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Colliers

The background of the top half of the page is a photograph of the Columbus skyline. The most prominent building is the yellow, Art Deco-style Tower City Center. Other buildings of various architectural styles are visible in the background. The sky is bright blue with scattered white clouds. In the foreground, there is a green lawn with some trees and a body of water.

Columbus Office Market

Capital Markets Year-End Report

2022

Accelerating success.

Overview

The purpose of this report is to focus on key market information that is relevant to investors interested in office property located in Central Ohio. The primary information provided in this report is as follows: significant office properties sold, current properties on the market, significant leases recently signed, as well as current developments underway.

Economic Outlook

2022 posed challenges not experienced in commercial real estate or the broader markets in decades. In each Federal Open Market Committee since March, the FOMC board has voted to increase interest rates. Most recently in December, the Federal Reserve raised their benchmark rate another 50 bps. Rate hikes are expected to continue into the new year, putting even more pressure on the commercial real estate market. However, many experts are anticipating rates to peak some time in 2023 as economic conditions potentially worsen.

What does all this mean for the Columbus office investment sales market? Owners with nearing loan maturities are going to have to weigh the pro/cons of selling in a very tough market or securing new debt at much higher rates. We firmly believe most owners in this scenario will choose the route of disposition rather than testing their luck in the debt market. Additionally, many owners may find themselves with a dwindling WALT and unwilling to run the risk of losing value as they wait for rates to come down. Times like these are why it is crucial to work with the best possible brokerage representation, with the greatest market reach, to achieve the best possible results. Our team sees 2023 as a great opportunity to showcase our ability to achieve great success in what many consider a tough market.

Investment Market and Sales Activity

Columbus' total office sales volume totaled over \$370M in 2022, surpassing the \$281M pace set in 2021 with comfort. The market experienced a huge influx of sales volume during the second half of the year totaling over \$200M. This surge in sales volume came in spite of unprecedented rate hikes at the hand of the Federal Reserve.

We estimate roughly \$400M of office product on the market for sale which gives us reason to believe sales volume will not significantly taper off in 2023. Additionally, there has been a noticeable increase in broker opinion of value requests. We believe this trend is due to the large amount of debt and leases that are coming due in the next few years. There were 61 transactions that occurred trading for at least \$1M, a large majority of which fell within the \$1M - \$5M range. 15 of these sales eclipsed the \$5M benchmark with one sale trading north of \$100M. This level of activity in what many would consider a tough office market is a testament to Columbus' strength as a market and overall resilience.



During 2022 there were a total of 61 sale transactions above \$1M completed. Below is a more concise breakdown of transaction size ranges:

| Transaction Size | # of Transactions |
|------------------|-------------------|
| \$1M - \$2M | 25 |
| \$2M - \$5M | 21 |
| \$5M - \$10M | 7 |
| \$10M - \$20M | 6 |
| \$20M + | 2 |

Significant Sales

Below is a sampling of some of the largest office investment sale transactions that occurred in 2022:

| Address | Submarket | Sold Price | SF | Price PSF | Occupancy | Sold Date | Buyer | Seller | Cap Rate |
|-------------------------|--------------|---------------|---------|-----------|-----------|------------|--------------------------------|------------------------------|----------|
| 2780 Airport | East/Airport | Undisclosed | 105,916 | NA | 86.00% | 12/14/2022 | Realife | Neyer Properties | 9.40% |
| 910 John Street | CBD | \$118,000,000 | 200,000 | \$590.00 | 100.00% | 10/27/2022 | Qatar First Bank | Cambridge Holdings Inc. | 6.80% |
| 8323 Walton Pky | Westerville | \$42,000,000 | 236,070 | \$177.91 | 100.00% | 11/9/2022 | Tempus Real Estate Investments | Sycamore Partners | 8.20% |
| 9200 Worthington Rd | Polaris | \$14,750,000 | 136,318 | \$108.20 | 77.00% | 9/30/2022 | IMC Real Estate | Alidade Capital | 7.00% |
| 250 Civic Center Dr | Downtown | \$12,850,000 | 105,671 | \$121.60 | 70.00% | 3/17/2022 | Ravinia Capital Group | CASTO | 6.40% |
| 88 E Broad St | Downtown | \$12,025,000 | 253,169 | \$47.50 | 72.90% | 1/21/2022 | Zamir Equities | Schottenstein Property Group | 3.80% |
| 5500 Frantz Rd | Dublin | \$8,860,000 | 60,018 | \$147.62 | 100.00% | 3/4/2022 | Keller Farms Landscape Nursery | Allegiance | 9.00% |
| 6797-6827 N High Street | Worthington | \$4,635,000 | 106,718 | \$43.43 | 72.87% | 11/15/2022 | Alex Alahakoon | Executive House LP | 5.00% |
| 6161 Busch Blvd | Worthington | \$4,250,000 | 82,428 | \$51.56 | 35.50% | 5/25/2022 | HJH Investments | Ot Investments LLC | 11.32% |

Featured Sale Transaction

8323 Walton Parkway: Arkansas-based Tempus Realty purchased 8323 Walton Parkway for \$42M on 11/16/2022. 8323 Walton Parkway is a two-building single-tenant office portfolio comprised of 236,070 SF occupied by Lane Bryant. Located roughly 1 mile from Intel's chip manufacturing site, 8323 Walton is sure to benefit from New Albany's inevitable growth moving forward.











The Colliers team represented Tempus during the transaction. This acquisition takes Tempus' total SF owned in Columbus to roughly 600,000 SF.



Properties on the Market

There are nearly 60 properties valued at \$1M and above on the market totaling nearly 3M square feet at an estimated value of \$300M.

Below is a sampling of investment properties that are currently on the market for sale:

| Photo | Address | Submarket/Type | Listing Price | Class | Occupancy | Square Feet | Seller Represented By |
|--|-------------------------|---------------------|---------------|-------|-------------|-------------|-------------------------|
|  | 2 Miranova Pl | CBD | Unpriced | A | 49% | 243,117 | JLL |
|  | 7400 W Campus | New Albany | Unpriced | B | 34.34% | 206,894 | Colliers |
|  | 5550 Britton Pky | Dublin | \$31,000,000 | A | 0% | 220,964 | CBRE |
|  | 7007 Discovery Blvd | Dublin | \$19,995,780 | B | Undisclosed | 137,436 | Elford Realty |
|  | 7575 Huntington Park Dr | Worthington | Unpriced | A | 12.30% | 129,826 | Colliers |
|  | 480 Olde Worthington Rd | Polaris | \$7,900,000 | A | 55.80% | 102,487 | Commercial One Realtors |
|  | 1800 Watermark Dr | Arlington/Grandview | Unpriced | B | 25% | 93,400 | JLL |
|  | 1000 Polaris Pky | Polaris | \$8,000,000 | A | 0% | 72,000 | CBRE |
|  | 551-555 S Front | CBD | Unpriced | B | 11.30% | 46,883 | Colliers |
|  | 1500 Lake Shore Dr | Arlington/Grandview | Unpriced | B | 87.60% | 53,646 | CBRE |

Leasing Activity

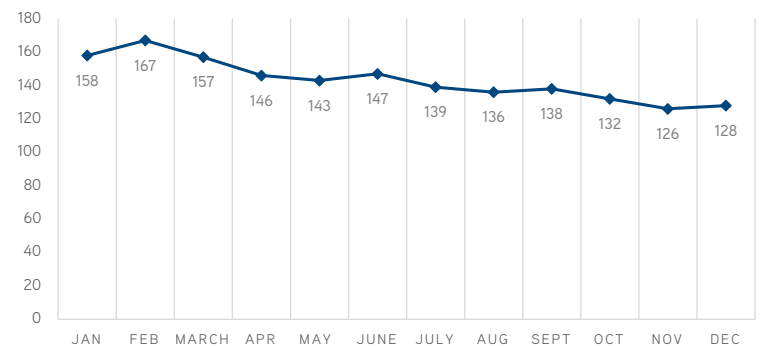
There were 821 new leases signed in 2022 which accounted for 3.4M SF. Compare this to the 775 new leases signed in 2021 which accounted for 2.6M SF.

The vacancy rate slightly increased to 13.06 percent after last quarter's drop. New Albany continues to have the highest vacancy rate of 28.16 percent. Dublin's vacancy rate also remains high with the 5100 Rings Road sublease of over 400,000 square feet. Despite the overall increase, some submarkets showed decreased vacancy. The CBD submarket decreased to 10.47 percent in Gahanna/Airport to 13.05 percent. The Gahanna reduction is due to the City of Gahanna purchasing 825 Techcenter consisting of 96,000 square feet.

YOY Leasing Comparison

| Metric | Year | Total | % Change 2021 vs. 2022 |
|-------------------------|------|-------------|------------------------|
| Total New Leases Signed | 2022 | 821 | 6% ↑ |
| | 2021 | 775 | |
| | 2020 | 613 | |
| Total SF Leased | 2022 | 3,427,463 | 31% ↑ |
| | 2021 | 2,616,043 | |
| | 2020 | 2,468,861 | |
| Average Lease Term | 2022 | 38.4 months | 19% ↑ |
| | 2021 | 32.4 months | |
| | 2020 | 32.4 months | |

Tenants in the Market





Significant Lease Transactions

Below is a sampling of significant lease transactions that have taken place in 2022:

| Address | Submarket | Asking Rental Rate (PSF) | Lease Date | Square Feet | Tenant |
|--|---------------|--------------------------|------------|-------------|-----------------------------|
| 3435 Stelzer Rd Columbus, OH 43219 | North Central | \$14.25 NNN | 8/1/2022 | 77,679 | Sarepta Therapeutics, Inc. |
| 8600 Smith's Mill Rd New Albany, OH 43054 | New Albany | \$21.00-\$26.00 FSG | 8/1/2022 | 67,000 | Intel Corporation |
| 955 County Line Rd W Westerville, OH 43082 | Polaris | \$12.00 NNN | 7/1/2022 | 46,313 | United Midwest Savings Bank |
| 2231 Schrock Rd Westerville, OH 43229 | Westerville | \$12.00 NNN | 7/1/2022 | 41,782 | Education Solutions |
| 80 E Rich St Columbus, OH 43215 | CBD | \$22.00 FSG | 8/1/2022 | 32,917 | Beam Technologies, Inc. |
| 333 W Nationwide Blvd. Columbus, OH 43215 | CBD | \$20.50 FSG | 12/15/2022 | 30,770 | Foxen Administration |
| 570 Polaris Pkwy Westerville, OH 43082 | Polaris | \$13.95 NNN | 12/13/2022 | 30,038 | Western Alliance Bank |
| 5600 Blazer Memorial Pkwy Dublin, OH 43017 | Dublin | \$14.50 NNN | 7/25/2022 | 24,710 | Innnosource |
| 445 Hutchinson Ave Columbus, OH 43235 | Worthington | \$12.00-\$16.00 NNN | 8/3/2022 | 20,610 | Arizona College of Nursing |
| 5455 Rings Rd Dublin, OH 43017 | Dublin | \$13.50 NNN | 10/4/2022 | 17,735 | Ashland, LLC |
| 2550 Corporate Exchange Dr Columbus, OH 43231 | Westerville | \$15.95 NNN | 7/22/2022 | 17,931 | American Consulting |
| 550 Polaris Pkwy Westerville, OH 43082 | Polaris | \$13.95 NNN | 12/1/2022 | 8,656 | V3 Companies |

Featured Lease Transaction

Beam Technologies expanded into the Columbus CBD, signing a 5-year 32,917 SF direct deal at 80 E Rich Street. Colliers' Michelle Fude, Dan Dunsmoor, Andrew Jameson and Ryan McHugh represented the landlord in the transaction.



Leasing Trend

We are seeing a slow shift in sentiment towards the office market. Larger office users are slowly re-entering the market, the flood of sublease space that hit the market is being absorbed, each quarter more people are returning to the office, etc. There was approximately 292,000 SF of leasing completed throughout the city in Q4 of 2022. Of that 292,000 SF, 86% of the leases signed last quarter were new leases and 37% of the total square footage of those Leases was completed in Downtown Columbus. Historically, approximately 75% of tenants year over year would renew their leases. This dramatic shift indicates that tenants are electing to move rather than in many cases downsize in place. Companies are targeting A locations and Class A buildings that have robust amenities in order to entice tenants to come back to the office.

Developments

With just over 900,000 SF currently under construction, development remains steady. Arlington/Grandview has two developments at 1325 W Lane Ave and 1000 Dublin Rd. The remaining five are in the CBD submarket at 330 Rush Alley, 429 W. Broad, 477 S Front, 600 Nationwide and 59 W. Spruce.

Office Building One of the Grandview Crossing development was completed in the Arlington/Grandview submarket this year totaling over 124K SF. Office Building Two is expected to be completed some time in 2023. Central Ohio can expect more large developments throughout the next year.

Planned Developments

| Project Name | Address | Submarket | Class | Planned Office SF | Projected Completion |
|--------------------------|------------------------|---------------------|-------|-------------------|----------------------|
| Scioto Peninsula Phase I | 330 Rush Alley | CBD | A | 230,938 | Q2 2023 |
| Gravity II | 429 W. Broad St. | CBD | A | 167,000 | Q2 2023 |
| Arlington Gateway | 1325-1359 W. Lane Ave. | Arlington/Grandview | A | 130,000 | Q3 2023 |
| Grandview Crossing | 1000 Dublin Rd. | Arlington/Grandview | A | 125,000 | TBD |
| Front and Fulton | 477 S Front St. | CBD | A | 100,000 | TBD |
| Astor Park | 600 Nationwide Blvd. | CBD | A | 120,000 | Q2 2024 |
| The Merchant Building | 59 W. Spruce St. | CBD | A | 60,000 | Q1 2025 |

Featured Development

Astor Park Office

The first phase of Astor Park will include a 5-story office building consisting of 120,000 which BBI Logistics will occupy in the second quarter of 2024. BBI plans to bring 450 people once the project is delivered.

Astor Park is a major mixed-use development consisting of office, retail and residential space that will bring the immediate area surrounding Lower.com Field, the new home of the Columbus Crew, to life.



2023 Second Half Outlook

As a flurry of mortgage debt comes due over the next 12-24 months and lease expirations loom closer, we expect sales volume to continue its upward trajectory. With that said, as the Fed holds firm on tight monetary policy, it is likely we will see decreases in property values due to the increasing cost of obtaining capital. Potential sellers of office product will have to weigh the pros and cons of selling in a market where cap rates are rising vs choosing to secure new debt at a much higher rate. We believe a large majority of these owners will choose the path of least resistance which would be to dispose of the asset. This process of resetting property values is generally a positive thing for the market and will ultimately allow for rent growth among other ancillary benefits. Value-focused investors who believe in the future prospects of office product will be poised to take advantage of these decreasing property values and make significant additions to their portfolios at an attractive basis.

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