Development Skyrockets in Columbus

COLUMBUS, OH—Partly shielded from the economic downturn by its smaller size and Midwest location, the city is seeing commercial success both Downtown and in the suburbs thanks to a few corporate benefactors. Cranes and bulldozers are active all over the CBD as Nationwide Realty Investors continues its $1.3 billion in development program, including the recent start of a 51,300-square-foot office building in the $800-million Arena District. NRI, a division of the locally based Nationwide Mutual Insurance Co., is also building the $500-million Grandview Yard project just northwest of Downtown.

Brian Ellis, CEO of NRI, says that construction started in mid-December on the $10-million 425 W. Nationwide Blvd. office, which will be anchored by the General Services Administration. Other NRI buildings under construction in the Arena District include the 200,000-square-foot 10 W. Nationwide Blvd. property, a $26-million building that will house the company's insurance division by 2013, and 240 W. Nationwide Blvd., a 280,000-square-foot office that Columbia Gas will anchor.

The district also houses NRI's successful attempts at apartments and condo projects, including the 98-unit Burnham Square, the 20-story Condo at North Bank and the Flats on Vine apartments—all of which are fully sold or occupied. The company also bought the former Buggy Works building near the Columbus Clippers triple-A baseball stadium, though no specific plans have been released yet.

Ellis says the next multifamily project could bring 1,000 more units to Downtown by 2021. "We're certainly bullish about the opportunity for Columbus," Ellis says. "This is our hometown, and we've been a strong supporter of the city. You've got about 100,000 college students in the area, and there's also the state capital government draw."

Another Columbus success story has been Easton Town Center, a 12-year-old, 1.5-million-square-foot open-air retail center that has defied the rise and fall of malls across the country by staying relevant and vibrant, even expanding during the downturn. Yaromir Steiner, founder and CEO of Steiner Associates, was able to copy his earlier open-air mall success of CocoWalk in Coconut Grove, FL in a most unusual place—the colder, northern zone of the country where indoor malls were born half a century ago.

The main idea, Steiner says, is to create an emotional attachment in visitors. "You have to create an experience for people, but it can't be artificial," he says. "You can't just copy another project. You have to create a destination."—***Robert Carr***

Midwest Offers Single-Tenant Profits

The "Great Recession" of the 2000s generally stirs up negative connotations in the commercial real estate community. Development stood still. Debt was unavailable. Tenants asked for rent reductions or disappeared. Respectable companies went under. Properties and fortunes were lost.

However, owners of certain single-tenant net-leased properties are presented with an opportunity as three post-recession forces combine: low interest rates, constrained supply of properties coming to market and investors looking to put their money to work. The combination of these factors has created demand for STNLs that outpaces supply, resulting in rapid compression of capitalization rates since mid-2010. This situation benefits two distinct groups: return-driven investors who purchased properties during the recession, and long-term cash flow investors who made acquisitions approximately 10 years ago.

By Marc Imrem

During the height of the recession, from late 2008 through early 2010, demand was weak for all property types due to cash hoarding and lack of debt and equity sources. Investors who did purchase properties were able to achieve higher cap rates, especially in the Midwest, where demand was lowest. Now, with constrained supply and money flowing in from the coasts due to poor yields there, cap rates in the region have fallen dramatically and profits can be found in these properties.

Midwest drugstore property sales are a good example. Transactions closed in 2009 with an average cap rate of 7.7%. In the second half of 2011, the average cap rate in the region was 6.85%. Therefore, a drugstore with $400,000 rent, purchased in 2009 and sold in 2011 with 20-plus years remaining on its lease term would garner approximately $655,000 profit and an unleveraged IRR of around 12.75% after capital gains taxes. If the investor placed debt on the property and was able to pay it off at closing without penalty, the IRR could be in the 25% to 30% range.

Investors who purchased STNLs in the early 2000s with the goal of consistent, long-term cash flow can also benefit from the recent dynamics, as they have the ability to sell properties with 10 or more years of primary lease term remaining at break-even or for a slight profit.

Why would an investor go through the trouble of selling at break-even? First, many of these assets have debt coming due. Financing options for seasoned properties are not as abundant, nor as beneficial, as for new construction. Second, by selling and re-purchasing, the investor can extend the cash flow horizon and reset the depreciation clock, while pushing back the day when refinancing or tenant renewal becomes a major concern. There may be slightly less annual rent from the replacement property, but, with the same original invested capital, 10 to 15 additional years of rent will be realized. When taking current interest rates into account, after-debt cash flow may actually increase.

Similar to the housing market of the 2000s, STNL owners are sitting on substantial paper profits. Are they savvy enough to take advantage?

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