COLUMBUSCEO

July 2016

REAL ESTATE INDUSTRY CULTIVATES WHILE IT CAN

By Jennifer Wray

Recently named the nation's hottest market for apartment rentals, Columbus has seen a boom in commercial real estate, with dense, mixed-use developments proving especially attractive. But can it last?

Ask CBRE Group Managing Director Michael Copella to describe the state of commercial real estate in central Ohio and you'll be met with a string of superlatives. The landscape, he says, "is very positive. It's a very exciting time and there are strengths across all industry types, so I'd say there are great things happening in office development, there are great things happening in industrial, and certainly we're seeing some pretty exciting retail projects as well."

Nationwide Insurance is moving associates into a newly completed corporate campus building at Grandview Yard, the 125-acre mixed-use project owned and developed by Nationwide Realty Investors.

Forgive his enthusiasm, but he's not wrong—now is a great time in the Columbus commercial real estate market. The area has some of the state's highest occupancy levels when it comes to commercial products, reports CBRE in its "Columbus Real Estate Market Outlook 2016," and it looks to keep humming along. With unemployment and interest rates down and rents on the rise, the commercial real estate landscape of today is markedly different than that of a few years ago. Now, thanks at least in part to pent-up demand created by the Great Recession, business is booming.

The new commercial real estate development and construction in central Ohio reflects national trends and efforts by local government, private companies and civic leaders. Central Ohio is developing—not just outward—but inward, too. While it's certain that the good times can't last forever, real estate professionals are optimistic about prospects for the next few years.

Going Up

When it comes to apartment markets, there are none hotter than Columbus, real estate service Zillow announced in April, ranking it ahead of Seattle (No. 2). "As fast as builders can put up new apartment buildings in Columbus, Ohio, renters are snapping them up," Zillow says.
The high-end market is the strongest segment within Columbus multifamily development, reports CBRE. Central Ohio as a whole has a multifamily vacancy rate of 4.2 percent, according to CBRE. (The National Association of Realtors reports national multifamily vacancy rates of 7 percent.)

"Frankly, the recession was the vehicle that created the opportunities we see today," Rob Vogt, owner of Columbus-based real estate research firm Vogt Strategic Insights, says. Millennials took a pause from the job market and returned to school. Many witnessed parents lose their homes or see drops in value. "They saw what happened with their parents' houses and (said), 'you know, I don't need that to happen to me. Renting affords me the opportunity that, if something happens to me in the economy, I don't have a house I have to get rid of or lose value on,'" Vogt says.

Also, a growing number of people who could afford to buy a home are instead opting to rent, says Vogt. That's fortunate, as Vogt notes, "The problem today is the cost of land and construction materials dictates that almost everything built today has got to tug at the high end. You just can't build an apartment building or a community anymore and not charge $1.50 or $2 per square foot rent."

Demographic changes are propelling a marketplace evolution. People aged 20-34, about one quarter of Columbus' population, are the "prime renter age group," according to commercial real estate brokerage firm Marcus & Millichap.

Empty nesters are following suit.

"The millennials and the boomers aren't real excited about having single-family homes at this point, and both are wanting an urban environment," says Columbus Development Director Steve Schoeny.

"Empty nesters and young professionals are interested in a certain kind of energy, walkability, a lifestyle to be able to have everything right at their fingertips and be part of the broader community," says developer Brett Kaufman.

Vogt says he doesn't expect demand for multifamily to abate any time soon, as millennials eventually find a place of their own, with or without a partner. "This built-in market of millennials moving out of basements means that we'll see apartment demand continue pretty steadily, I think, for a number of years," says Vogt.

Builders completed more than 2,900 rentals in 2015, up 1.9 percent over 2015. There are 3,000 units under construction this year, reports Marcus & Millichap. "A third of complexes will be located in the city center, where demand is highest," says the firm.

Tenants are willing to pay. Rents in Columbus increased 4.4 percent in 2015, reports Marcus & Millichap, which projects 4.9 percent growth this year. Columbus renters will pay an average of $862 in 2016, with renters seeking proximity to work and entertainment venues paying a premium of about $130 more. Central Ohio's affluent are paying more still, topping $3,000 for prime rentals Downtown and in the Short North.

Further afield, the Schottenstein Real Estate Group has seen apartment units in high-end suburbs command monthly rents of as much as $2,000, about the cost of a mortgage payment, says President Brian Schottenstein. "'Apartment' isn't a dirty word anymore," he says. "People want to rent now and rent longer because we're allowing them to have everything they want right in their backyard. … They'll have a 24-hour fitness center, they'll have a resort-type pool, they'll have a community garden where they can plant their own vegetables," and much more, says Schottenstein, whose company recently broke ground on Powell Grand Communities, the village's first large multifamily, mixed-use development. (Schottenstein has similar projects in Jerome Township and Dublin.)

Offices Built for Jobs

As of May, Columbus' unemployment rate was 3.9 percent, under the national-average 4.7 percent, according to the US Bureau of Labor Statistics. "There is a war underway for talent, and so companies are using their space to engage and attract talent," says Copella. He adds a recent CBRE survey of C-suite and real estate directors found, "their No. 1 concern was having space that attracted and retained talent. … No. 3 was having a space that was efficient and productive and No. 7 was occupancy costs."
"One of the primary factors in the Arena District's success has been the objective of attracting and retaining talented people," says Nationwide Realty Investors President and COO Brian Ellis. "Really, when we made the decision to invest in and build the Arena District, one of the motivations was that it would make it easier for Nationwide to attract talent to our organization, which would be adjacent to this high-energy neighborhood."

The 250 High project by Kaufman Development and the Daimler Group is another such example of a successful live-work-play environment. In addition to an open floor plan and modern facilities, it offers common spaces for office, residential and retail users, including a rooftop patio. Yoga, wellness classes and philanthropic events are available for all the building's primary users. "Having office and residential and retail all in a project, sharing common spaces, is something that's unique," Kaufman says. "We're finding that people like that kind of mix."

Taking it Downtown

Suburban developments aren't going away anytime soon—when it comes to raising and educating children, it's hard to resist the 'burbs' siren call—but a growing number of people are drawn to downtown living.

"In 2011, population growth in urban areas began to outpace the suburbs in the US for the first time in over 100 years. Firms and employers are following the feet of the flow of urbanites, creating new vertical/mixed-use retail formats and more collaborative and compact office buildings," reports National Real Estate Investor.

Columbus is no different. "With more than 1,000 new units slated for the Downtown/University submarket this year (2016), many households will obtain urban lodging while others will move into neighboring areas that will have dense development," Marcus & Millichap reports. About 7,500 people have made Downtown home, more than twice the

When fully complete, Grandview Yard will have more than 1.2 million square feet of commercial space, plus more than 1,300 residential units (apartments and condominiums).

number there in 2000, when then-Mayor Michael Coleman announced a goal to grow it to 10,000 by 2012. The recession slowed his plans, but it didn't halt them.

RiverSouth, at the southern edge of Downtown, has seen an influx of activity as developers take advantage of natural amenities, chief among them green space and proximity to the Scioto River, and city incentives including tax-increment financing and abatements and partnerships with local nonprofits. There, you'll find the $25 million Columbus Commons park on the site of the former City Center mall, and the Scioto River, which has seen nearly $80 million in improvements to the waterway and its environs.

Among those taking note of the city's work is the New York Times, which in May featured Columbus' efforts Downtown.

"Columbus' strategy of seeding anticipated private real estate investment with taxpayer money defied the tactics of low taxes and public spending austerity that gripped Ohio's state lawmakers through and since the recession. But city officials say their decisions have paid off, attracting developers into privately financing the replacement of cracked asphalt of parking lots with nearly $350 million in new and renovated market-rate buildings that house thousands of Downtown residents, and helped generate 1,000 jobs," notes the Times.

Support from the city, organizations—such as the Columbus Downtown Development Corporation, Columbus Partnership and Columbus 2020—the parks and the Downtown tax abatement program have moved the needle on development, says Kaufman. "The economics unfortunately just did not make sense without the incentives and the initiatives to open up for development for our city," he says.

The $50 million, 12-story 250 High building opened in November and is 99 percent leased. Downtown Columbus hadn't previously seen office and multifamily vertically stacked in a mid-rise development, Daimler President Bob White, Jr. says. "It was a really exciting project; the office in particular was really received by the marketplace. A large, efficient floorplate, combined with a 100-percent, 15-year real estate tax abatement made it very attractive (to businesses) to move into the brand new space, space that reflects how they want to work now and into the future," says White.

"If we want more jobs Downtown, if we want retail to be Downtown, if we want energy and nightlife and people living and working in our Downtown, we have to work together to make that happen," Kaufman says. He and Daimler are partnering on a similar mixed-use project nearby. Two25 Commons is a $60 million, 12-story project with 121 apartments, offices and street-level retail expected to be complete by the end of 2018.

Also at the eight-acre Columbus Commons is Robert Weiler Company's HighPoint, which features a mix of studio and one- and two-bedroom apartments. "Those apartments are all full, I'm happy to say, and on the ground floor we have retail—and it's filling up," says President Robert Weiler, Jr.

In May, Arshot Investment Corp. unveiled Millennial Tower, a $90 million, 400,000-square-foot mixed-use building proposed for what's now a surface parking lot. The 25-story high-rise will have 100 apartments and condominiums, 180,000 square feet of office space, terrace and outdoor amenity spaces, 40,000 square feet of retail, parking, a conference facility and a 24-hour fitness center—plus an outdoor pool and a dog park. The views from the structure's floor-to-ceiling glass walls will be "outstanding," says Principal Bill Schottenstein.

To the Yard and Beyond

Northwest of Downtown is Grandview Yard, a former warehouse site swiftly turning into a lively multi-use development thanks to Nationwide Realty Investors. Since NRI broke ground at the 125-acre site in 2009, Grandview Yard has become home to a hotel, a workout facility, restaurants, a grocery store, offices and more. In late 2014, Nationwide announced it would open a 500,000-square-foot campus for more than 3,000 associates, most of whom are shifting from offices in Dublin. In May, NRI, the real estate development affiliate of the Nationwide insurance and financial services company, welcomed workers into the first of what will be three four-story offices. Plans call for a second building of 160,000 square feet to open in 2017 and a third opening in 2019.

Eventually, Grandview Yard will have more than 1.2 million square feet of commercial space, plus more than 1,300 residential units (apartments and condominiums).

Developers are seeing success in other areas near Downtown. They include NRI's Buggyworks project in the Arena District and, in the Short North, a proposed 12-story high rise from the Pizzuti Companies and mixed-use projects from White Castle Inc. with Borror Properties and the Wood Companies with Schiff Capital. In Italian Village, Wagenbrenner Development will break ground on the fourth and fifth phases of its Jeffrey Park project. "If there's a property to be developed, people are starting to look at it—if it's in a space that is well-connected, active and has the potential for a fair amount of density. These are the things that we consistently see as being successful," Shoeney says. This includes the area's further-flung neighborhoods and suburbs, especially in the northeast portion of central Ohio.

East of I-270, at North Hamilton and East Dublin Granville roads—Columbus' last undeveloped interchange—lies Hamilton Quarter. The $250 million, 320-acre site is being developed by Daimler, Casto Communities and New Albany Co. and will combine retail, offices (including 320,000 square feet for off-price retailer Big Lots), senior living and multi-family units.

Last year, Columbus committed itself to helping fund a $27.4 million "S" curve connector.

Swedish home furnishings store IKEA will open at Polaris next summer and will have about 300 workers, while nearby, at the southeast corner of Lyra Drive and Gemini Place, NP Limited Partnership has teamed up with Kansas City-based VanTrust on Polaris Gateway, a proposed $100 million, 500,000-square-foot mixed use development. Further north on I-71 is Northstar, a partnership between Weiler and NRI. Since the late 1990s, developers have invested about $50 million in the southern Delaware County site, which will complement housing with retail, office, restaurant, senior housing and hotel projects. The area has gotten a boost from neighboring Tanger Outlets Columbus, opening in late June. Immediately to the south of the 350,000-square-foot outlet mall is NorthGate Centre, a 746-acre mixed-use project blending homes, restaurants, hotels and businesses.

Focusing on Franklinton

With activity ticking along Downtown and elsewhere, civic leaders and private developers are turning their gaze west to Franklinton, site of the city's first settlement in 1797 and, in the words of the Atlantic, "Columbus' most downtrodden neighborhood." Says the magazine, "It's an interesting (but not all that uncommon) geographic paradox: The poorest part of the city has the best, close-up views of its imposing skyline."

In 1983, repeated flooding in the neighborhood (and resulting losses of lives and homes) prompted the Federal Emergency Management Agency to declare virtually all of Franklinton a floodplain and Columbus to restrict construction. Building stock declined and people left in droves until a long-awaited, seven-mile, $193 million floodwall opened in 2004.
In his 2011 state of the city address, Coleman laid out plans to remake Franklinton into an "affordable live-work community tailored to the creative sector." In the years since, development followed, with East Franklinton, the community's more industrial area near Downtown, the focus. Creative spaces opened at 400 West Rich, the Idea Foundry (the country's largest "makerspace") and Glass Axis—and dining and drinks can be found at Strongwater Food and Spirits and Land-Grant Brewing.

More recently, East Franklinton has been energized with plans for additional commercial development. In mid-June, Kaufman announced a project

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that would replace Phillips Coney Island and National Office Warehouse on West Broad Street with a multiuse development featuring 50,000 square feet of offices, 241 studio, one- and two-bedroom apartments, retail, public art, a climbing wall and more. "We are pretty impressed with how things are starting to organically unfold there," Kaufman says of the neighborhood.

Meanwhile, Robert Weiler Co., Casto and Donald W. Kelley & Associates are partnering with the Columbus Metropolitan Housing Authority and Smoot Construction on a high-rise, mixed-use building on West Rich Street. The development will have 800-1,000 units, mostly studio or one-bedroom, of which about 40 percent will be priced as affordable "workforce units," thanks to a city grant.

Weiler says the project will also have some retail, with the Greater Columbus Arts Council among its tenants.

NRI is among developers snapping up land, including the former Byers Chevrolet property on West Broad Street. Ellis cautions that Franklinton is not the same as the Arena District or Grandview Yard, where NRI is the exclusive property owner and developer. "In East Franklinton, we are one of a number of developers that are working on revitalization."

Looking Forward

"Despite various global and domestic hurdles hindering economic growth, steady job gains and stable leasing demand should help keep commercial real estate activity expanding in 2016," finds a cautiously worded report jointly authored by Situs Real Estate Research Corporation, Deloitte and the National Association of Realtors. The report, released in early February, describes "not-great-but-not bad US economic growth."

In December, the US Federal Reserve increased its key interest rate range to 0.25-0.5 percent, still quite low.

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—Brian J. Ellis

In its announcement about the rise in rates, the central bank projected only "gradual increases" and said they should stay low "for some time." Just when change might happen remains unclear. Unemployment is low, jobs have been added and wages are finally increasing—all of which would point to an increase—but as the labor market has grown, the stronger dollar has weakened manufacturing and impacted inflation, according to Marcus & Millichap. That said, a moderate increase would be a sign from the Fed that the economy has strengthened.

A May survey from CIT Group in partnership with Forbes Insight finds that of the 201 senior real estate executives canvassed, most were optimistic about the state of CRE, with 52 percent saying they believed their market segment was "strong" or "very strong." Respondents named interest rates, consumer confidence, the global economy, employment and US tax rates as top factors driving CRE investments. Still, 44 percent said certain segments are poised for "significant decline."

Says Ellis, "Right now apartments are red-hot, and I think there's some risk. I think in the big picture, urban residential projects are going to be successful, but there could be a bump or two in the road as we continue to build the population back in the center city."

Vogt says construction costs are a concern, too. Finding skilled craftsmen to do the work, plumbers and electricians, framers and concrete work, all of those subcontractors are so difficult to find and are in so much demand that it's difficult to ... put together a reasonable construction schedule," Vogt says. During the downturn, many skilled laborers left the industry altogether, "and it's seemingly less popular for the younger generation to focus on and pick up a trade," notes White. "If you talk to subcontractors, (you'll find) it's tough for them to find qualified, skilled employees to handle the workload."

Kaufman says he hopes Columbus' success doesn't backfire. "The sentiment I hear is that people feel like we're over the hump and no longer need to do the things we've done to get us this point," Kaufman says. He disagrees. "Tax abatements, incentives, working together—you take these things out of the equation and things will come to a grinding halt," A sudden halt to city incentives "is going to totally put the market out of balance," with some property owners losing as much as half of their properties' value, Wagenbrenner predicts. For similar reasons, he expressed concern about efforts to move toward ward representation on Columbus City Council.

Such events aside, Ellis says he has been around long enough to see real estate cycle, ebb and flow. "Columbus has had, historically, a little shallower valleys and not as steep of peaks" when it comes to commercial development. "I think that's been good, you know, slow and steady growth. … I expect that will continue. We'll probably see a dip at some point, but it won't be too soon, and when we do, I don't think it will be as severe as you see in other, more go-go markets," he reflects. ■