

High Demand Puts Pressure on Market

Columbus Region Overview

Columbus is tracking another solid year in terms of office growth. At the end of the second quarter, the Columbus office market which includes Franklin and Delaware counties posted 119,065 square feet of net absorption, or the net change in occupied square feet, constituting the 17th consecutive quarter of office expansion. Over the past year, local companies involved in healthcare, finance, and professional services (major users of office space) have ramped up hiring and dominated leasing activity. As a result, the overall office vacancy rate fell to 8.4 percent – a 70 basis point drop since the second quarter of 2015.

Generally speaking, a growing office market often translates to growing rental rates. In Columbus, the average rental rate for Class A space now stands at \$20.36 per square foot—an increase of 1.5 percent from the same quarter last year. Meanwhile, the average rate for Class B space bumped to \$17.01 per square foot—an increase of 1.4 percent year-over-year.

Construction levels saw a pullback this quarter as two major single-tenant projects move closer to completion. In Grandview Heights, Nationwide Insurance began moving employees to the first completed building of their soon-to-be 500,000-square-foot campus style headquarters at Grandview Yard. Near Easton, Alliance Data completed their second building of what will become a 565,000-square-foot campus. Projects still in the construction phase include Dublin's Bridge Park mixed-use development, and the renovation of the Buggyworks building in the Arena District. When completed, this project will add 107,000 square feet of Class A space to downtown Columbus.

Key Takeaways

- > The overall vacancy rate dropped 20 basis points from Q1 2016 to 8.4 percent. Vacancy rates have been falling since 2010.
- > After a robust first quarter, Class A properties posted negative 43,583 square feet of net absorption. The average asking rate for Class A space now stands at \$20.36 per square foot.
- > 806,455 square feet are currently under construction for office space in Columbus. The largest projects include Bridge Park in Dublin and the Buggyworks renovation in the Arena District.

Market Indicators Relative to prior period	Columbus Q2 2016	Columbus Q3 2016*
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↓	↑
RENTAL RATE	↔	↑

*Projected, relative to prior quarter

Summary Statistics

Q2 2016 Regional Office Market	Columbus
Vacancy Rate	8.4%
Change From Q4 2015 (basis points)	20
Absorption (Square Feet)	119,065
Under Construction	806,455
Completions	600,379

Asking Rents (FSG)

Per Square Foot Per Year	
Class A	\$20.36
Class B	\$17.01
Class C	\$14.30

Job Growth and Employment

	Ohio	Columbus
Unemployment Rate	5.2%	3.8%
Office Job Growth (Y-O-Y)	0.4%	1.5%

SOURCE: BUREAU OF LABOR STATISTICS

Leasing Activity

Several office tenants signed leases in up-and-coming neighborhoods this quarter- a great way to attract new employees and meet changing business needs. The largest transactions came from BakerHostetler who leased 67,583 square feet at 200 Civic Center in the RiverSouth District and Lancaster Colony/Marzetti who leased 57,683 square feet at 380 Polaris Parkway in Polaris. Overall, Columbus recorded over 510,000 square feet of new or expanded leases, a 10 percent increase compared to the second quarter of 2015.

Occupier demand for quality office space has placed pressure on rental rates and reduced availabilities. Particularly this quarter, the amount of deals over 25,000 square feet have greatly diminished the supply of large contiguous blocks of space ready to be leased. In fact, only 11 Class A buildings in Columbus are listing blocks of 50,000 square feet or more- nine of which are located in suburban submarkets. Looking ahead, we are likely to see a landlord-driven market with fewer concessions for tenants until new speculative developments come to fruition and ease pressure.

Sales Activity

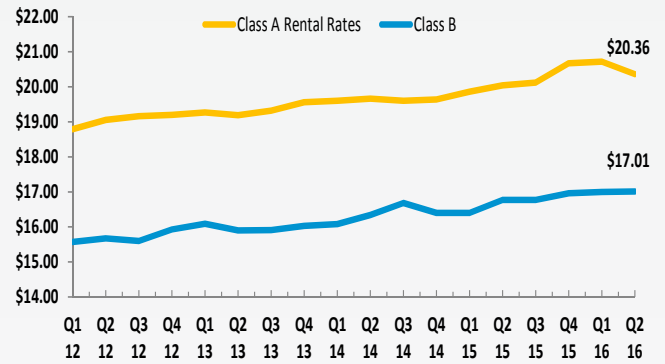
The second quarter was considered slow in terms of sales volume. Approximately seven buildings (general office and medical office) sold for a total of \$57.9 million, an average price per square foot of \$130.23. The largest sale came from Salsa Properties who purchased 5175 Emerald Parkway, a 118,000-square-foot general office building in Dublin, for \$5.95 million or \$50.21 per square foot.

Industry Data and Forecast

Headlining events such as Great Britain opting to leave the European Union and the looming presidential election in the U.S., have investors and commercial real estate experts skeptical about how well the economy will perform in the second half of 2016. Nevertheless, the U.S. has remained resilient enough to drive the demand for office space. According to the most recent addition of the U.S. Office Market Outlook report from Colliers International, 64 of the 80 metro areas covered in the report recorded stable or falling vacancy rates reducing the overall national vacancy rate to 12.6 percent- a full 100 basis point decrease from last year.

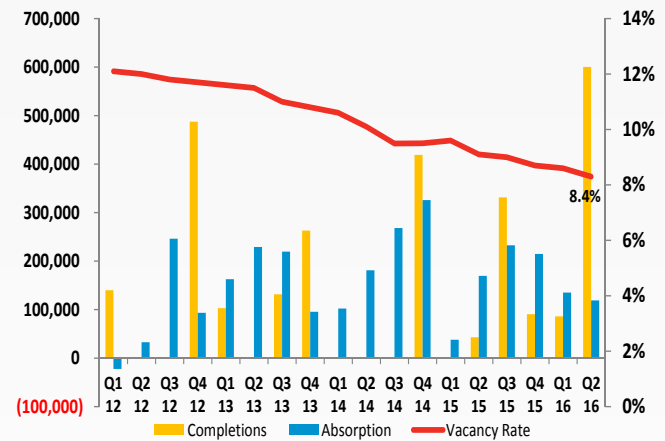
Closer to home, Columbus continues to ride the wave of expansion. According to the U.S. Bureau of Labor Statistics, local employers have added 4,000 office jobs to the market since the second quarter of 2015. This undoubtedly helped reduce the overall unemployment rate to 3.8 percent- the lowest of any other Ohio metro area. Looking ahead, we can expect leasing and investment activity to stay in-tune with regional economic growth as office users seek to expand operations and hire additional employees.

Central Ohio Office Rental Rates (Full Service)



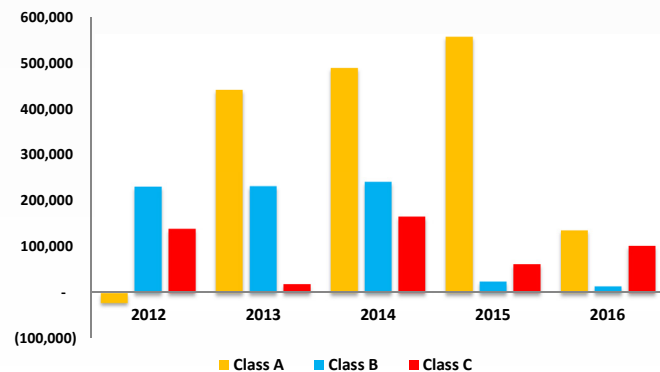
The average Class A rental rate saw a pullback this quarter to \$20.36 per square foot from \$20.72 per square foot recorded during the first quarter. The average Class B rate bumped to \$17.01 per square foot.

Central Ohio Vacancy Rate, Completions and Absorption



The overall vacancy rate fell 20 basis points to 8.4 percent during the second quarter. Vacancy rates have been falling since 2010.

Central Ohio Absorption by Property Class



Class A and Class C office buildings have posted strong numbers so far in 2016 with 136,452 square feet and 102,952 square feet of net absorption, respectively.

Hot Topic

Columbus Wins Smart City Challenge

The city is becoming congested. And although this may be an inconvenience to your morning commute or after-work happy hour, the truth is congestion can be a good thing. After all, it's a sign of growth. That's why Columbus winning the inaugural Smart City Challenge came as a breath of fresh air—finally some relief—but what does this actually mean for the office market? The award will hand the city \$140 million* to innovate and implement new transportation strategies; strategies that include improvements to the upcoming CMAX Bus Rapid Transit Line, a mobile app that covers the cost of bus fares, and investments towards self-driving shuttles. This is good news for office users because the economic multipliers are endless. Employers can be connected to a wider range of talent, building owners can market accessibility to more amenities, and both can reduce the cost of parking. Time will tell how these new innovations will improve public transit, but winning the Smart City Challenge is certainly a step in the right direction.



*\$50 million was awarded by the federal government and Vulcan Inc., while \$90 million was awarded by local companies and organizations.

Sale Activity

PROPERTY ADDRESS	SALES DATE	SALE PRICE	SIZE (SF)	BUYER	SELLER	PRICE PSF	TYPE	SUBMARKET
3700 Corporate	5/15/2015	\$10,000,000	171,977	Channing Realty	Omni Properties	\$58.00	Private Investor	Westerville
5175 Emerald Pkwy	4/4/2016	\$5,950,000	118,500	Salsa Properties	Wells Fargo	\$50.21	Private Investor	Dublin
899 E Broad St	5/31/2016	\$2,565,000	72,080	Access Ohio	Columbus Area Integrated Health Services Inc	\$34.89	Private Investor	East
99 N Brice Rd	6/24/2016	\$11,100,000	63,003	Westport Capital Partners	Pentagon Real Estate	\$176.18	Private Investor	East
300 E Wilson Bridge Rd	4/5/2016	\$12,836,400	56,419	Broadstone Real Estate	MedVet	\$225.49	Private Investor	Worthington
1210 Gemini Pl	4/21/2016	\$14,600,000	45,000	Healthcare Trust of America	Polaris Medical Office Development	\$324.44	Private Investor	Polaris
665 E Dublin Granville Rd	4/15/2016	\$900,000	21,224	Harbor Properties	Pregnancy Decision Health Centers	\$42.40	Private Investor	Worthington
23 W 2nd Ave	4/12/2016	\$1,625,000	14,907	Kaufman Development	The International Brotherhood of Electrical Worker	\$94.82	Developer	Short North/Campus

Lease Activity

PROPERTY ADDRESS	LEASE DATE	LEASED SF	TENANT	ASKING PRICE	TYPE	SUBMARKET
200 Civic Center Dr	4/27/2016	67,583	Baker Hostetler	\$12.00	NNN	CBD
380 Polaris Pkwy	6/23/2016	57,653	Lancaster Colony	\$14.75	NNN	Westerville
4400 Easton Commons	5/15/2016	55,000	CitiGroup	\$15.90	NNN	Easton
800 Techcenter Rd	5/13/2016	54,615	Zulily	\$10.95	NNN	Gahanna
825 Tech Center Dr	6/21/2016	34,309	AEP	\$12.75	NNN	Gahanna
5500 Glendon Ct	4/4/2016	33,687	CareWorks	\$13.50	NNN	Dublin
4400 Easton Commons	5/11/2016	12,765	Compunnel	\$15.90	NNN	Easton
800 E Yard St	6/16/2016	11,200	C.H. Robinson	\$16.50	NNN	Arlington/Grandview
1400 Goodale Blvd	6/10/2016	10,057	Navigator Management	\$14.50	NNN	Arlington/Grandview

Q2 2016 Office Statistics

SUBMARKET	ABSORPTION					CONSTRUCTION		ASKING PRICE		
	TOTAL SF	VACANT SF	VACANCY %	CURRENT	YTD	CURRENT	COMPLETED	CLASS A	CLASS B	CLASS C
Arlington/Grandview	5,319,167	214,526	4.0%	49,786	20,644	256,455	342,379	\$20.20	\$19.75	\$16.66
CBD	19,807,117	1,579,641	8.0%	7,956	60,417	107,000	-	\$20.37	\$17.52	\$16.03
Dublin	9,336,132	1,032,657	11.1%	(19,766)	(59,099)	164,000	-	\$20.86	\$17.34	\$14.30
East	3,869,477	614,590	15.9%	3,628	(12,074)	-	-	\$18.31	\$15.28	\$12.93
Easton	3,071,095	155,409	5.1%	(55,192)	30,808	279,000	240,000	\$21.34	\$20.60	-
Gahanna/Airport	1,235,246	95,572	7.7%	58,237	48,458	-	-	\$21.43	\$19.76	-
Hilliard	2,460,083	1112,407	4.6%	(9,600)	(10,000)	-	-	\$19.00	\$17.14	\$15.49
New Albany	2,302,557	123,287	5.4%	7,607	17,234	-	-	\$18.73	\$15.95	-
North Central	1,147,668	58,764	5.1%	12,260	2,378	-	-	-	\$18.24	\$15.00
Polaris	4,512,267	185,997	4.1%	48,635	78,319	-	-	\$20.76	\$19.11	-
Powell	273,589	26,289	9.6%	-	5,200	-	-	-	\$14.06	-
Southeast	434,658	24,490	5.6%	24,400	104,112	-	-	-	\$19.91	-
Southwest	273,119	14,426	6.1%	-	-	-	18,000	-	\$17.00	\$14.95
Westerville	4,409,987	437,962	9.9%	(30,346)	(51,675)	-	-	\$20.73	\$15.94	\$11.03
Worthington	6,221,601	721,144	11.6%	21,460	19,522	-	-	\$17.25	\$16.93	\$13.49
Grand Total	64,637,763	5,394,161	8.4%	119,065	254,244	806,455	600,379	\$20.36	\$17.01	\$14.30

PROPERTY TYPE	ABSORPTION					CONSTRUCTION		ASKING PRICE	
	TOTAL SF	VACANT SF	VACANCY %	CURRENT	YTD	CURRENT	COMPLETED	BY PRODUCT TYPE	
Class A	28,186,564	2,283,978	8.1%	(43,583)	136,452	806,455	600,379	\$20.36	
Class B	22,825,513	2,103,638	9.2%	75,323	14,840	-	-	\$17.01	
Class C	13,625,686	1,006,545	7.4%	87,325	102,952	-	-	\$14.04	
Grand Total	64,637,763	5,394,161	8.4%	119,065	254,244	806,455	600,379	\$18.13	

QUARTER, YEAR	ABSORPTION					CONSTRUCTION		ASKING PRICE	
	TOTAL SF	VACANT SF	VACANCY %	CURRENT	YTD	CURRENT	COMPLETED	CLASS A	CLASS B
Q1, 2016	64,037,384	8,367,528	8.6%	135,179	135,179	1,406,834	86,000	\$20.72	\$17.00
Q4, 2015	63,951,384	5,581,450	8.7%	214,788	670,733	1,477,834	90,500	\$20.67	\$16.98
Q3, 2015	63,764,884	5,710,046	9.0%	232,588	455,945	1,226,955	331,340	\$20.12	\$16.78
Q2, 2015	63,529,544	5,751,816	9.1%	185,473	223,357	725,840	35,044	\$20.04	\$16.77

FOR MORE INFORMATION

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