

COLUMBUS APARTMENT ASSOCIATION

2010 March General Meeting

Brookside Country Club

**The Central Ohio Apartment Market: O
Recovery, Where Art Thou?**

Presented by:

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Director, RED CAPITAL Research

Find us on the web at www.redcapitalgroup.com/research



March 11, 2010

▶ Economics

- Current economic conditions in the U.S. and Columbus
- **PNC U.S. economic forecast and RED CAPITAL Research** econometric payroll forecast for 2010 - 2011

▶ Metro Apartment Market Conditions

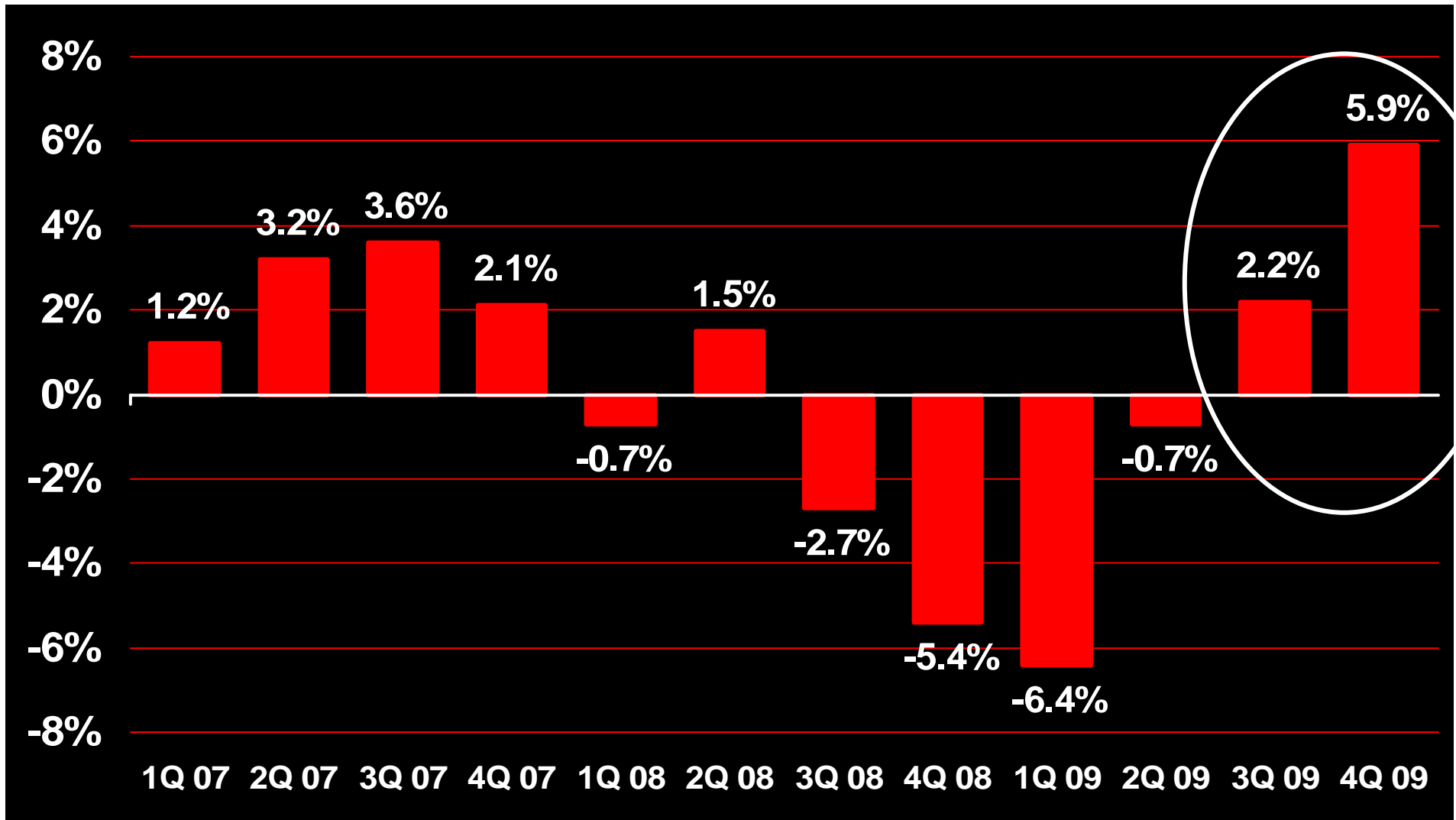
- For-sale real estate market trends
- Occupancy trends
- Asking and effective rent trends
- Unbiased forecasts for 2010 – 2014
- Submarket and property class trends

▶ Value and Investment Considerations

- Valuation metrics for recent property trades
- Five-year unlevered total return forecast and risk-adjusted return estimate, comparison with peers



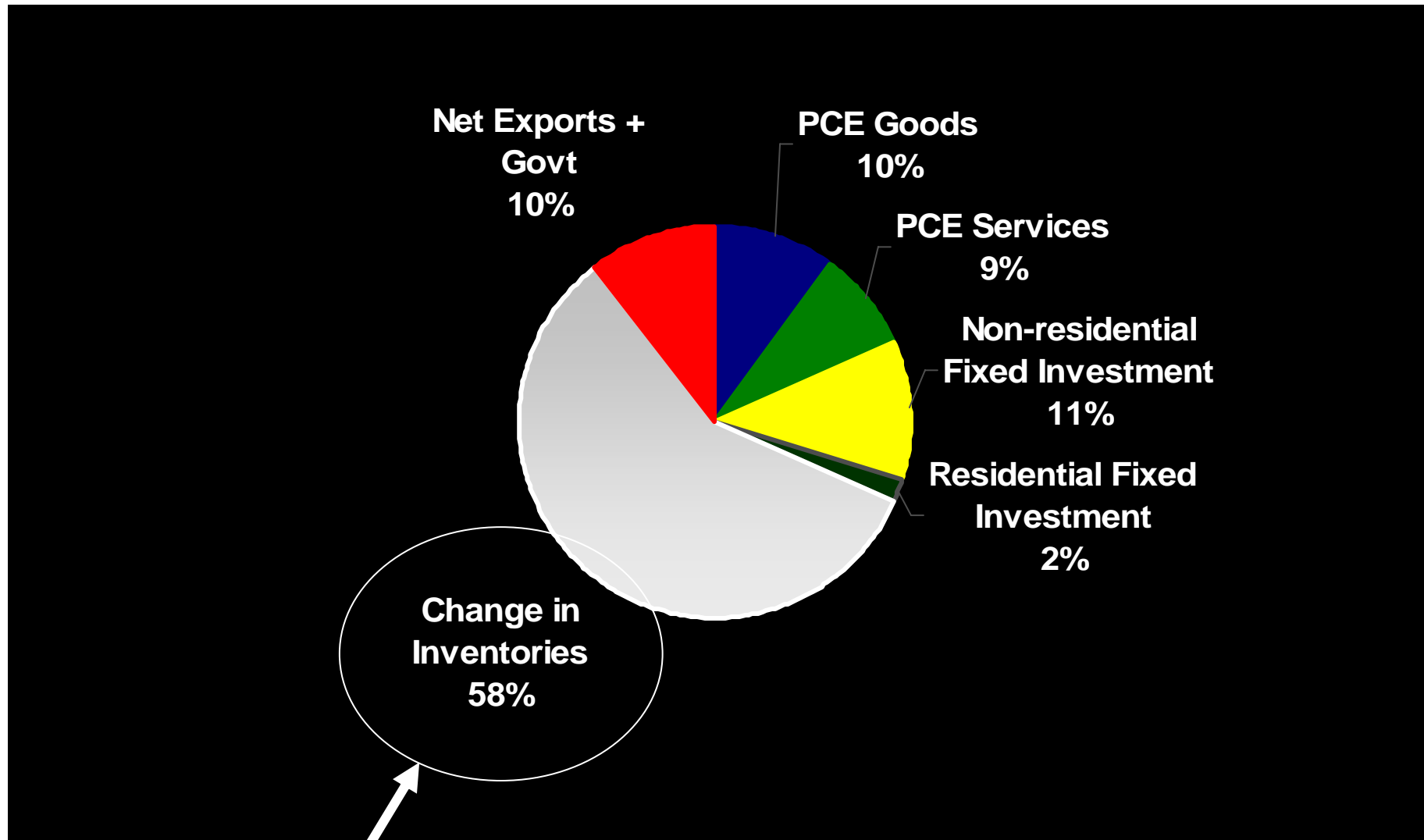
Quarterly SA,AR GDP: Building Recovery or Head Fake?



Sources: Bureau of Economic Analysis



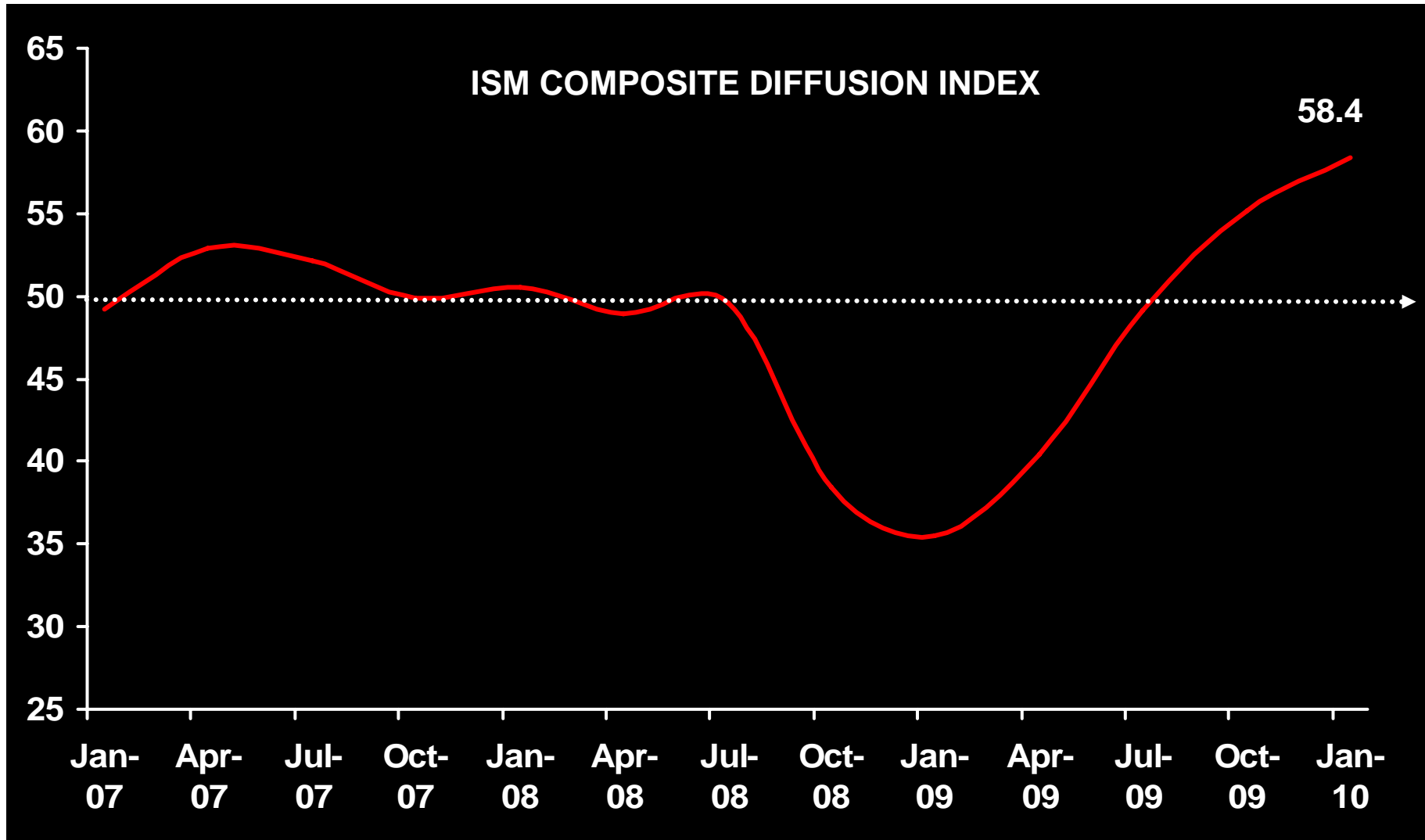
Components of Fourth Quarter GDP Growth



Inventories actually declined by -\$16.9 bn. Net contribution to GDP reflects a deceleration in inventory drawdown.

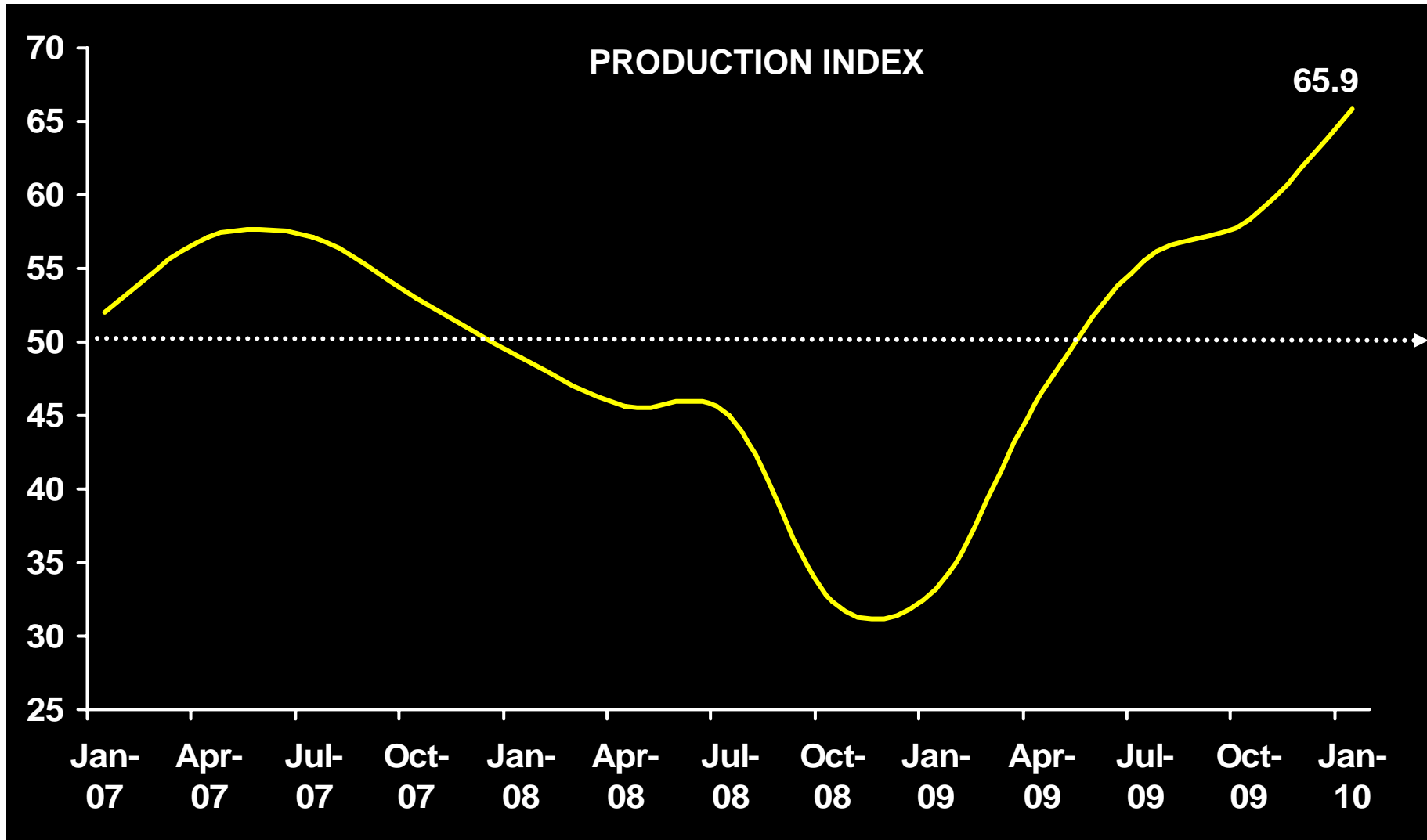


Institute of Supply-chain Management Manufacturing Index



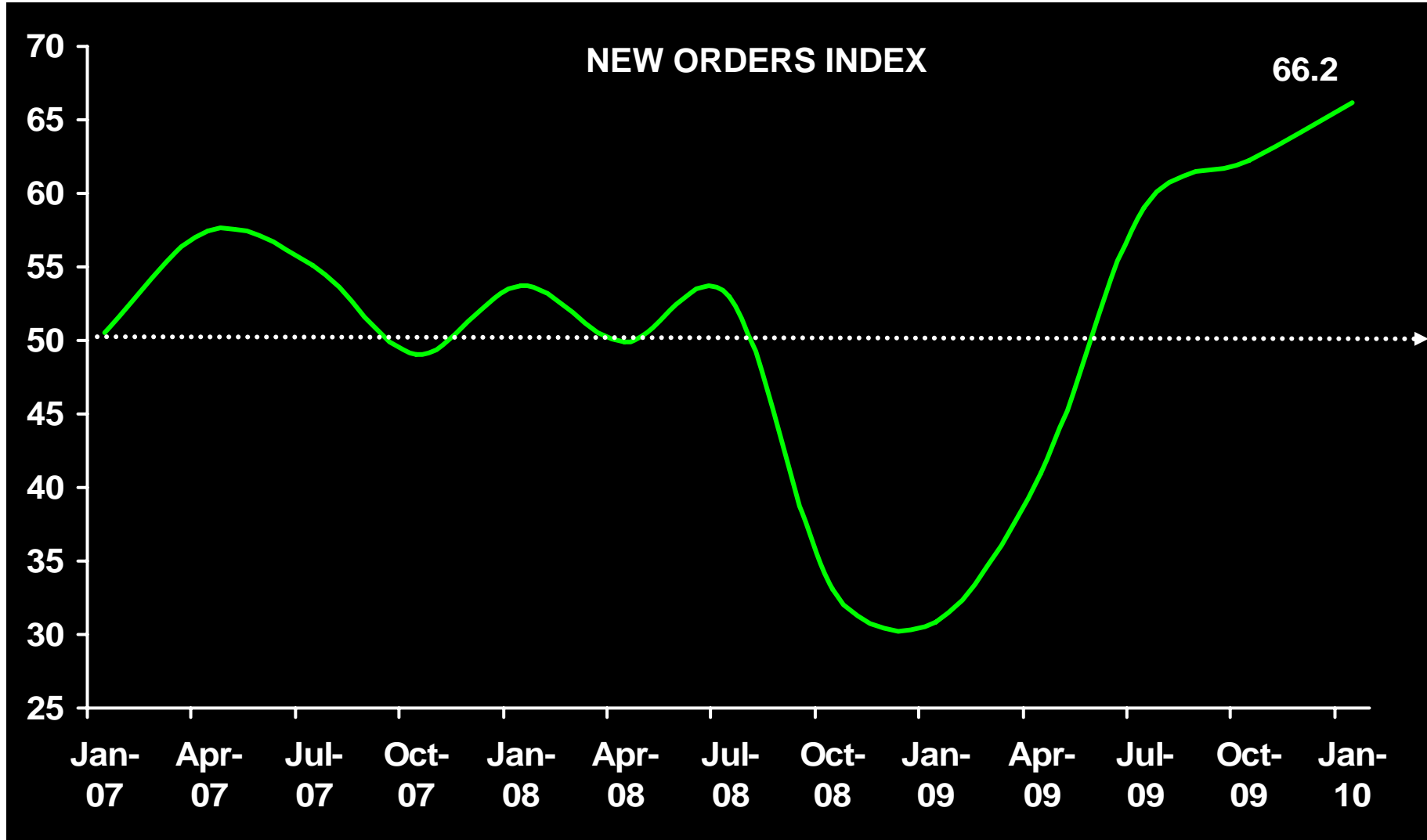


Institute of Supply-chain Management Manufacturing Index



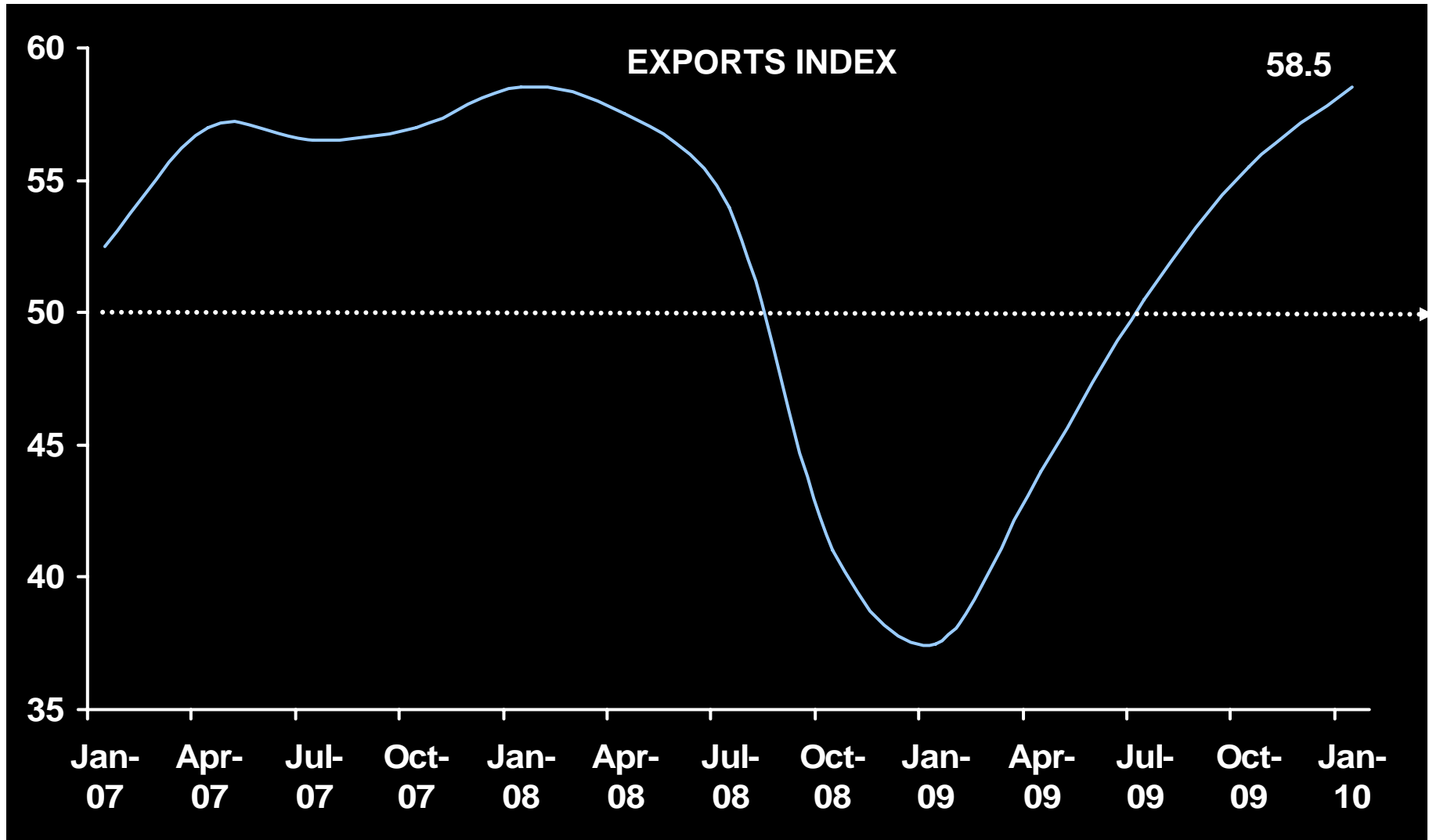


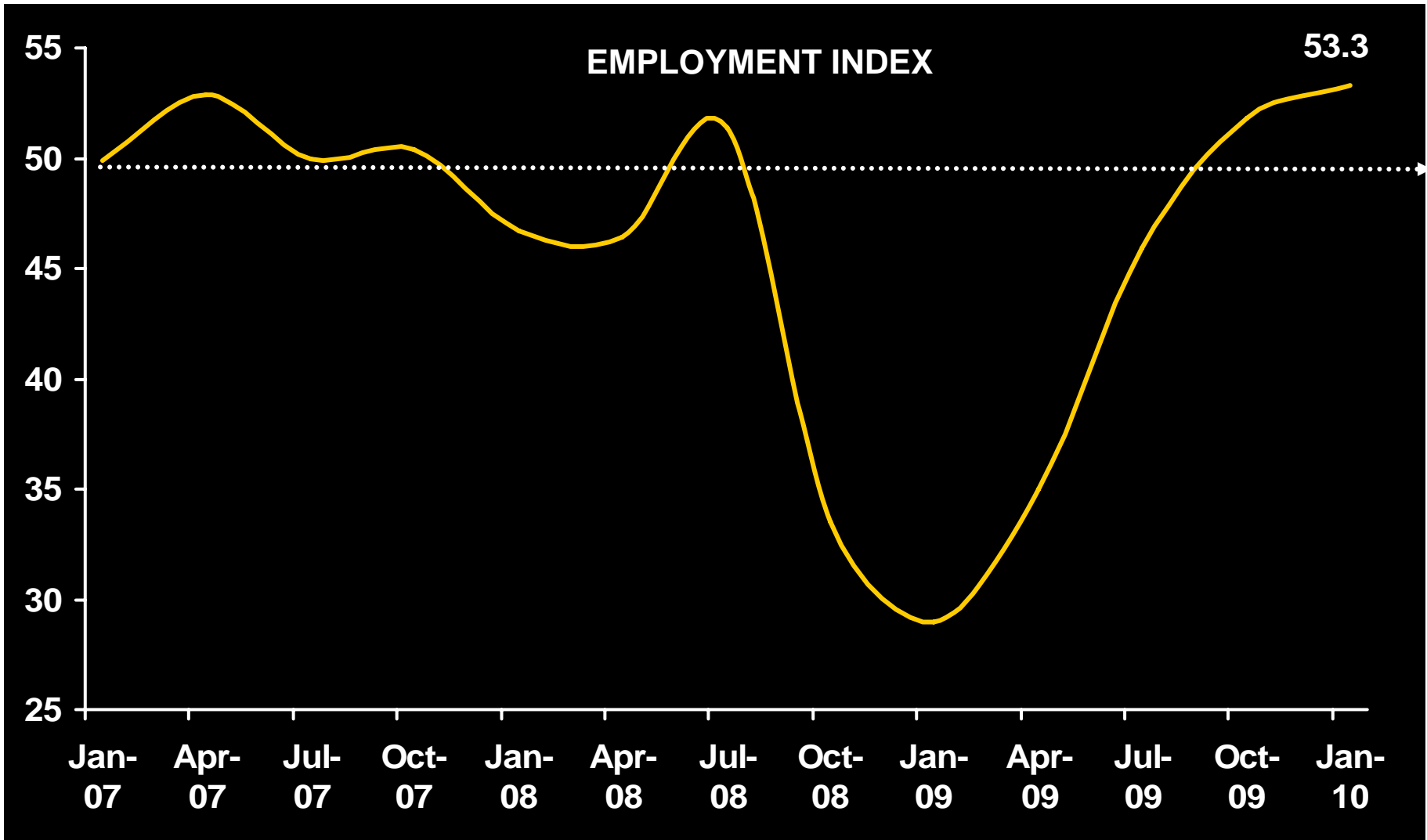
INSTITUTE OF SUPPLY-CHAIN MANAGEMENT MANUFACTURING INDEX



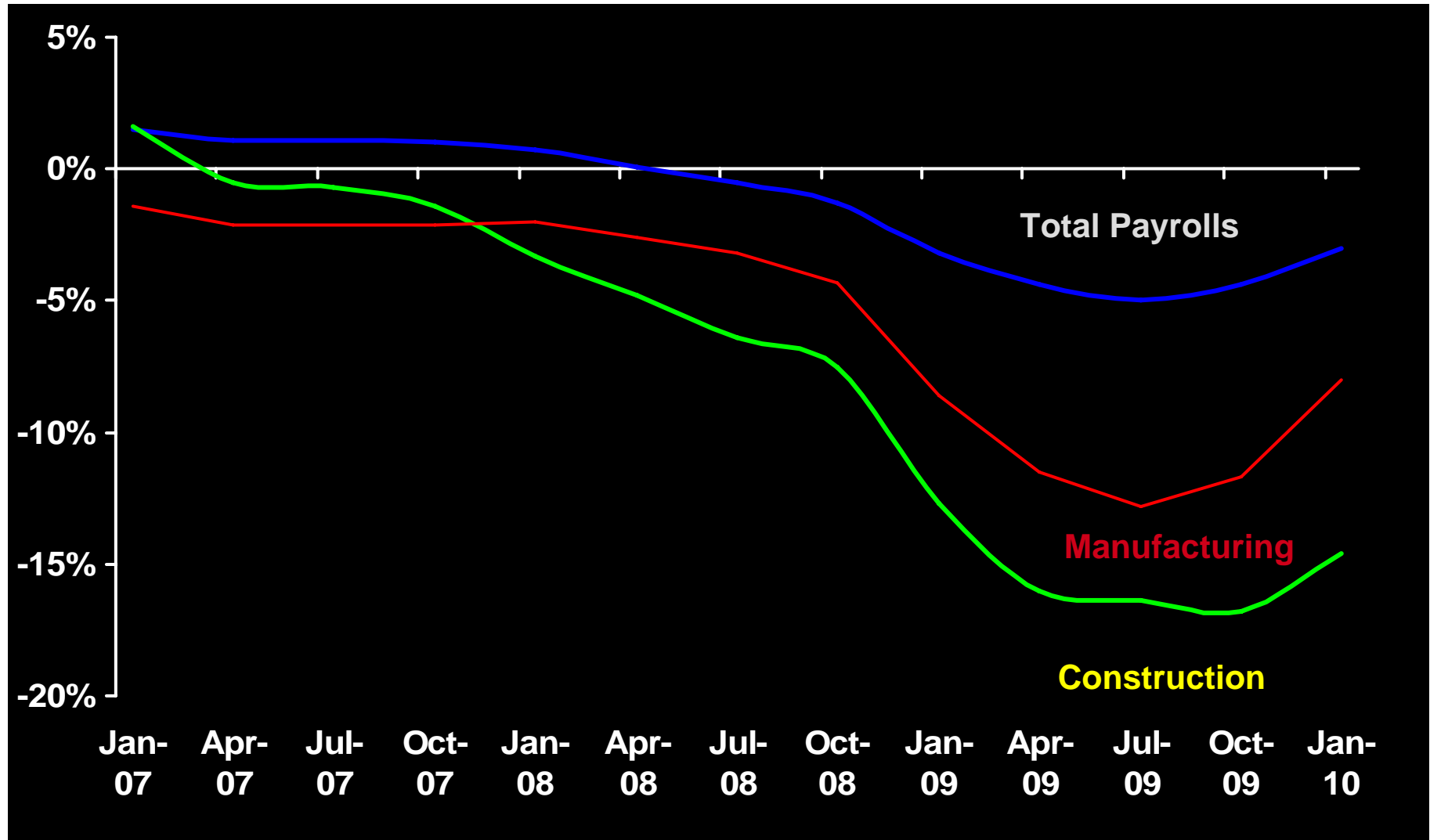


INSTITUTE OF SUPPLY-CHAIN MANAGEMENT MANUFACTURING INDEX

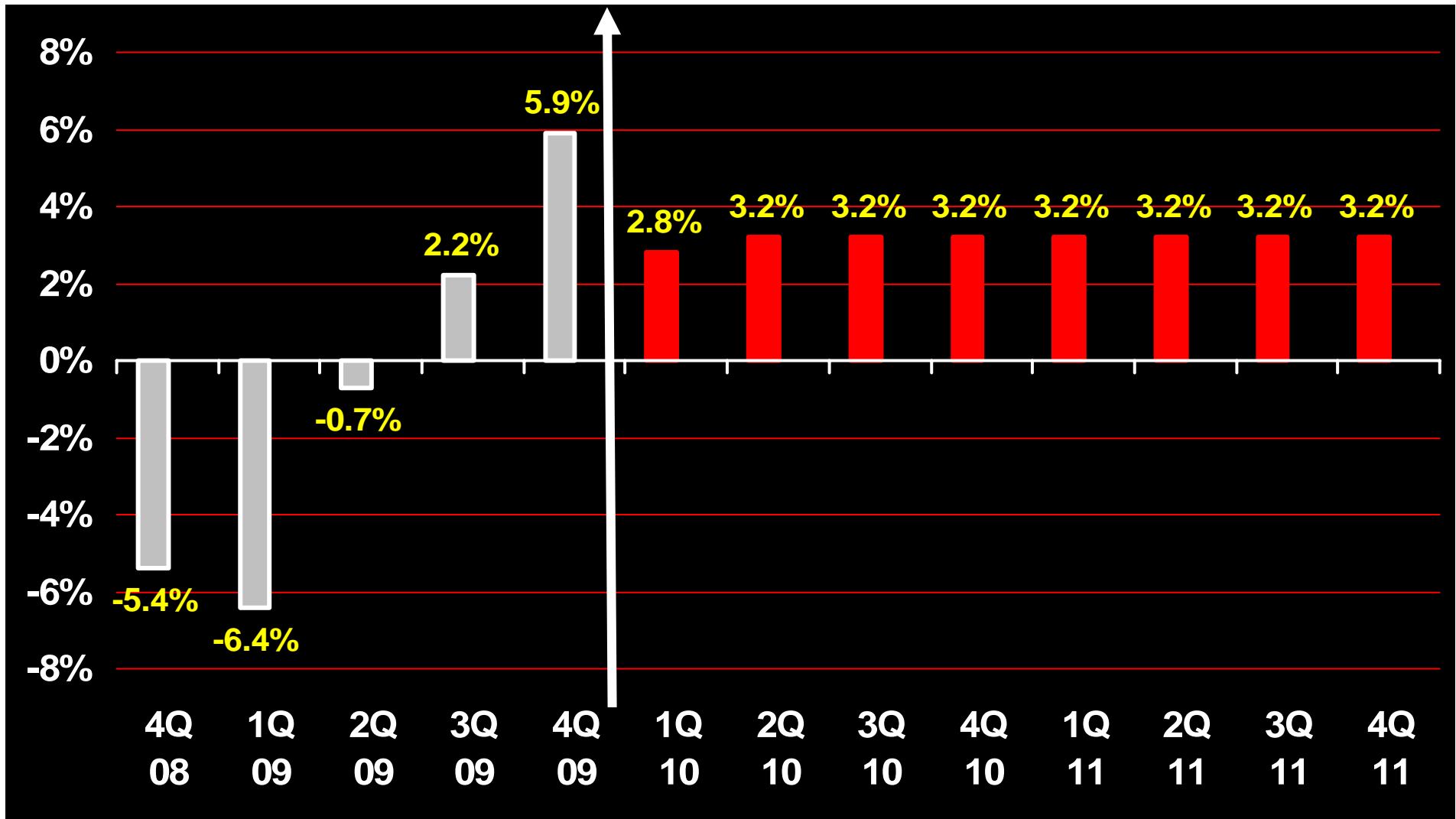




WEAK MANUFACTURING AND CONSTRUCTION CONDITIONS WILL ACT AS HEADWINDS TO OVERALL EMPLOYMENT GROWTH



GDP TRENDS AND FORECAST (SA,AR)

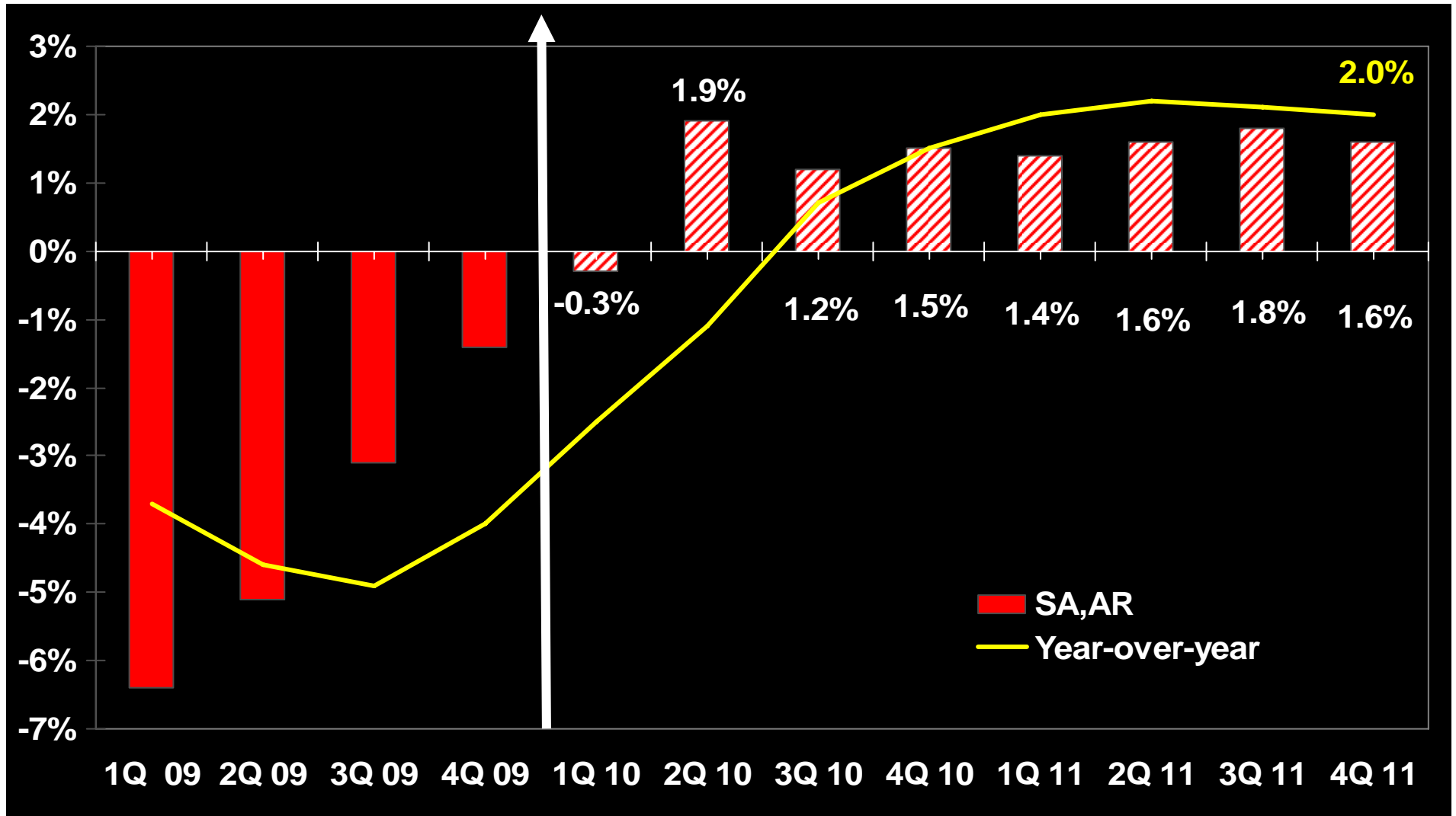


Sources: BEA and PNC Financial Services Economic Research





RELATED PAYROLL JOB FORECAST



Sources: BEA, PNC Economic Research and RED CAPITAL Research



▶ **The economic recovery is underway**

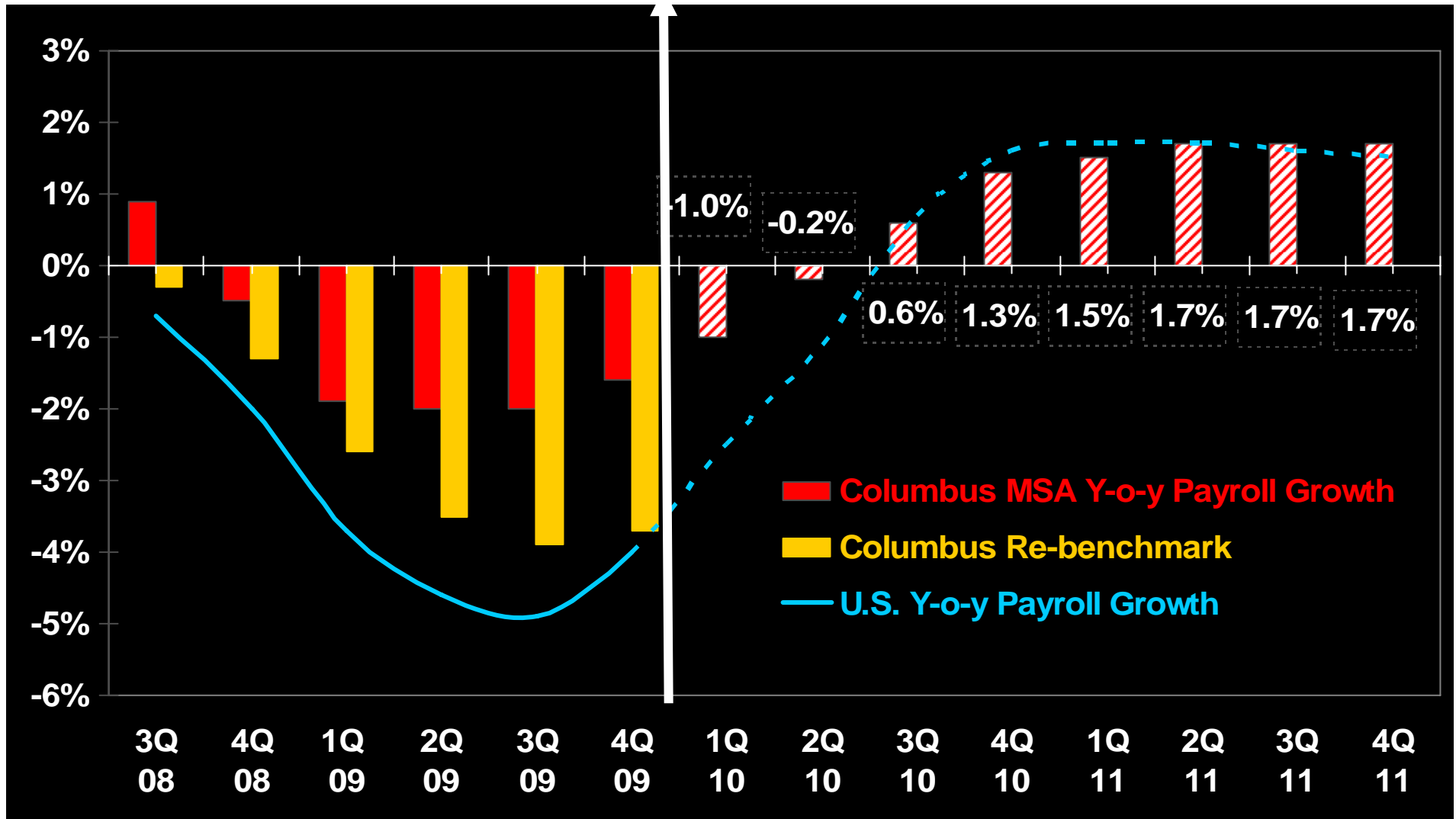
- Fueled by rising exports, replenishing depleted inventories
- In terms of output, at least, recovery will have the appearance of a vigorous “V” shape characterized by 3%+ GDP growth
- Further strong productivity gains are likely

▶ **Employment**

- Payroll employment will begin to grow soon, probably in the second quarter
- But employers will be hesitant to begin hiring aggressively
- Will continue to rely on rising worker productivity to meet stronger orders and consumer demand
- Hiring will gain steam gradually
- U.S. won't recover all jobs lost in the Great Recession before 2012 at earliest, most likely 2013.



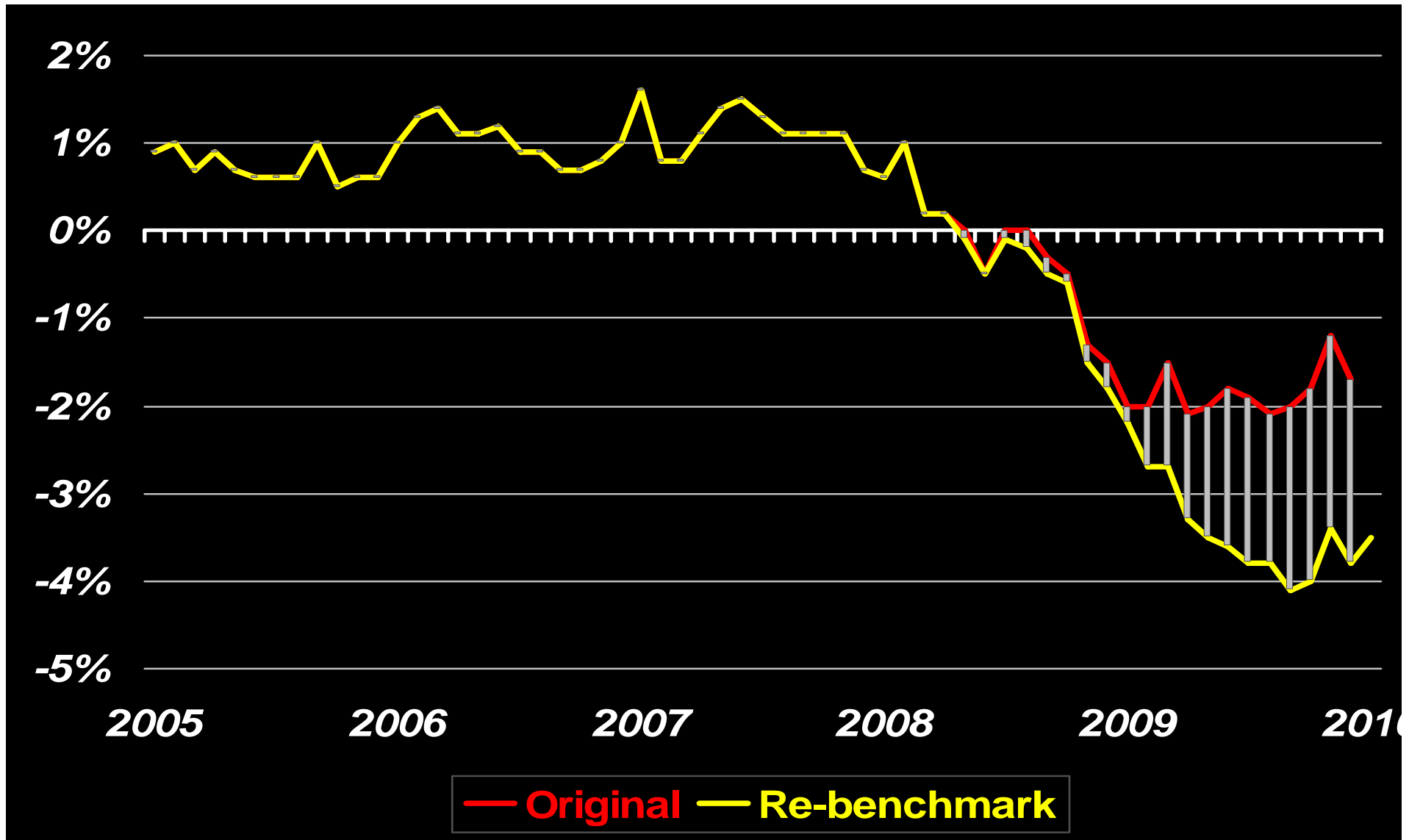
COLUMBUS PAYROLL JOB FORECAST



Sources: BEA, PNC Economic Research and RED CAPITAL Research



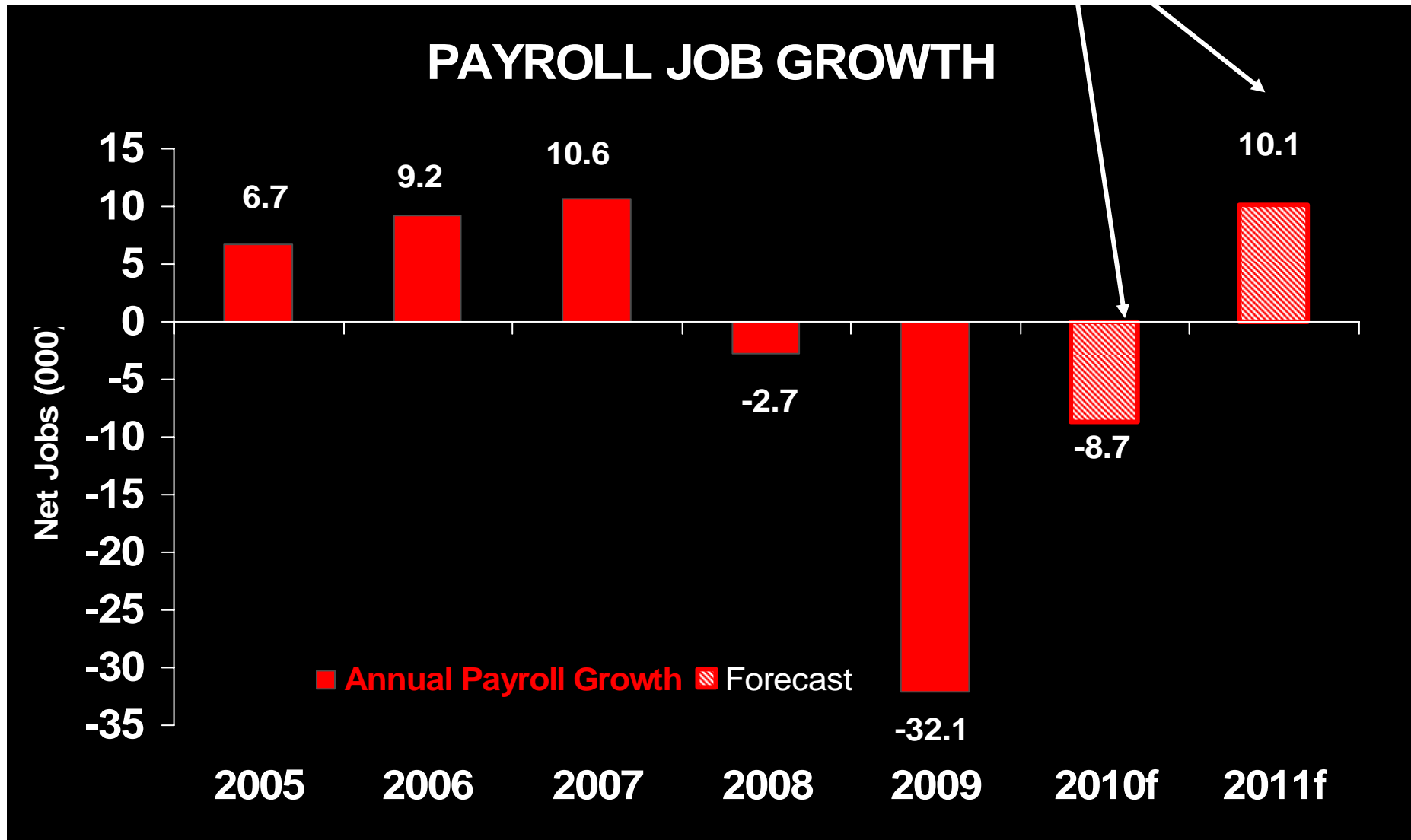
COLUMBUS YEAR-OVER-YEAR PAYROLL COMPARISONS





COLUMBUS, OH MSA ECONOMICS

PNC forecasts 1,900 jobs in 2010; 19,500 jobs in 2011



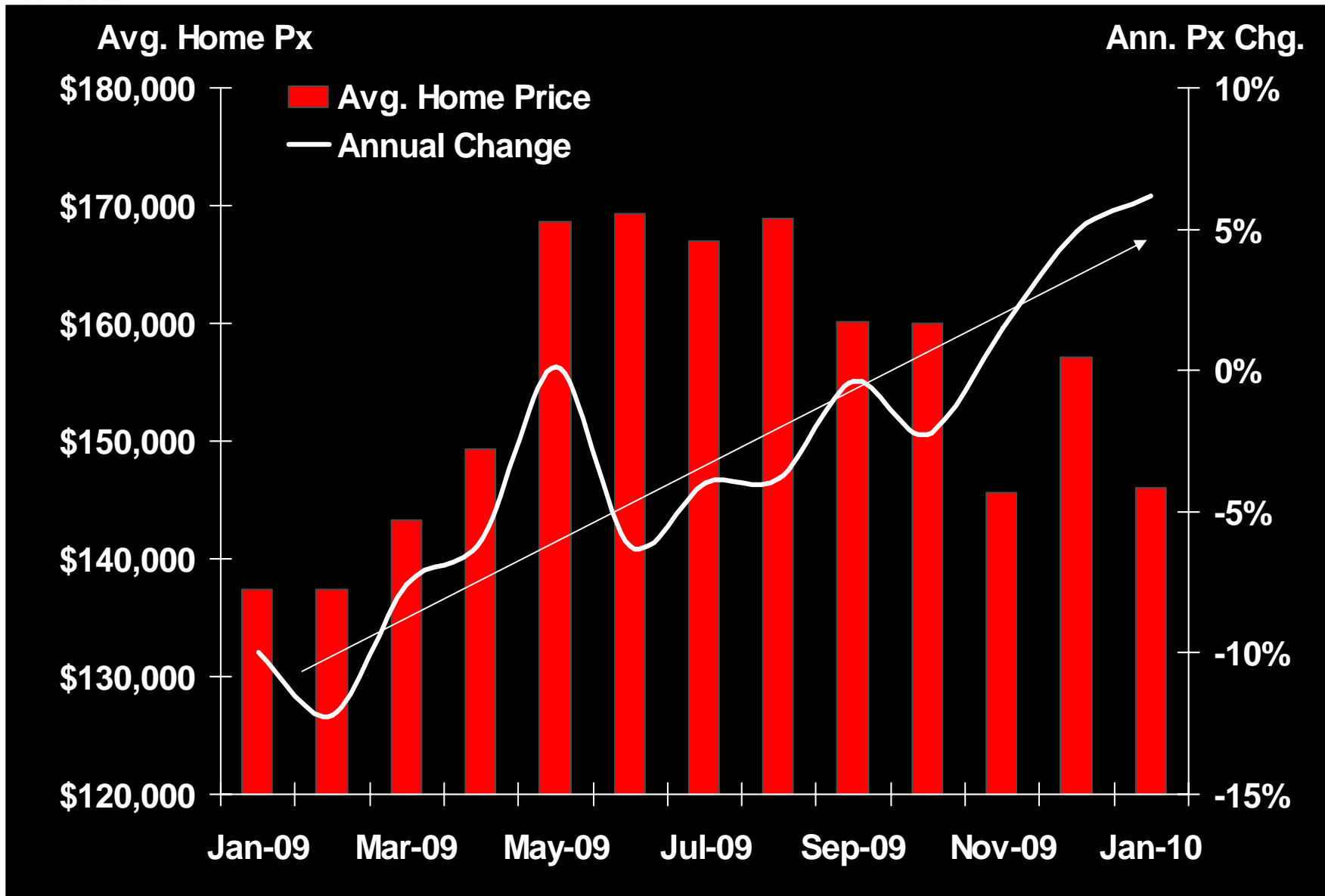
Source: Bureau of Labor Statistics and RED CAPITAL Research



- ▶ **The metro economy also is showing early signs of recovery**
 - Employment trends suggesting move toward stability, although December was a weaker than anticipated
 - Current forecast anticipates net payroll growth to evolve by the late spring

- ▶ **But concerns remain**
 - Re-benchmarking by the BLS to be released later this month likely to show 2009 performance was weaker than indicated in the BLS Current Employment Series (CES)
 - Likely to have a negative impact on our payroll forecast
 - Slow growth in the construction, retail and transportation sectors likely to hinder hiring

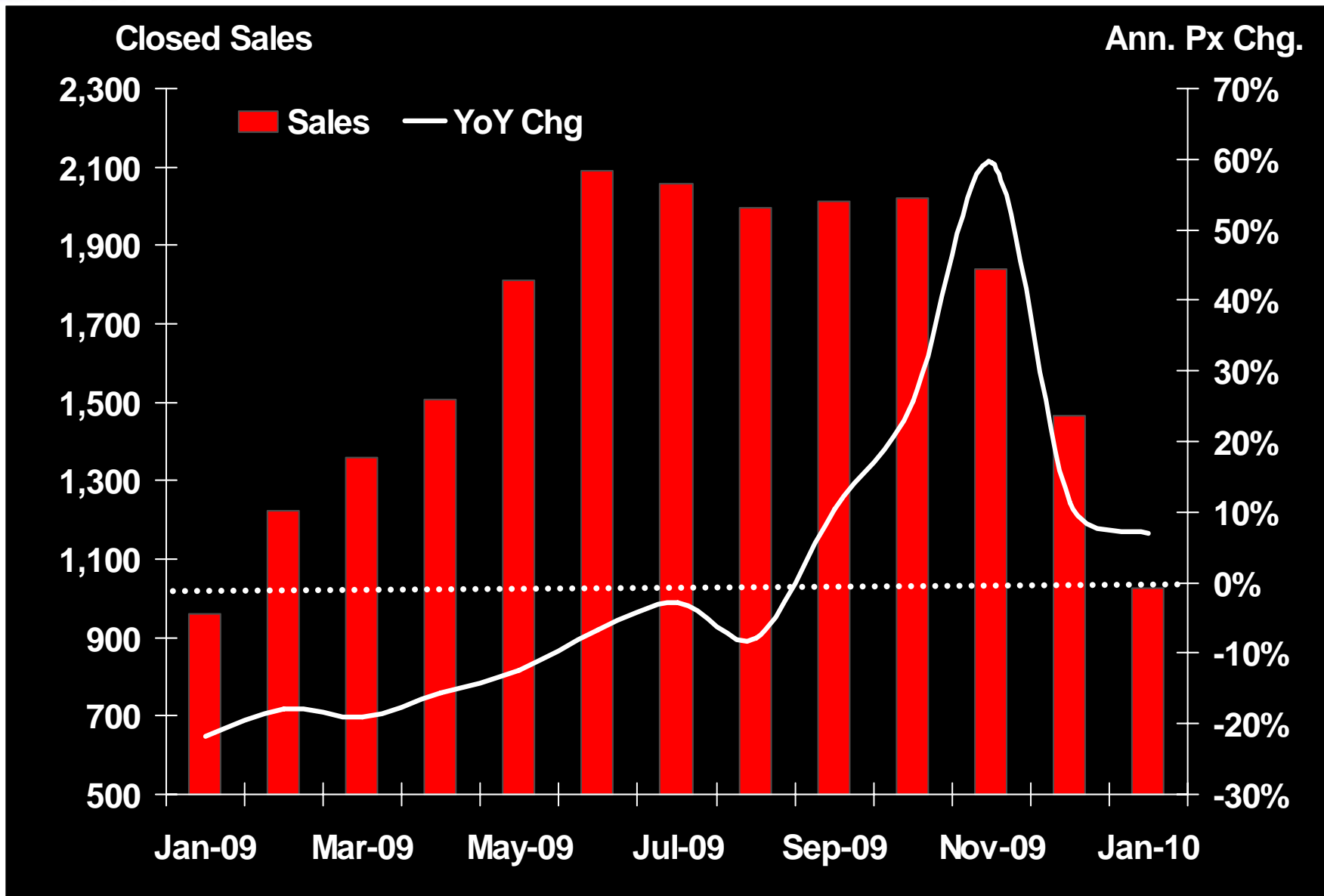
Housing Market Trends: Central Ohio Home Prices



Source: Columbus Association of Realtors



Housing Market Trends: Central Ohio Sales Velocity

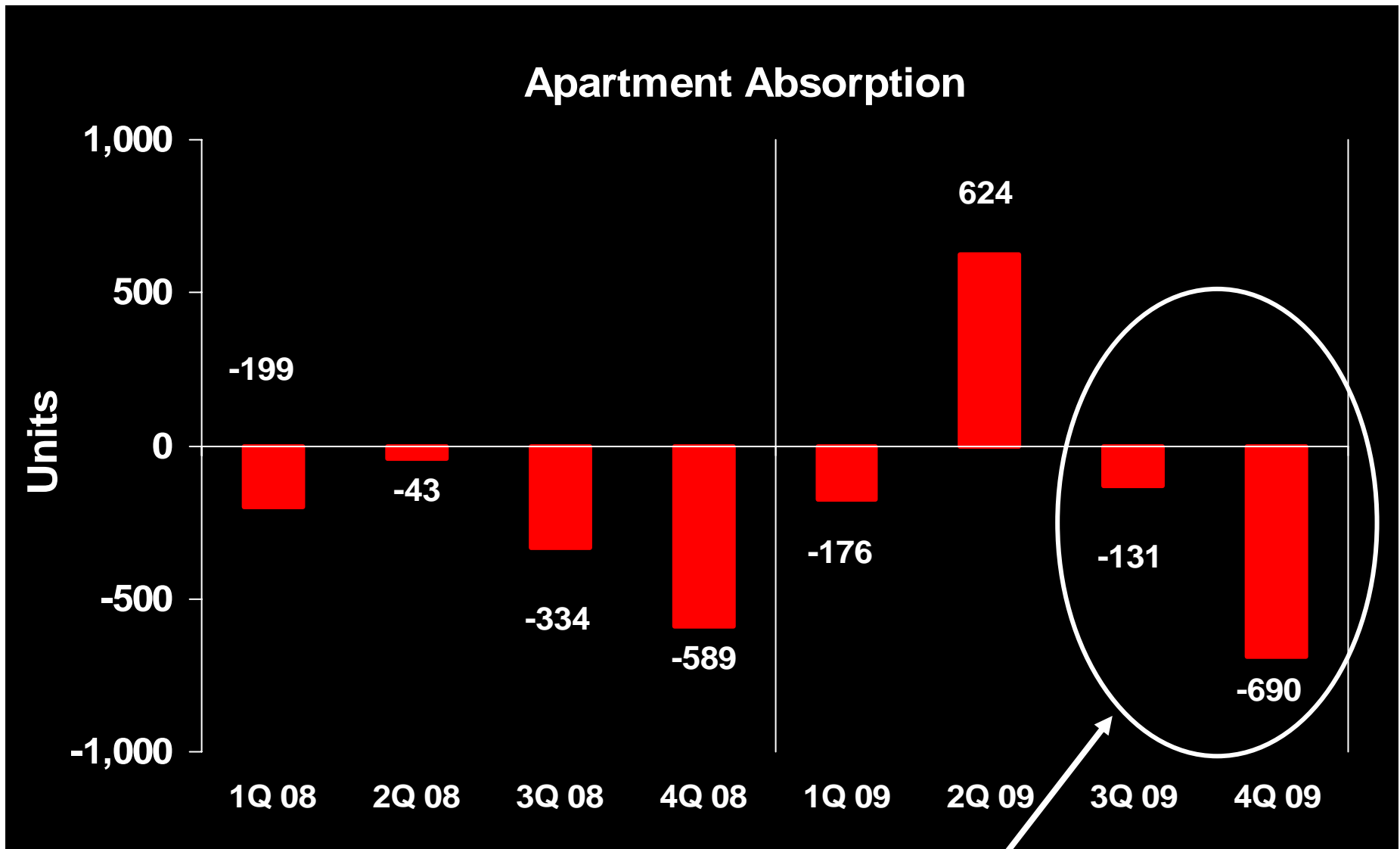


Source: Columbus Association of Realtors





COLUMBUS, OH APARTMENT DEMAND



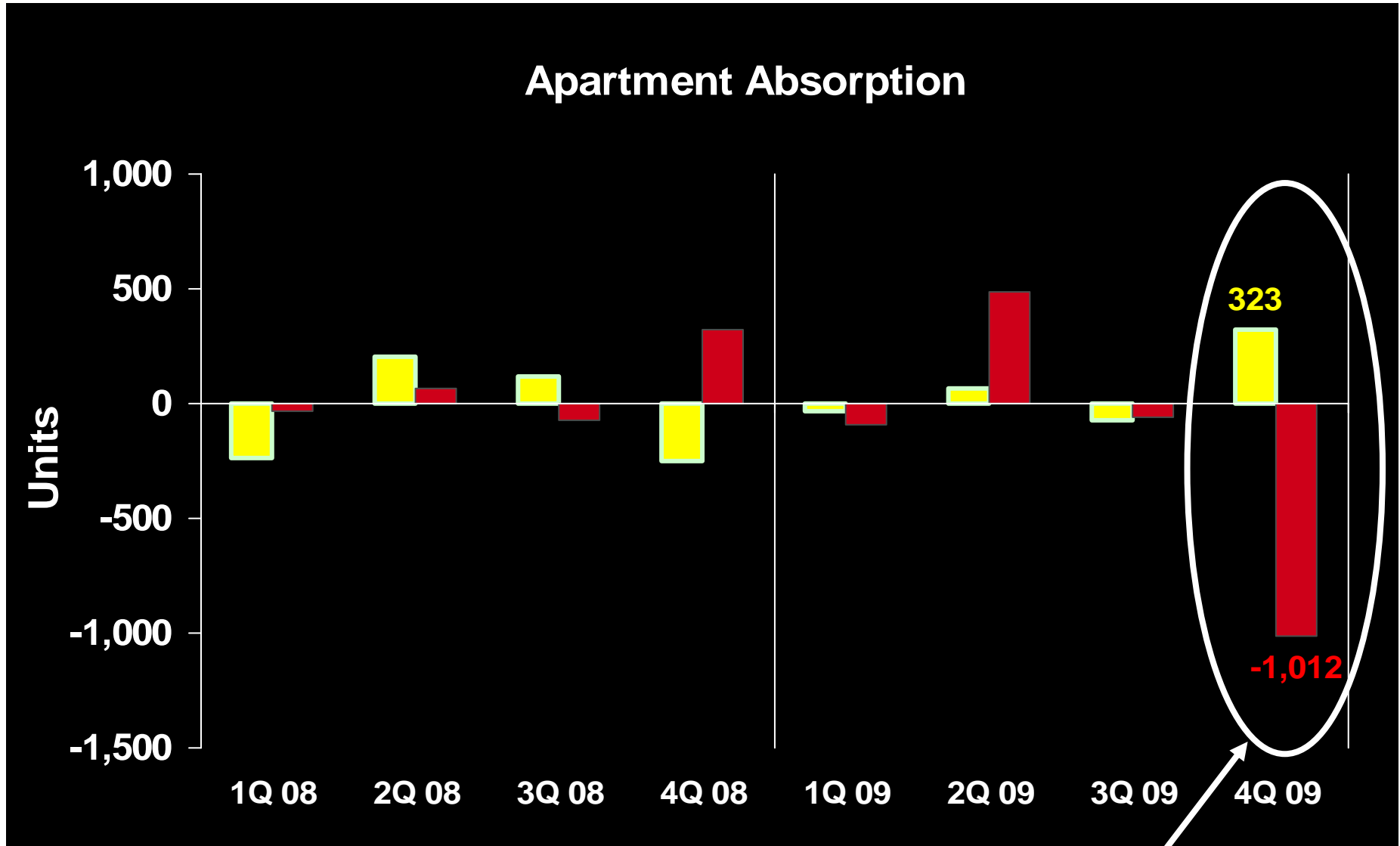
Source: Reis, Inc.

Disappointing Second Half 2009 Absorption





COLUMBUS, OH APARTMENT DEMAND BY CLASS

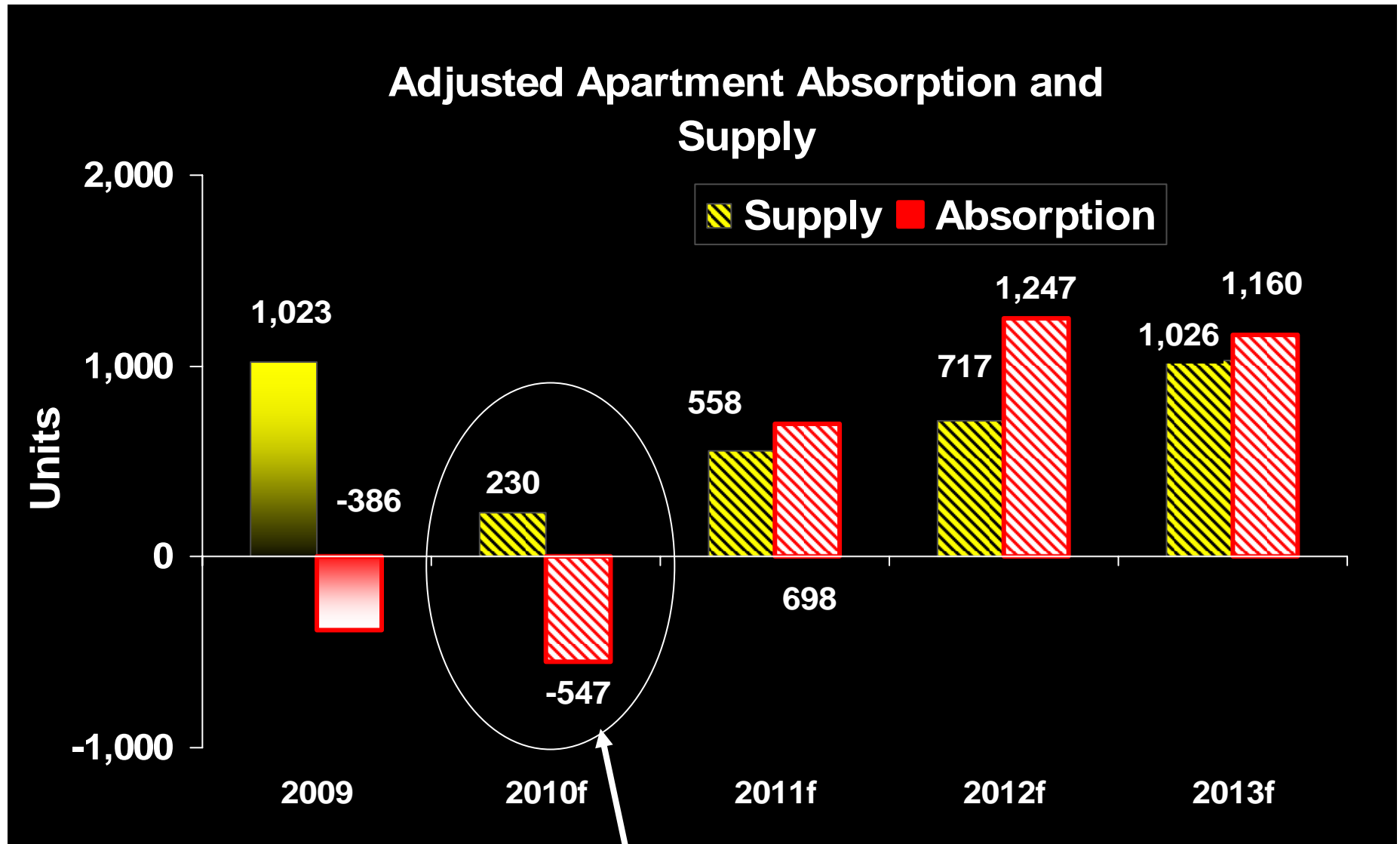


Source: Reis, Inc.

Major migration from class-B/C to class-A in 4Q09!



COLUMBUS, OH APARTMENT SUPPLY AND DEMAND

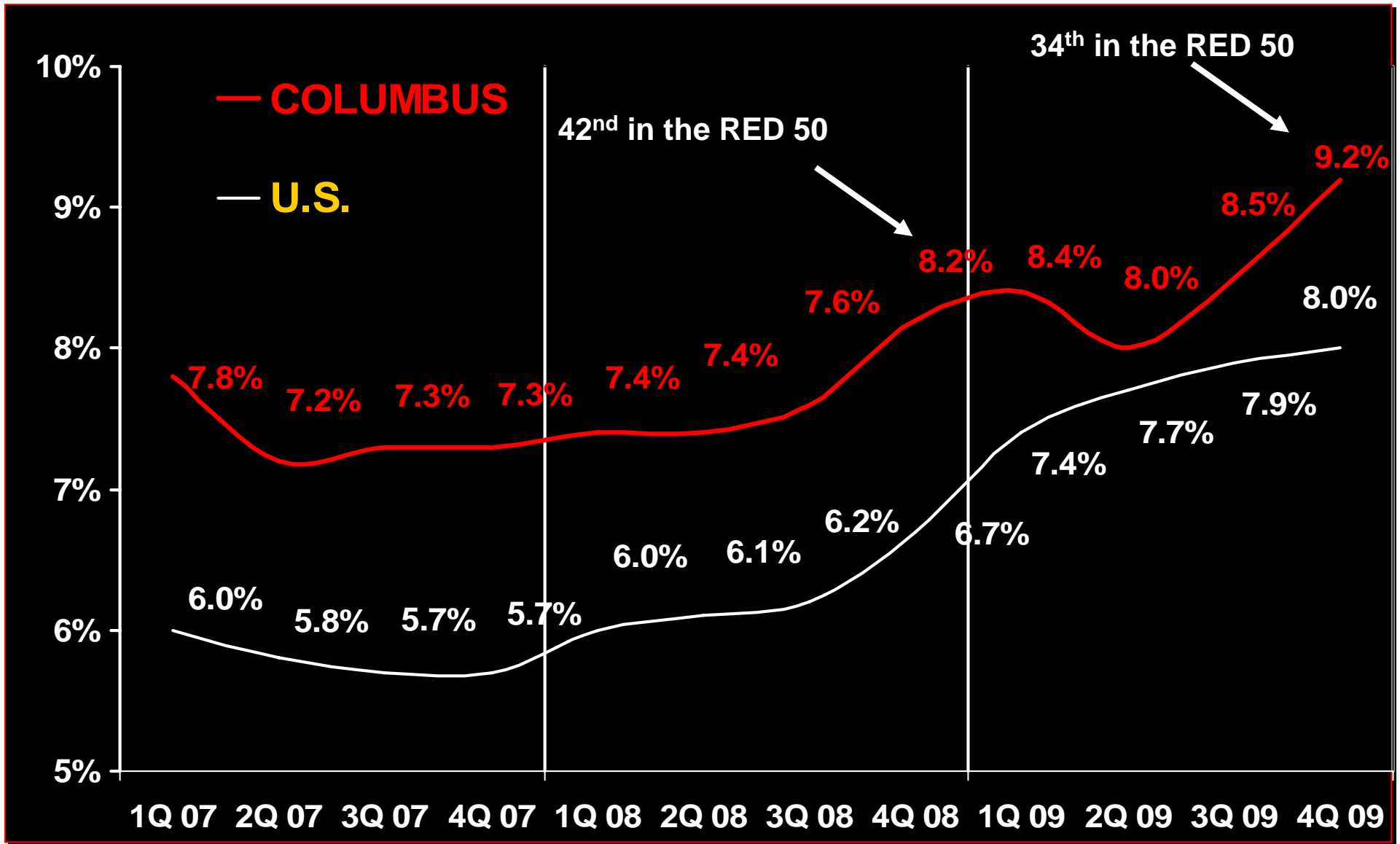


Source: Reis, Inc.

Weak demand anticipated again for 2010. Moderate supply prevents further significant occupancy losses



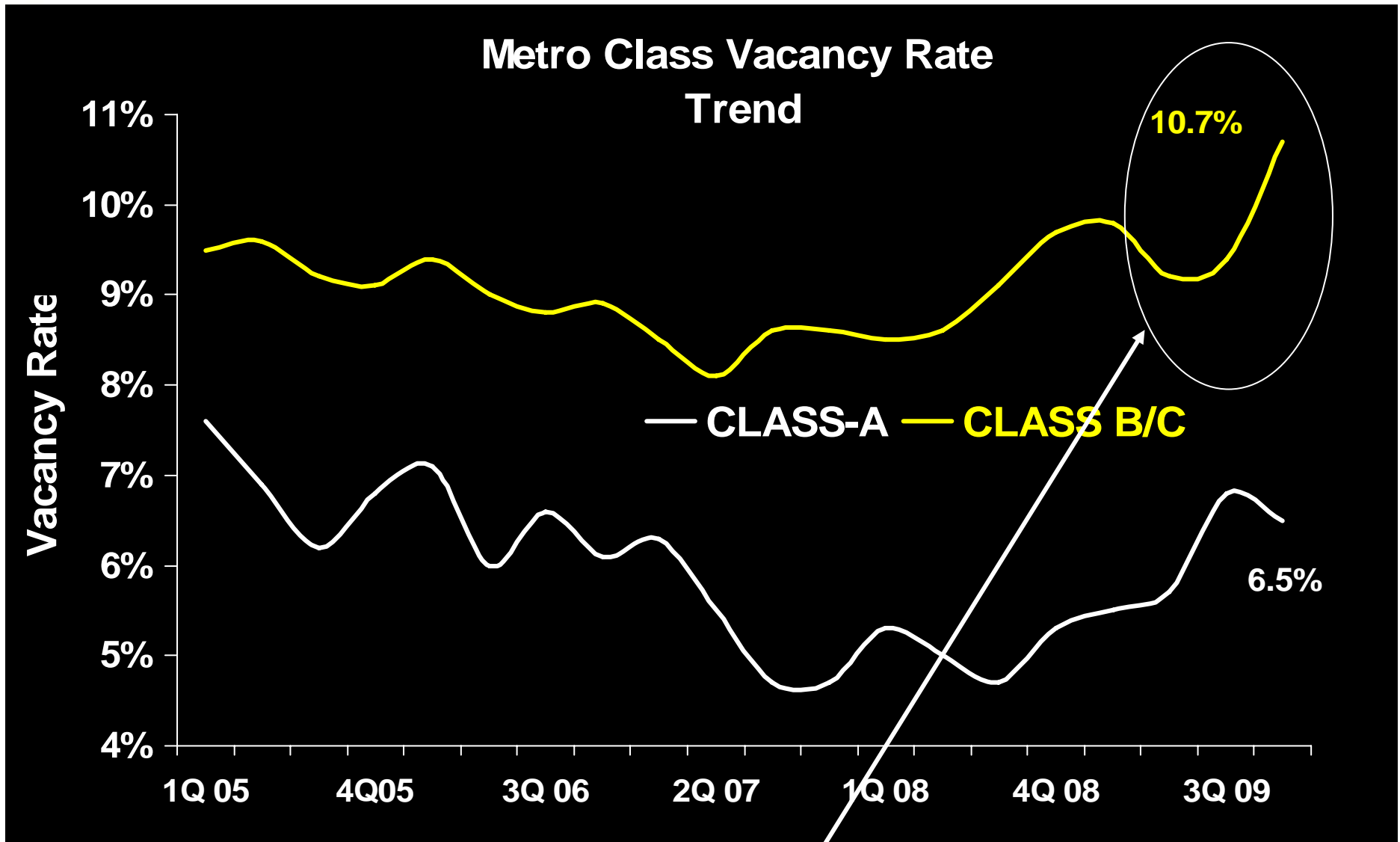
COLUMBUS OVERALL VACANCY RATE TRENDS



Source: Reis, Inc.



COLUMBUS CLASS VACANCY TRENDS

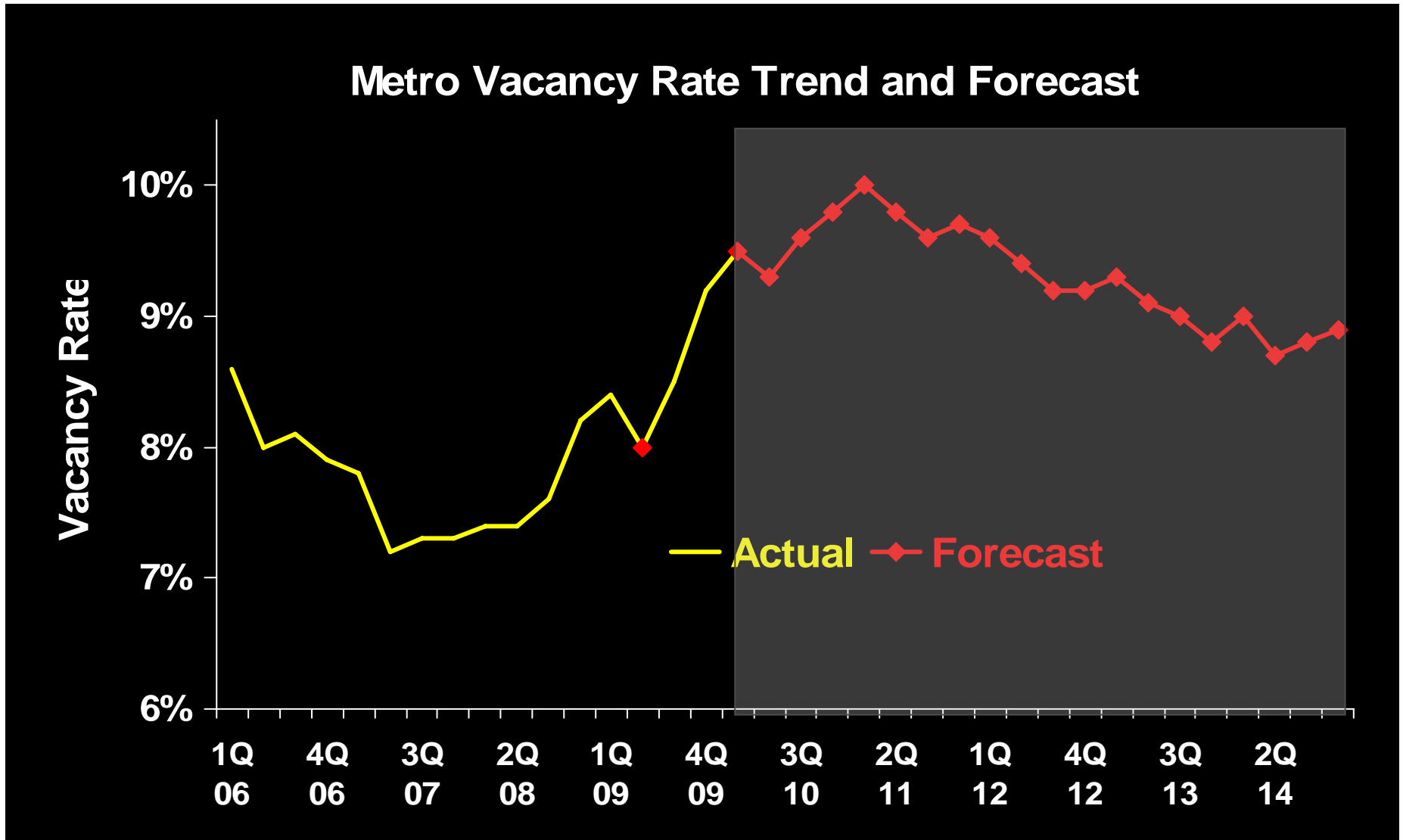


Source: Reis, Inc.

Significant decline of class-B&C occupancy in 2H09, reflecting competitive/functional obsolescence.



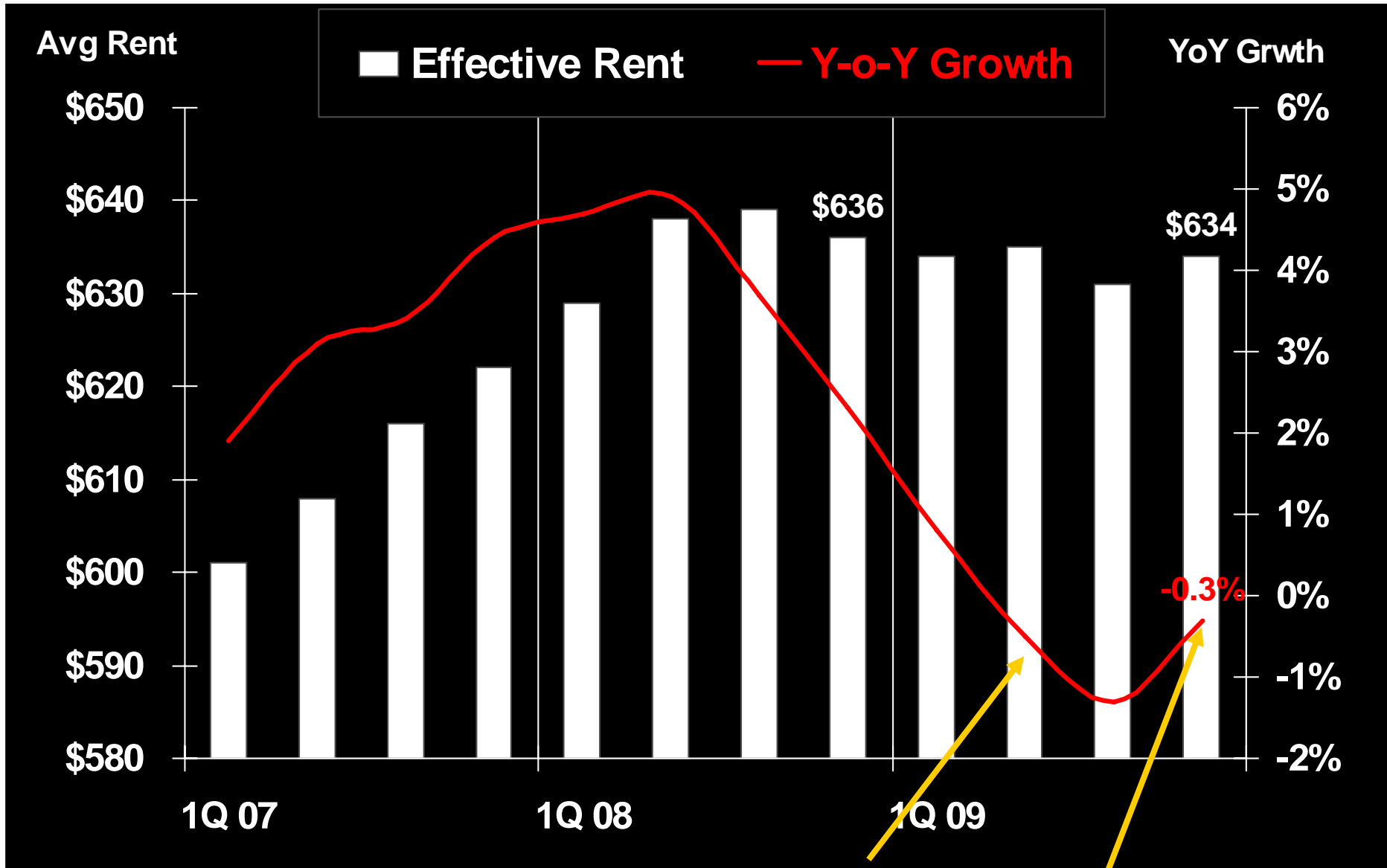
COLUMBUS APARTMENT VACANCY TREND & FORECAST



Source: Reis, Inc.



COLUMBUS EFFECTIVE RENT AND RENT TRENDS



Source: Reis, Inc.

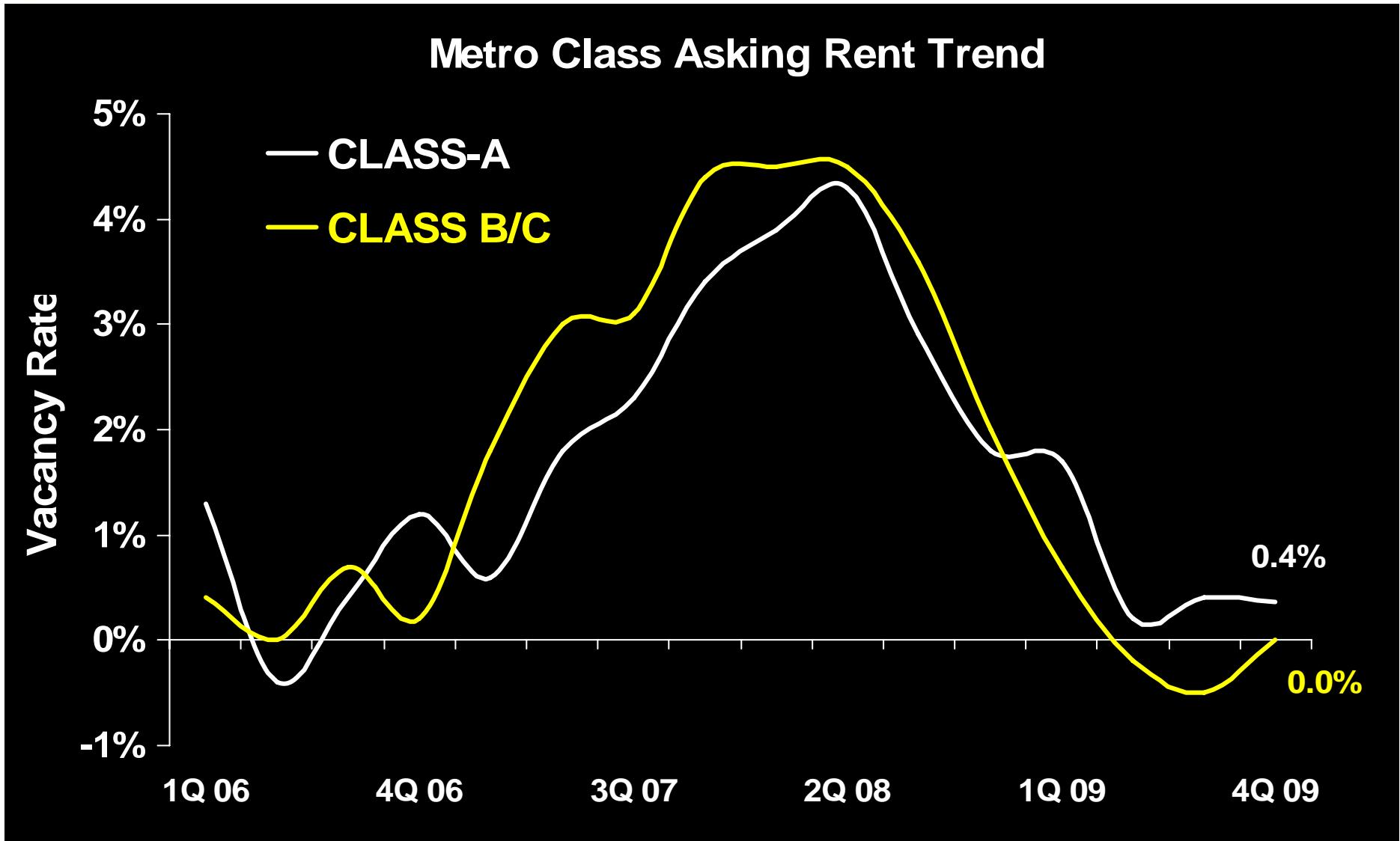
16th in the RED 50 Rankings

7th in the RED 50 Rankings





COLUMBUS CLASS ASKING RENT TRENDS

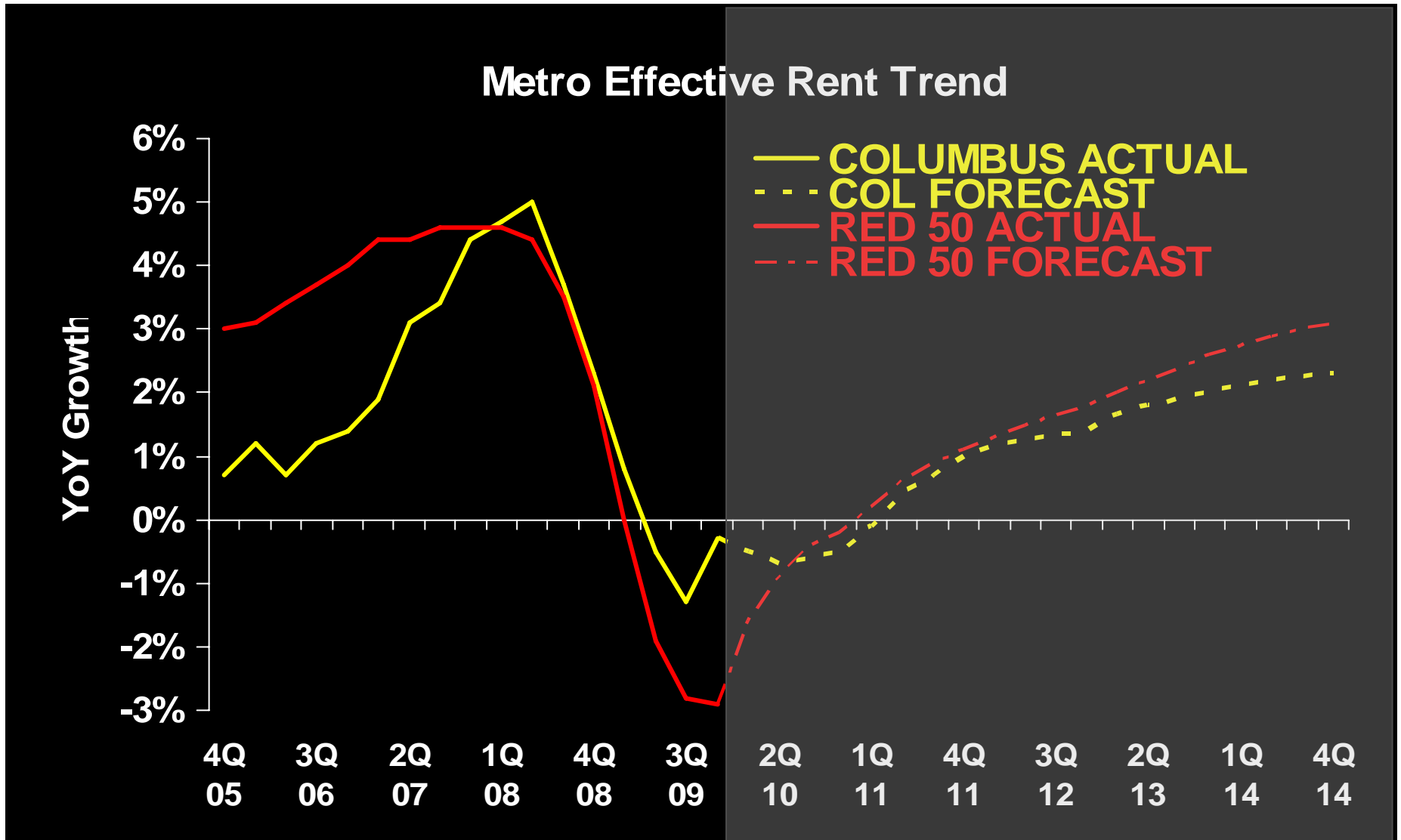


Source: Reis, Inc.





COLUMBUS APARTMENT EFFECTIVE RENT TRENDS AND FORECAST

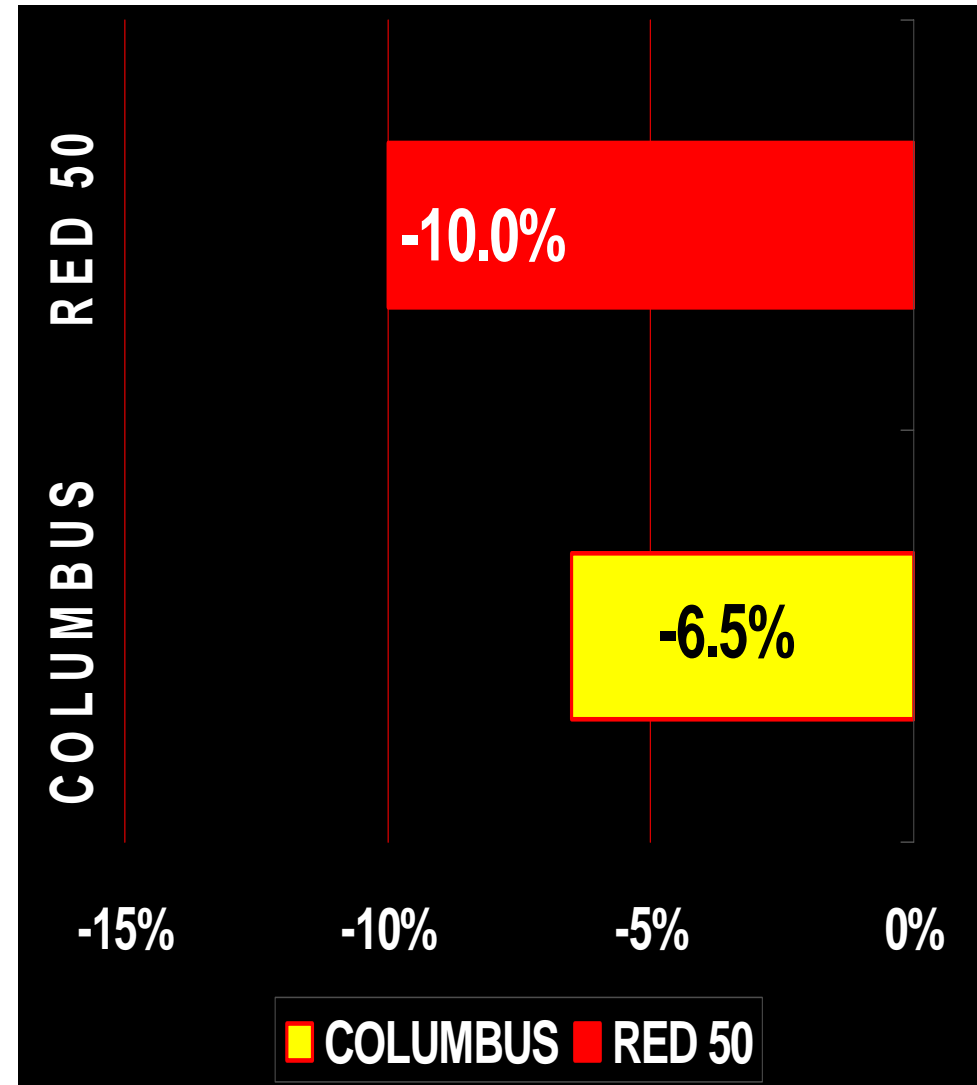


Source: Reis, Inc.



Net Operating Income Performance

- ▶ Based on the foregoing data, **RED CAPITAL** Research estimate that the typical Columbus property experienced a -6.5% decline in net operating income cash flows over the 12 months ended in December.
- ▶ By way of comparison, this was 10th best metric recorded among the **RED 50**, up from 12th in June.
- ▶ Cincinnati and Cleveland experienced declines estimated at -8.6% and -11.0%, respectively.



COLUMBUS SUBMARKET HIGHLIGHTS

Delivery of supply suppressed average occupancy in Westerville

Urban Infill remains popular with students and young professionals

Submarket	Delivery of supply suppressed average occupancy in Westerville			Urban Infill remains popular with students and young professionals		
	4Q08	4Q09	Y-o-Y Chng	4Q08	4Q09	Y-o-Y Chng
OSU / Downtown	\$743	\$739	-0.5%	4.3%	3.5%	-80 bps
Upper Arlington	\$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	\$668	\$673	0.7%	5.4%	6.1%	70 bps
Northeast	\$568	\$563	-0.9%	9.9%	10.1%	20 bps
Westerville / Polaris	\$762	\$775	1.7%	4.8%	8.0%	320 bps
Grove City / SW Col	\$587	\$593	1.0%	18.4%	20.3%	190 bps
Groveport	\$586	\$584	-0.3%	8.7%	8.4%	-30 bps
Southeast	\$484	\$486	0.4%	8.9%	15.3%	640 bps

Source: REIS, Inc. Exodus from class-B- and class-C properties hurting the SE and SW Quads



- ▶ **Groveport Phase III (93 units)**
 - Class-B+ construction, face rents in Phase II @ \$0.80 / sf
 - Due in the Spring
- ▶ **Townhomes / Flats in Capital South (134 rental units)**
 - Mixed condo / rental infill development near Lazarus HQ
 - Face rents range from \$700 to \$1,700 or about \$1/sf + garage
- ▶ **New Albany Townhomes and Flats Phase II (130 units)**
 - Rents range from \$750 to \$1,300 or \$0.85 to \$1.00 / sf



Recent Sales / Contracted Sales Transactions

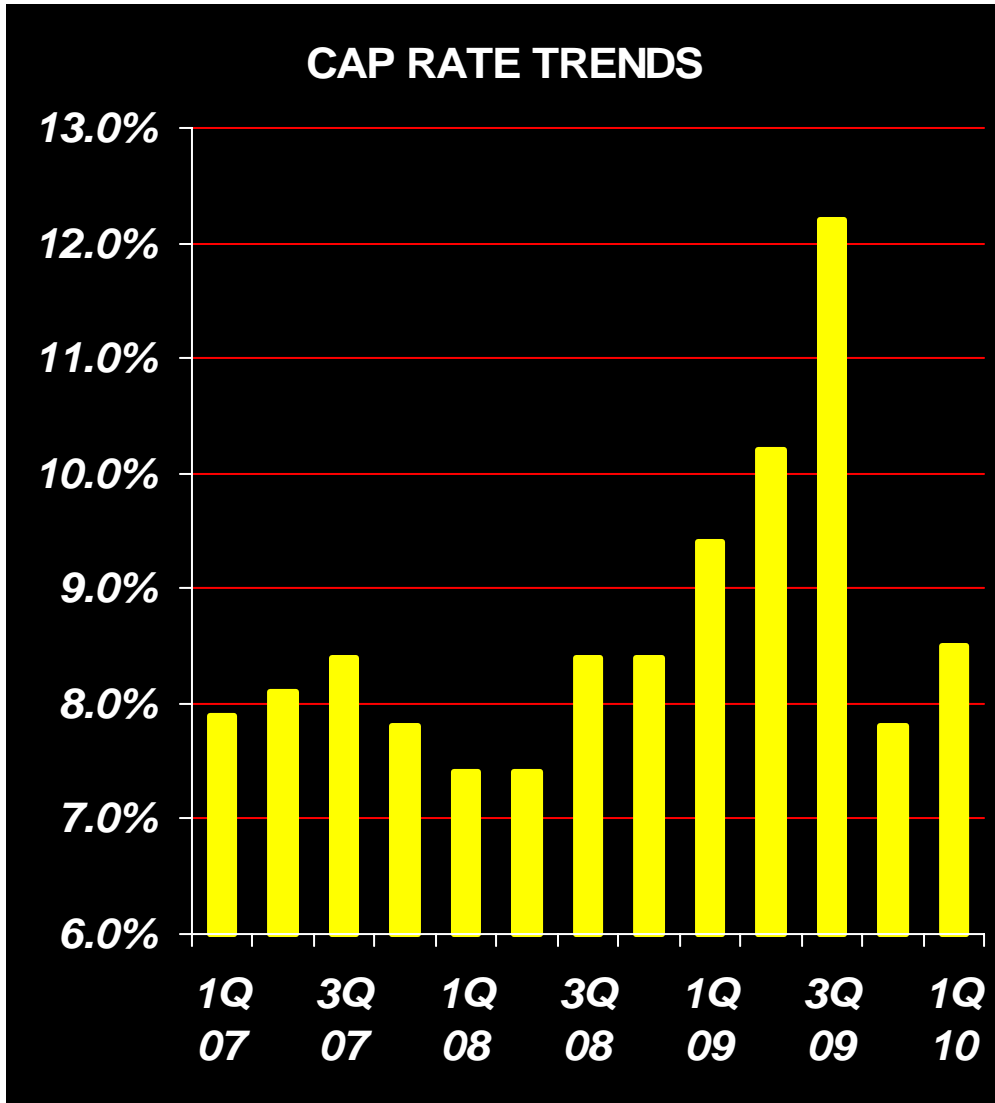
- ▶ **1973-vintage garden property (in contract Feb. 2010)**
 - Southeast submarket near Eastland Shopping Centre
 - 360-unit Class-C+
 - Approximate price: \$3,600,000 / \$10,000 per unit
 - Assumed: 15% vacancy, \$399 avg. eff. Rent, 65% expense ratio
 - Estimated cap rate: 5.0%

- ▶ **1974-vintage garden property (in contract Feb. 2010)**
 - Southeast Columbus (Refugee and Hamilton Roads)
 - Class-C
 - \$3,550,000 / \$8,200 per unit
 - Estimated cap rate at 40% vacancy, \$410 avg. rent: -5%

- ▶ **Waterford Pointe garden property (closed Dec. 2009)**
 - Hilliard submarket, near I-70 and Hilliard-Rome Road
 - Class-B, 1995 construction
 - \$6.9mm / \$26,992 per unit / Estimated 9.5% yield



COLUMBUS, OH MSA: VALUATION TRENDS



MARKET CLEARING CAP RATE ESTIMATES (MAR 10)

Class A:	8.0% to 8.5%
Class B:	8.5% to 9.5%
Class C:	9.5% to 12.0%

MARKET CLEARING CAP RATE ESTIMATES (SEPT 09)

Class A:	7.75% to 8.25%
Class B:	8.25% to 9.00%
Class C:	9.0% to 12.0%

Sources: Real Capital Analytics, RED CAPITAL Research



COLUMBUS: EXPECTED TOTAL RETURNS / RETURN PROFILE

Item	Modeling Assumptions	
Cap rate:	Purchase: 8.5%	Terminal: 9.0%
Average Annual Rent Growth:	1.2% (1.8% R50 AVG)	
Vacancy Rate:	Purchase: 9.2%	Termination: 8.9%
Volatility Assumptions:	Rent: 1.9%	Occupancy: 1.8%
Expected 5-yr unlevered Total Return:	6.3% (R50 #35/m=6.7%)	2.63 RAI (R50 #22/m=2.29)

Market	90% Probability	70% Probability	50% Probability	30% Probability	10% Probability	Risk-adjusted Index
Columbus	3.1%	5.0%	6.3%	7.6%	9.3%	2.63
RED 50 Average	2.3%	4.9%	6.6%	8.3%	10.7%	2.29



Investment Opportunities

- ▶ **Rising cap rates have improved the return profile of Columbus apartment investments**
- ▶ **But sluggish expected rent growth continues to hamper expected returns**
- ▶ **Investors in the market are likely to achieve the best results with:**
 - Well-located class-A properties acquired at 8%+ initial yields
 - Strategically located B- properties acquired at 9%+ initial yields that can be repositioned to B or B+ at moderate expense
- ▶ **Among our peers, Indianapolis and Pittsburgh continue to offer better relative value based on our analysis.**

The End

Thank you for your time and attention

