

# Investment Sales Increase, Vacancy Decreases



## Columbus, Ohio Industrial Market

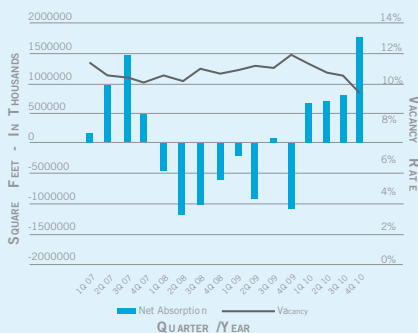
At a glance

### Market Indicators:

- Vacancy Rate ↓
- Net Absorption ↑
- Construction ↓
- Rental Rate ↔

### Figure 10-Industrial Trends

Vacancy and Absorption



## Inventory

This quarter, Cassidy Turley surveyed the Columbus industrial market which is spread over 6 submarkets: Southeast, Southwest, Downtown/Central Business District, Northwest, Northeast and Out-of-County. The inventory surveyed in the fourth quarter of 2010 consists of over 254 million square feet of rentable space in 3,089 buildings that are all 10,000 square feet or larger.

The largest single market surveyed in terms of size was the Southeast, with 646 properties and more than 75 million square feet of space. The Northwest and Northeast submarkets contain over 740 buildings with approximately 45 and 47 million square feet respectively, and the Out of County submarket includes 640 buildings with over 65 million square feet. The Southwest submarket is made up of 246 buildings with a combined area of 18 million square feet.

The bulk subset of the industrial market was also surveyed this quarter. This subset consists of properties that are 100,000 square feet or larger, have a ceiling height of at least 28 feet, and were built within the last 10 years. This subset contains 68 buildings totaling 33 million square feet. The largest submarket of bulk space is the Southeast with 46 properties and over 22.9 million square feet.

## Investment Sales

Despite the continuing struggles of the economy, the Columbus Industrial market experienced a decent year for investment sales. In comparison to last year, the number of investment transactions more than doubled from seven in 2009 to 16 this year including three investment portfolios. These 16 investment transactions brought much needed life to the industrial sales market by transferring

over 6.6 million square feet of property for about \$147.6 million, an average price of \$22.14 per square foot.

The fourth quarter was a very strong quarter for investment sales in the Columbus market. Seven of the 16 transactions occurred in the fourth quarter (including two portfolio sales) accounting for 51% of the square footage and 66% of the total dollar amount transferred this year. The largest transaction in the fourth quarter was Duke Realty's purchase of 2842-2862 Spiegel Drive. The 937,300 square foot warehouse facility sold for \$33.9 million, or \$36.19 per square foot. CBRE Investors Trust picked up purchasing activity again in Columbus by buying two properties in the fourth quarter. The REIT acquired both 6360-6440 Port Road and 6250 Opus Drive from T.I.A.A. for a combined \$22.5 million (\$8.8 million and \$13.7 million respectively). The Blackstone Group was very active in 2010 making multiple purchases. They recorded the second largest sale of the fourth quarter by purchasing 5255-5271 Centerpoint Parkway from Exeter. The 512,000 square foot distribution center sold for \$21.65 million, or \$42.28 per square foot. This sale was part of a larger portfolio of properties located in the Midwest and Southwest. Also purchased by the Blackstone Group was a five building Columbus portfolio, which was part of an 86 property national portfolio offered by ProLogis valued at over \$1.01 billion. The Columbus portion of the portfolio consisted of over 569,000 square feet and sold for \$16 million, or \$28.13 per square foot.

## New Construction

For the second straight year, construction in the Columbus Industrial market was virtually non-existent. This is the first year in recent memory that no bulk industrial projects were completed. There are still

too many large blocks of vacant space to justify any speculative construction. As more of the empty warehouses are filled and the market begins to tighten, demand for new facilities will start to creep back into the market. Only one major project was begun in 2010. In the fourth quarter, Duke began construction on a new 1,305,000 square foot distribution center for Mars Petcare in West Jefferson. The \$52.7 million facility will consolidate Mars Petcare's two leased locations currently in Columbus - 600,000 square feet at 3501 Creekside Parkway and 705,000 square feet at 3880 Groveport Road.

### **Vacancy**

The Columbus Industrial market snapped a two year streak of increasing vacancy rates by having vacancy decrease in 2010. While leasing activity did not take off as expected, it was able to find some consistency compared to the previous two years where deals in the market were scarce. The overall vacancy rate decreased 191 basis points throughout the year, ending 2010 at 9.97%. The vacancy rate has not been below 10% since the first quarter 2008. At the end of 2009, four of the six submarkets had vacancy rates above 14%, but by the end of 2010 only the small Downtown submarket recorded a vacancy that high. In fact, only the Northeast submarket experienced an increase in vacancy throughout the year, but it still boasts the second lowest vacancy rate at 8.12%.

The bulk industrial market mimicked the overall Columbus market by reversing the negative trend of 2009 and posting a decrease in its vacancy as well. The direct vacancy rate dropped 322 basis points from 2009's rate of 20.51% to end 2010 at 17.29%. It was quite a milestone for the bulk market to push vacancy back underneath the 20% level. Unfortunately,

the Southeast submarket (the largest and most prominent bulk submarket) is still struggling with a vacancy rate of 21.21%. 2010 consisted of very few new leases, but a plethora of early renewals and "blend and extends". These had little effect on improving the submarket's bulk vacancy rates.

### **Absorption**

2010 rebounded nicely from the negative absorption of the past two years. In 2009 alone, there was over 1.01 million square feet of negative absorption. However, 2010 painted a different picture. Thanks to strong absorption in the fourth quarter of 1.09 million square feet, there was over 2.9 million square feet of positive absorption for the year. This was a much needed respite from the doom and gloom caused by the recession.

The bulk industrial market boasted a strong year just as the overall market did. After an incredibly strong start of 1.11 million square feet of positive absorption in the first quarter, the following three quarters of 2010 slowed down and showed a combined 51,000 square feet of negative absorption. That still left the year end total positive at 1.06 million square feet.

### **Submarket Reports**

#### **Southeast**

The Southeast submarket had a tremendous fourth quarter, and overall year. It recorded the most absorption and had the second largest decrease in vacancy for all of the submarkets in 2010. In the fourth quarter alone, the direct vacancy rate decreased 179 basis points fueled by over 1.04 million square feet of positive absorption. The vacancy rate ended 2010 at 13.20% which was a 3.8% decrease from 2009's rate of 17.00%.



Duke began construction on a \$52.7 million distribution center for Mars Petcare in West Jefferson. The 1,305,000 square foot facility will consolidate Mars leases into this location.



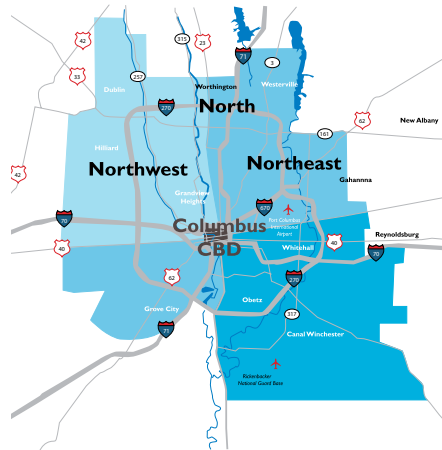
CBRE Investors purchased the 433,000 square foot warehouse at 6360 Post Road for \$8.8 million, or \$20.30 per square foot.

There was over 1.4 million square feet of positive absorption during 2010 which helped the Southeast submarket turn in its strongest year since 2008. The bulk submarket had a more tempered year. In the fourth quarter, the direct vacancy rate increased to 21.21% fueled by over 51,000 square feet of negative absorption. However, 2010 produced an overall decrease in vacancy from 2009's rate of 22.01% to 21.21%. The year end total of absorption was positive recording over 184,000 square feet. The average asking rental rate decreased throughout the year ending 2010 at \$3.32 per square foot. The Southeast submarket is the largest industrial submarket and will continue to be the center for industrial activity in Columbus for the foreseeable future.

### Southwest

The Southwest submarket had a slight setback in the fourth quarter, but was still able to produce the largest decrease in vacancy during the year. In the fourth quarter, the overall direct vacancy rate increased by only 11 basis points, but the year end rate of 11.38% was a 4.98% decrease from 2009's year end rate of 16.36%. The southwest recorded over 1.2 million square feet of positive absorption in 2010. The Southeast and Southwest submarkets were responsible for 89% of all the positive absorption for the Columbus industrial market in 2010. The bulk submarket mimicked the overall submarket by having more than a four percentage point decrease. The direct vacancy rate decreased from last year's rate of 18.76% to 2010's year end rate of 14.07%. There was over 200,000 square feet of positive absorption during the year. With the success throughout the year, the average asking rental rate increased slightly to \$3.50 per square foot. This is the highest average asking rate in Columbus.

**Figure 11-Industrial Submarkets**



### Northeast

Unfortunately, the Northeast submarket was the only submarket to have an increase in vacancy in 2010. Even though it was the only submarket to record an increase, it still has the second lowest vacancy rate and is one of the two submarkets that have a vacancy rate under 10%. The northeast had a slight increase during the fourth quarter as the overall vacancy rate increased 21 basis points. The vacancy rate increased from 7.22% in 2009 to 8.12% at the end of 2010. Contributing to the increase in vacancy was over 681,000 square feet of negative absorption. The Northeast submarket has only a single bulk industrial building which remains fully occupied with no changes. Despite having only one bulk industrial building, the Northeast submarket is actively pursuing new bulk opportunities. In August, New Albany was able to lure Accel Inc. to move to their New Albany Business Park from Lewis Center. New Albany was also busy approving incentive packages for two other industrial clients, Knowlton and Vee Pak both develop and make personal care products. Accel plans to build a 417,000 square foot facility estimated at \$20 mil-

lion. Knowlton is expected to spend \$55 million to build a new 250,000 square foot research and development complex. Rounding out the construction is Vee Pak who is expected to build a 105,000 square foot facility that will be seeking an unspecified LEED certification. The average asking rental rate increased slightly in 2010 to \$3.08 per square foot.

### Northwest

The Northwest submarket had a very steady and consistent year. It was able to produce a decrease in vacancy each quarter leading to an overall decrease of 240 basis points. The northwest ended the year with an overall vacancy rate of 11.69% compared to last year's rate of 14.09%. Throughout the year, there was an accumulation of over 331,000 square feet of positive absorption. No modern bulk facilities exist in the Northwest submarket; however, it does include 97 buildings that are 100,000 square feet or larger. The average asking rental rate decreased to \$2.63 per square foot down from 2009's year end asking rate of \$2.75 per square foot. The northwest boasts the lowest asking rate in the Columbus Industrial market.

### Downtown/CBD

In the small Downtown submarket, direct vacancy had no significant movement, and remained at 21.78%. Because the submarket is so small, it does not have a significant impact on the rest of the Columbus Industrial market.

### Out of County

The Out of County submarket is fast growing and the second largest submarket in Columbus. It reversed last year's increase in vacancy and delivered a decrease in 2010. The overall direct vacancy rate decreased from last year's rate of 6.11%

to 2010's rate of 5.56%. There was over 660,000 square feet of positive absorption in 2010, which due to the submarket's large size only translates into what might seem like a modest 55 basis point improvement. The bulk submarket had a great year recording about 680,000 square feet of positive absorption fueled by Exel and GENCO both leasing space in ProLogis' Park 70 – Etna Industrial Park. This helped decrease the direct vacancy to a very low 4.45%, down more than 12 percentage points from last year. There is only 250,000 square feet of vacant space available in the bulk submarket. Both the overall and bulk submarkets boast the lowest vacancy rates for all the submarkets in Columbus. The Out of County Submarket will be home to the new Mars Petcare distribution facility that will bring more than 1.3 million square feet of leased space into the market. Projected completion is scheduled for the fourth quarter 2011, and construction began

in the fourth quarter 2010. The average asking rental rate remained unchanged at \$3.24 per square foot.

### Outlook

The Columbus industrial market appears to have turned the corner. Vacancy and absorption numbers are starting to head in the right direction, and these trends should continue and accelerate over the course of 2011. Rental rates are near all-time lows, but are on their way up. Several leases completed in 2010 were at rates 30% - 40% less than historical asking rates. Attractive rental rates will still be plentiful for tenants in 2011, but not at the same level of discount. Rental rates will begin to increase as the large backlog of inventory is worked through.

Investment sales picked-up steam in 2010, and the pace will continue to increase in 2011. The market is strong for Class A assets, and capitalization rates for

quality net leased properties will be close to those seen 3-5 years ago. Buildings plagued with vacancy and expiring tax abatements will continue to sell at sharp discounts, as will older Class C buildings. New construction will most likely be confined to build-to-suit projects. No new speculative development is planned, and it's unlikely that anything will be started before 2012. Like many other markets, Columbus was hit severely by the most recent downturn. The worst appears to be over, but the road to recovery is going to be very gradual.

**Figure 12-Industrial Market Statistics**

Vacancy, Absorption, Construction and Rent

Submarket	Existing Properties							Absorption		Construction		Rent
	Buildings	Total Inventory SF	Total Vacant SF	Direct Vacancy Rate Last Q	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate Current Quarter	Net Absorption Current Q - SF	Net Absorption YTD - SF	Completions Current Q - SF	Under Const. - SF	Asking Full Service \$/SF
NORTHWEST	762	45,804,643	5,435,038	12.86%	11.69%	0.17%	11.87%	110,707	331,890	0	0	\$2.63
NORTHEAST	740	47,090,144	3,932,794	7.91%	8.12%	0.23%	8.35%	(97,964)	(681,754)	0	0	\$3.08
SOUTHEAST	646	75,261,351	10,121,353	14.99%	13.20%	0.25%	13.45%	1,045,802	1,409,572	0	0	\$2.90
SOUTHWEST	246	18,776,639	2,428,034	11.27%	11.38%	1.55%	12.93%	(48,809)	1,237,401	0	0	\$3.41
DOWNTOWN	55	2,209,220	46,510	21.78%	21.78%	0.00%	21.78%	0	0	0	0	\$5.74
OUT OF COUNTY	640	65,031,483	3,616,350	5.70%	5.56%	0.00%	5.56%	86,708	660,956	0	1,305,000	\$3.16
<b>Total</b>	<b>3,089</b>	<b>254,173,480</b>	<b>25,580,079</b>	<b>10.67%</b>	<b>9.97%</b>	<b>0.26%</b>	<b>10.24%</b>	<b>1,096,444</b>	<b>2,958,065</b>	<b>0</b>	<b>1,305,000</b>	<b>\$3.01</b>

**Figure 13-Bulk Industrial Market Statistics**

Vacancy, Absorption, Construction and Rent

Submarket	Existing Properties							Absorption		Construction		Rent
	Buildings	Total Inventory SF	Total Vacant SF	Direct Vacancy Rate Last Q	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate Current Quarter	Net Absorption Current Q - SF	Net Absorption YTD - SF	Completions Current Q - SF	Under Const. - SF	Asking Full Service \$/SF
NORTHEAST	1	229,000	0	0.00%	0.00%	0.00%	0.00%	0	0	0	0	\$6.00
SOUTHEAST	46	22,902,139	4,857,055	20.98%	21.21%	0.00%	21.21%	(51,328)	184,327	0	0	\$3.32
SOUTHWEST	12	4,260,533	599,259	14.38%	14.07%	0.00%	14.07%	13,592	200,197	0	0	\$3.50
OUT OF COUNTY	9	5,615,933	250,000	4.45%	4.45%	0.00%	4.45%	0	679,954	0	1,305,000	\$3.24
<b>Total</b>	<b>68</b>	<b>33,007,605</b>	<b>5,706,314</b>	<b>17.17%</b>	<b>17.29%</b>	<b>0.00%</b>	<b>17.29%</b>	<b>(37,736)</b>	<b>1,064,478</b>	<b>0</b>	<b>1,305,000</b>	<b>\$3.35</b>