incentives (both locally and nationally) to build workforce and affordable rental housing?
- Middle-Income Housing Tax Credits (MIHTC) on the horizon for Ohio? (currently being discussions federally – CHFA (Colorado) officially released their QAP for a MIHTC program).
- The "Affordability Crisis" is real – will there be any meaningful change on the horizon?
- Due to affordability, we will see a reverse of the Pandemic-trend of "roommate-decoupling", and result in increased demand for 2- & 3-br. market-rate units?
- Will interest rates decline and positively impact development/construction/financing of more housing?
- How many rental projects will emerge on the coattails of Intel on the east side of Columbus? Will downtown be impacted?
- Will we continue to see more mixed-use developments?
- Will the Millennial demographic shift to homeownership impact demand for apartments?

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