THOMPSON HINE

Always Innovating

# A MARKET IN TRANSITION, ADAPTING TO THRIVE

## A Report on the State of the Economy, Business, and the Commercial Real Estate Market (CRE) in Columbus

In a continuing effort to measure perceptions of the state of the economy and business in Columbus, especially the CRE market, Thompson Hine once again partnered with *Columbus Business First* to survey local business owners and executives. A total of 197 business leaders in the Columbus market participated in this year's survey.

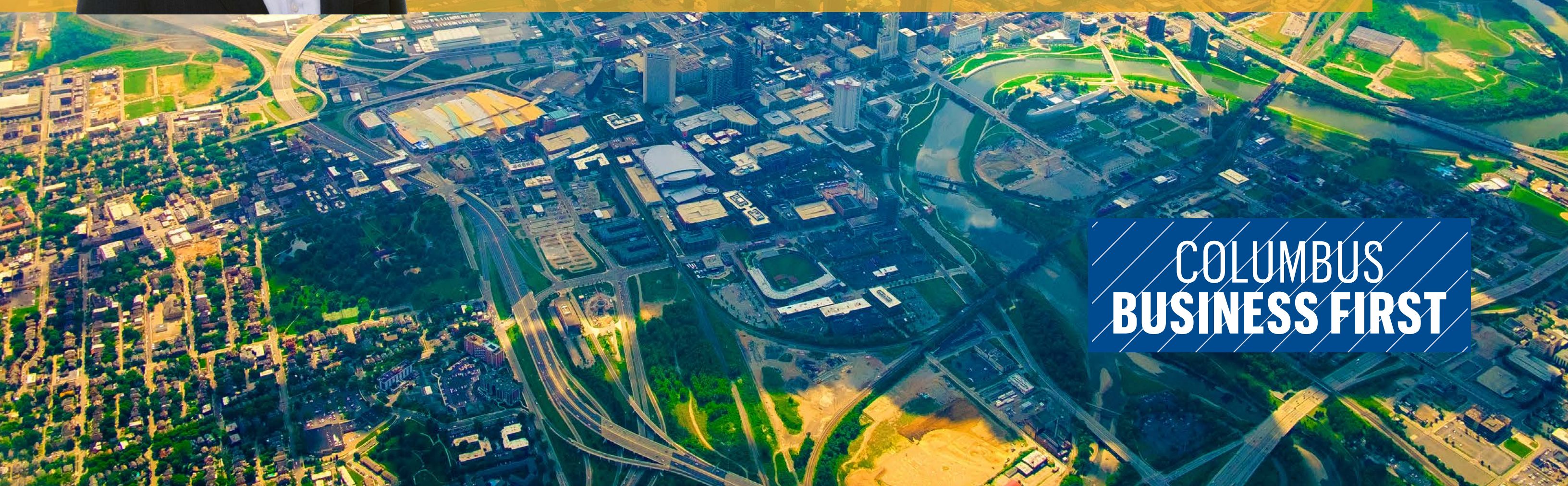
Industries represented include real estate, construction, consulting, financial and investment services, architecture/engineering, technology, insurance, and healthcare, among numerous others. A majority of respondents were VP+ business executives, with the largest cross-section being business owners. Annual revenues ranged from less than $500,000 (15%) to $1 billion or more (14%).

**"We know that Columbus is 'going places.' The influx of companies; the opening of hotels, new restaurants, and rooftop bars; and the continued expansion of Franklinton, the near East Side, and other areas surrounding downtown are just a few examples of that forward momentum.**

**We also know that Columbus is still feeling the impact of the pandemic, particularly in the CRE market. The downtown workforce has not fully returned—and, frankly, the number of workers occupying downtown office space may never completely return to its former levels. Add perceptions about safety, higher interest rates, and other financing hurdles, and you get a CRE industry that is experiencing some significant disruption.**

**This year's survey of Central Ohio executives reflects the full range of this highly nuanced environment. However, it also highlights our region's great optimism, positive gains, and continuing potential."**

**Michael V. Wible**
**Partner in Charge, Columbus;**
**Partner, Corporate Transactions & Securities**



COLUMBUS BUSINESS FIRST

## THE ECONOMIC LANDSCAPE – SOME CONCERNS, BUT ALSO CAUTIOUS OPTIMISM

Columbus business leaders heading into 2024 are experiencing some very real economic pressures and concerns. For starters, 78% are worried that cost-of-living increases may be changing their employees' expectations of the business.

Other concerns include:

- Inflation having an even bigger impact than it already has (72%)
- The CRE industry's upcoming maturation of debt coupled with current economic uncertainty (69%)
- The impact of potential CRE loan defaults on small/community banks (66%)

**"Some owners have been trying to wait out their existing financing, putting off decisions about next steps until the maturation of their debt. Should they sell? Expand or downsize? Convert their property to other uses? Or refinance and renovate to incorporate more desirable amenities? The coming expiration of many post-pandemic short-term extensions may also be forcing these decisions soon.**

**Owners should consider consulting legal or other professionals to assess and understand their options to make the most prudent decisions to achieve their business goals."**

**Robyn Minter Smyers, Partner**
**Co-Chair, Site Selection;**
**Partner, Real Estate;**
**Lawyer/Consultant, Project Management Consultants**

**"[T]he broader commercial real estate industry is watching what'll happen to an estimated $1.9 trillion in commercial real estate loans set to mature in the next four years."**

"$270B in CRE capital is on the sidelines. How much of that sum could go into distressed real estate?"
*Columbus Business First*, 10/23/2023

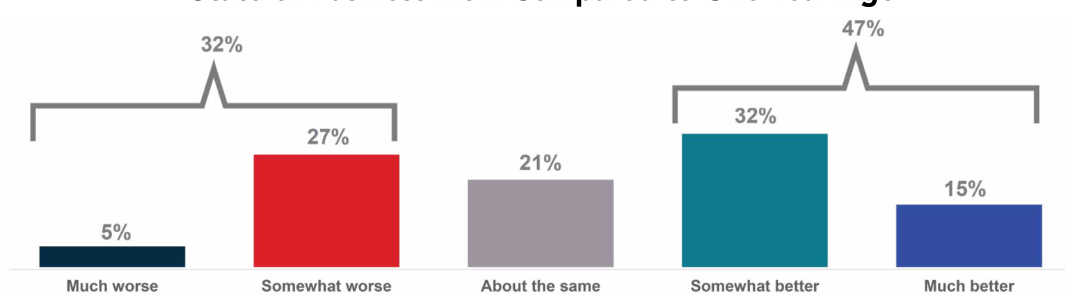
**"There's an estimated $47 billion in office loan debt coming due in 2024, according to Moody's Analytics Inc. Among commercial mortgage-backed securities loans backing office properties, Moody's estimates three-quarters of that will struggle to refinance next year."**

"Companies will have to ask tough questions in office-space negotiations in 2024"
*Columbus Business First*, 12/6/2023

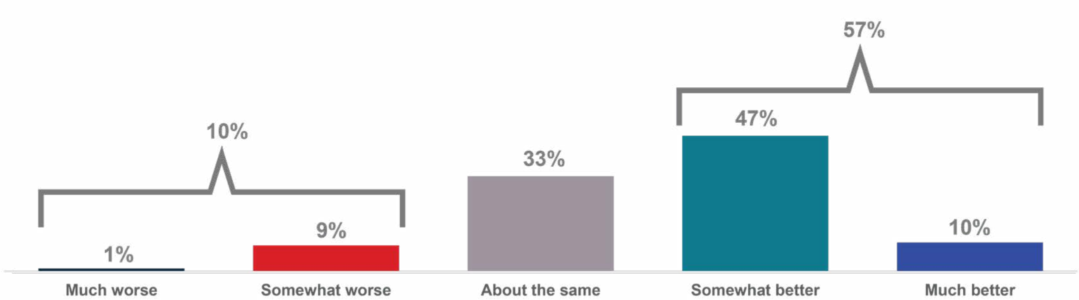
76% of survey respondents are also currently somewhat or very concerned about the U.S. economy—which 59% expect to get even worse over the next six months.

However, despite mixed business performance in the past year, Columbus executives remain cautiously optimistic. Roughly 5/10 report that their business is doing better than one year ago, and almost 6/10 anticipate they will be doing better still one year from now.

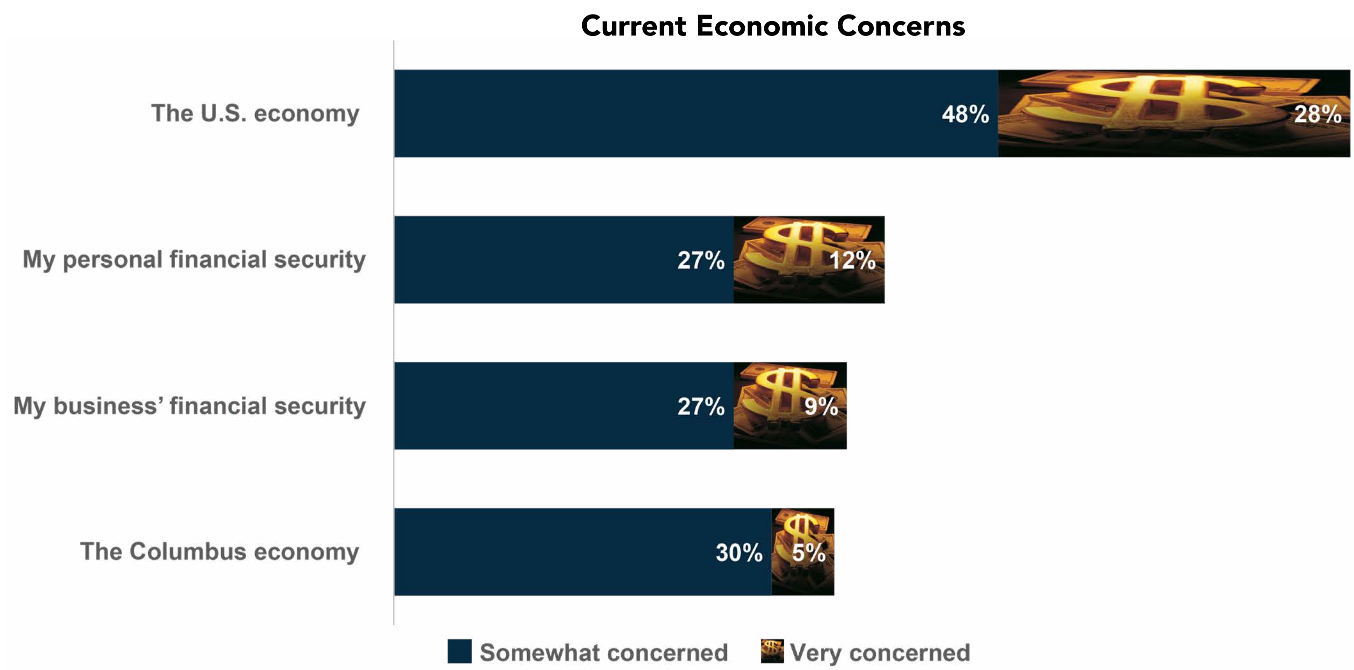

**State of Business Now Compared to One Year Ago**

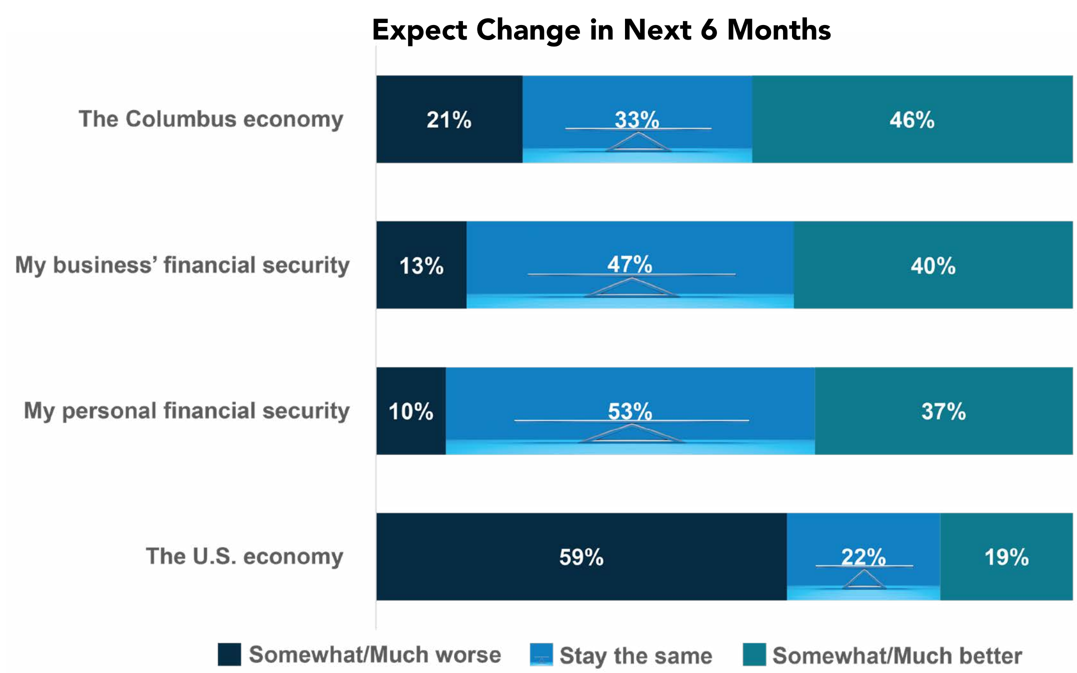



**State of Business One Year From Now**



In addition, in contrast to the more negative national economic outlook, only 35% are currently either somewhat or very concerned about the Columbus economy—and nearly half of respondents expect local conditions to improve in the next six months.



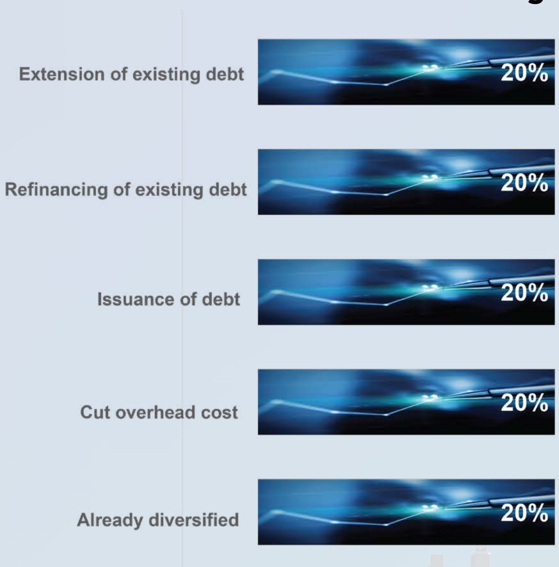



**"This is a challenging time in the market for several sectors including commercial real estate. The rapid increase in interest rates coupled with the lower demand for commercial office space as a result of many businesses embracing the hybrid workplace have led to a rise in loan and lease defaults. Lenders and servicers are more frequently being confronted with unattractive options to deal with defaulted commercial real estate loans including foreclosure, receivership, and bankruptcy. In distressed situations, stakeholders are well served to receive the highest-quality advice and counsel from professionals."**

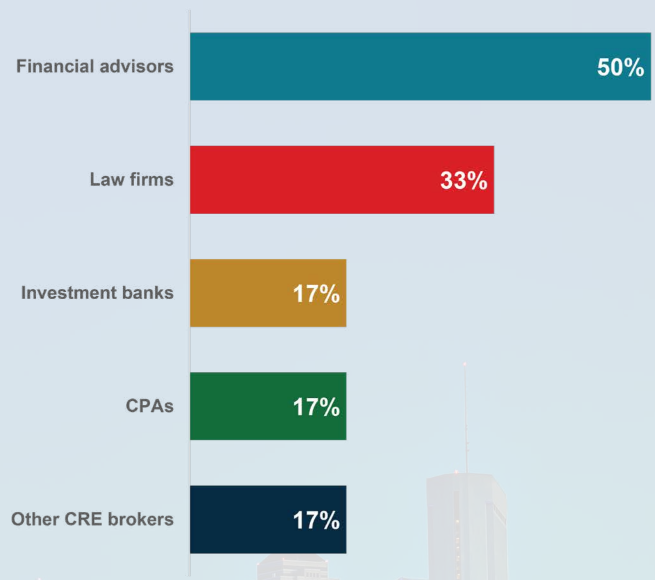
**Curtis L. Tuggle**
**Chair, Business Restructuring, Creditors' Rights & Bankruptcy**

Although only a small sampling of survey participants responded to the question about upcoming maturities of unfunded indebtedness, those business leaders are attempting various strategies or consulted different professionals to address this issue.

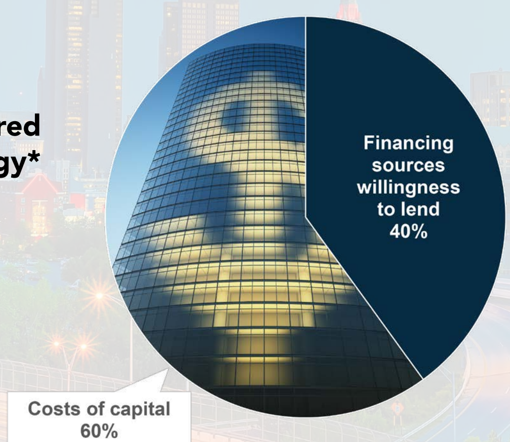
## Funded Indebtedness Strategies*




## Professionals Consulted for Strategies*




## Challenges Encountered in Developing Strategy*




*Caution: Very small sample size; use data for directional purposes only

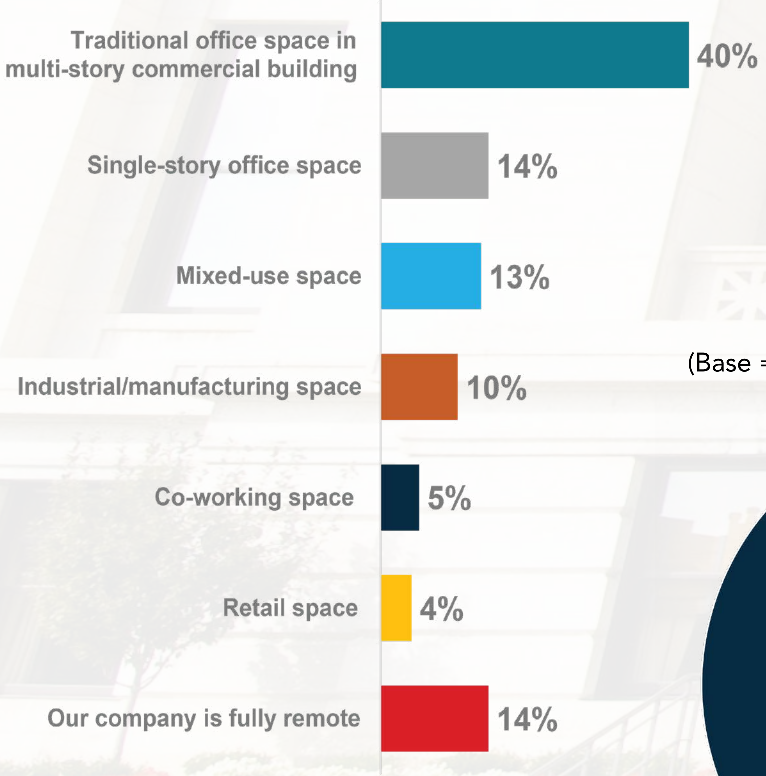
**"We stay the course with our clients, with a connection that often continues long after their initial acquisition, disposition, financing or construction project. For example, in Columbus, office building owners with debt are currently facing risks associated with variable rate mortgages and near-term loan maturities, as well as potential default terms and other conditions that may be triggered in today's market. Companies can benefit from working with professionals to proactively approach their creditors to work out acceptable solutions, such as delayed or interest-only payments, until rates decrease or they secure new tenants."**

**Darrel R. Davison**
**Partner, Real Estate**

## OFFICE SPACE STATS

40% of companies currently occupy traditional office space in a multistory commercial building, and slightly more businesses lease than own. In last year's survey, only 30% of respondents reported occupying traditional office space in multistory buildings; 13% had given up their space due to the pandemic.

### Type of Business Space Company Currently Occupies

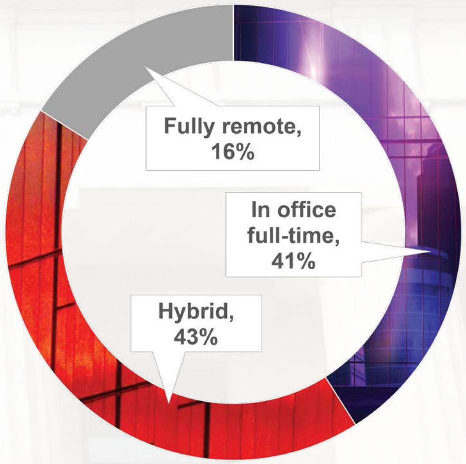



### Type of Office Tenancy

(Base = Among Those Currently Occupying Space)

Most companies have their employees in the office for at least a portion of the week, with less than 1/5 describing their staff as fully remote.

**Work Model Company Currently Operates Under**



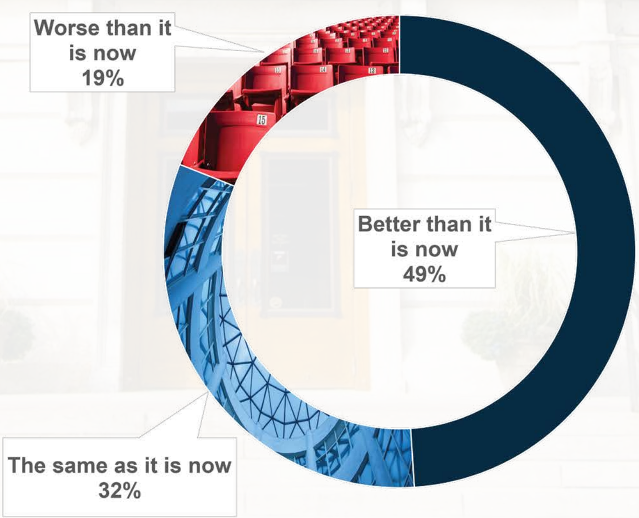

## CRE MARKET SENTIMENTS

Executives are currently evenly split on the state of the CRE industry, with a combined total of 50% describing it as either good (44%) or excellent (6%). However, both current satisfaction and optimism for the future have slipped slightly from last year's levels.

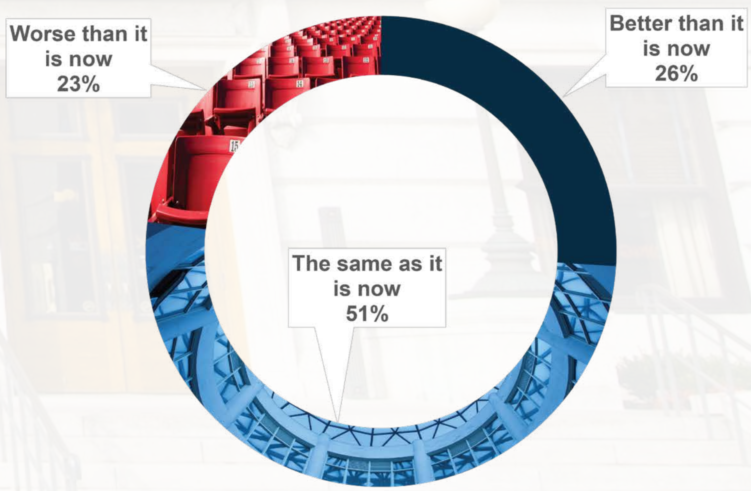
Last year, 50% characterized the state of the CRE industry as good and an additional 13% as excellent (for a total positive rating of 63%).

Additionally, last year—hoping for growth in employment, population, and new business, plus development in downtown and in surrounding areas—49% told us they expected CRE to be better in one year. Only 26% feel similarly optimistic today.

**Expectations for Health of CRE Industry 2024**




**Expectations for Health of CRE Industry 2025**



Office vacancy is a significant issue. The national vacancy rate in the third quarter of 2023 was 19.2%, as compared to 16.8% at the end of 2019, before the pandemic. - "Columbus suburbs are benefiting from flight-to-quality, outpacing downtown," *Columbus Business First*, 10/23/2023

The vacancy rate for Columbus dropped in the fourth quarter of 2023 to just over 17%, the lowest rate in 2023. - "Columbus office market ends 2023 on a high note, with positive absorption, lower vacancy," *Columbus Business First*, 1/9/2024

Columbus is faring better than many cities nationally when it comes to vacancy rates. The national vacancy rates are driven mostly by older office buildings, especially those built in the '80s and '90s, which comprise more than 50% of the new vacancies that have emerged since 2020. - "Office vacancy in Columbus: How the market compares to national trends," *Columbus Business First*, 8/17/2023

Recent statistics show the Columbus market achieved positive absorption (the measure of move-outs versus move-ins) in the fourth quarter, and many companies renewed leases at the end of the year. - "Columbus office market ends 2023 on a high note, with positive absorption, lower vacancy," *Columbus Business First*, 1/9/2024

## THE BASIS FOR NEGATIVE CRE INDUSTRY RATINGS

High prices and other costs, despite widespread vacancies, were the chief complaint expressed this year. Sample responses included:

> **"A lot of commercial property is available. Unfortunately, rental cost is too high."**
>
> **"Purchase prices and interest rates are inflated, while simultaneously office lease spaces are oversupplied."**
>
> **"The vacancy rate should be putting downward pressure on the market rates, but it seems like a lot of owners are just holding, which prevents healthy market corrections."**

In last year's survey, business leaders told us they wanted better public transportation, more mixed-use (live/work/play/retail) buildings, and more pedestrian-friendly streets in downtown Columbus. Yet only 52% reported feeling safe in downtown. This year, those concerns clearly continued and were cited as another basis for rating the Columbus CRE market as "fair" or "poor." Sample responses included:

**"No one wants to go downtown due to feeling unsafe and therefore real estate is not being utilized to its full capacity."**

**"Closed restaurants that used to be the backbone of lunch hour. It's a ghost town after 5 p.m."**

**"Downtown is not returning."**

And others point the finger at the workforce itself—for its failure to return entirely to its pre-COVID levels. Sample responses included:

**"Too many people are still working from home."**

**"Organizations are moving to hybrid work schedules."**

**"Companies need to make people come back to work. It's truly hurting many industries until the government and companies make people go back to the office."**

**"No basis for confidence based on post-COVID practices."**

**"Current market conditions and expected future developments demand agility and a new openness to exploring creative new financing options. For example, if and where traditional lenders are pulling back, specialty lenders will be increasingly entering the picture. Owners and developers are also actively considering new, perhaps even 'unconventional' capital structures. These things will be most successfully undertaken with assistance from counsel who have experience navigating both traditional and 'alternative' financing options, as well as the evolving needs and expectations of all stakeholders."**

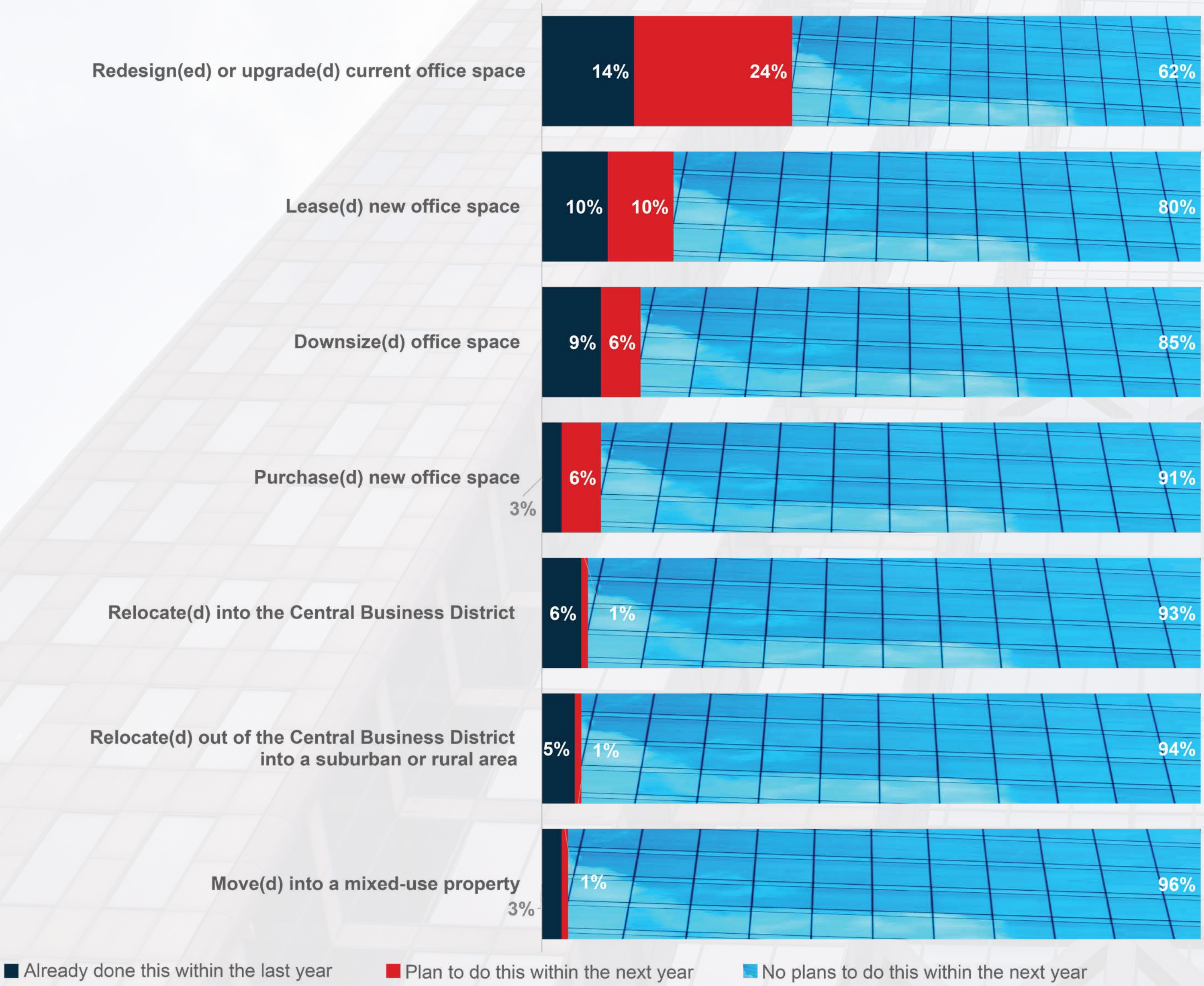
**Richard E. Helm**
**Partner, Commercial & Public Finance**

## TRENDS IN OFFICE SPACE

Nearly 4/10 Columbus business leaders have already redesigned/upgraded, or plan in the next year to redesign/upgrade, their current office space.

Of those planning to make changes this year, 24% will be redesigning or upgrading, 10% are planning to lease new office space, and 6% will be downsizing. Few have moved or plan to move into a mixed-use space.

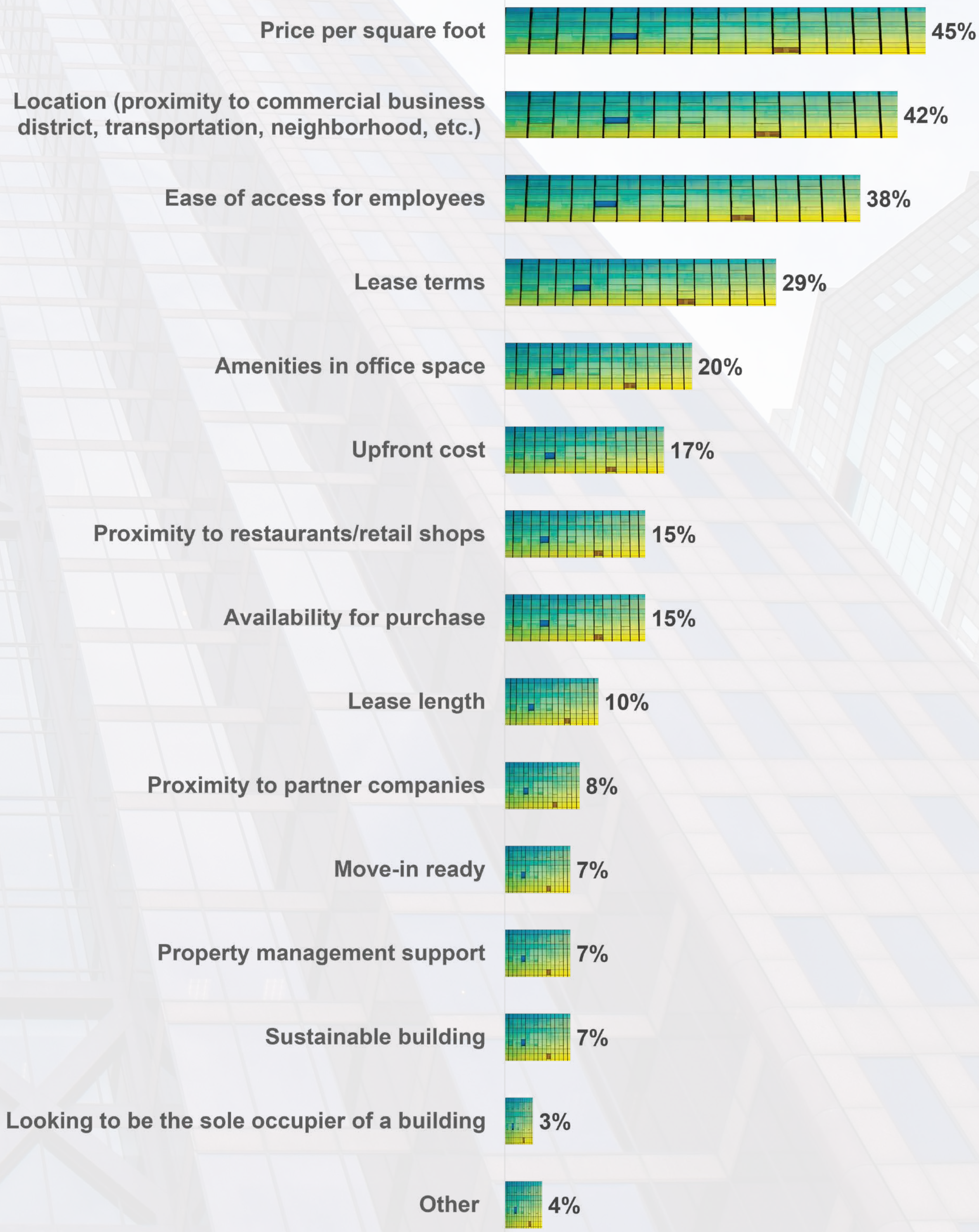
### Plans for Office Space



Of those who are planning to purchase or lease new office space, 54% are doing so due to recent or planned business growth.

When selecting office space, the top factors cited by business executives were price per square foot, location, and ease of access for employees.

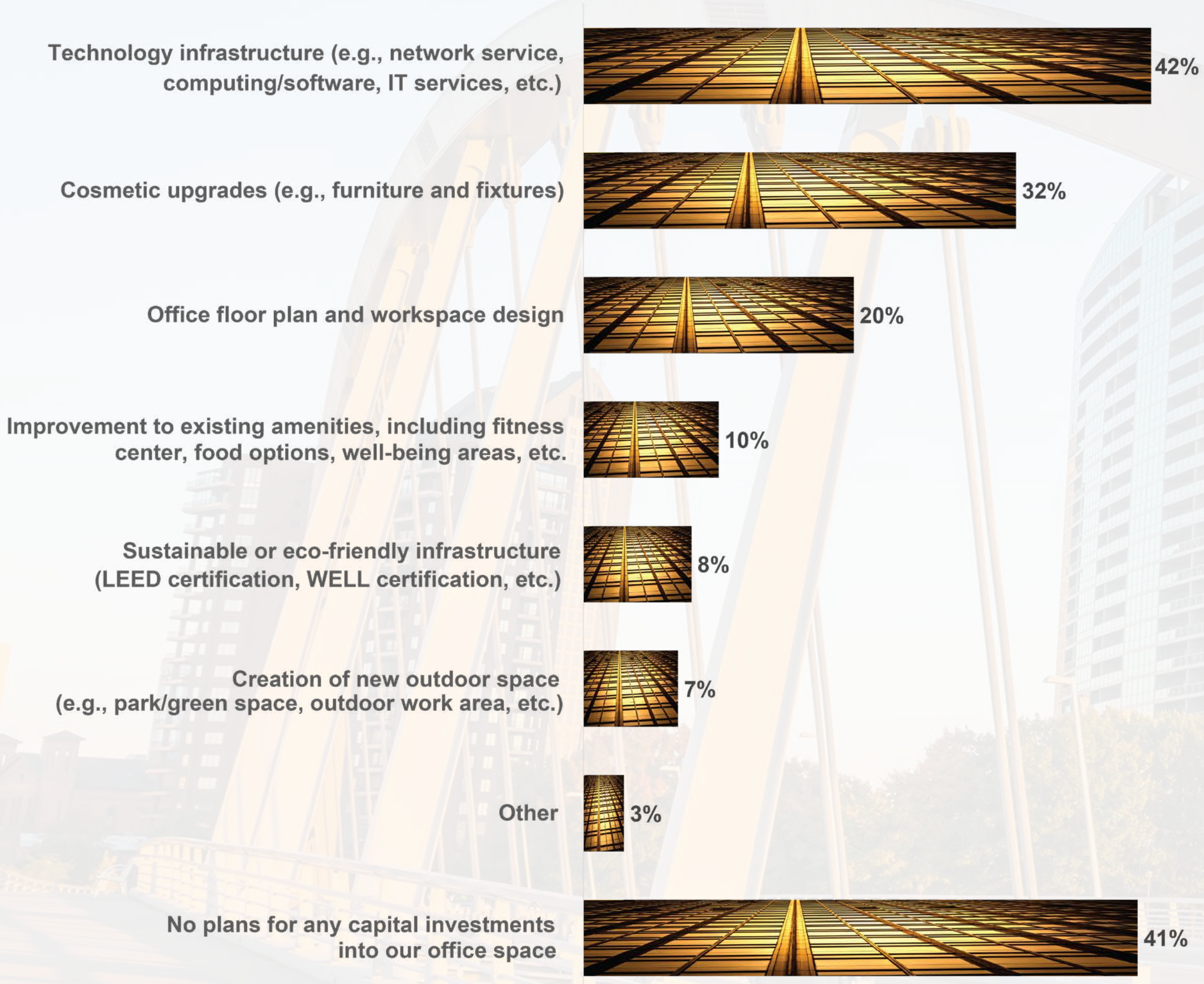
### Factors To Consider When Selecting Office Space



## PLANNED CAPITAL INVESTMENTS

Slightly over half of businesses are also planning capital investments in their office space, especially upgrading technology infrastructure, making cosmetic upgrades (e.g., to furniture and fixtures), and implementing office floor plan and other workspace design updates.

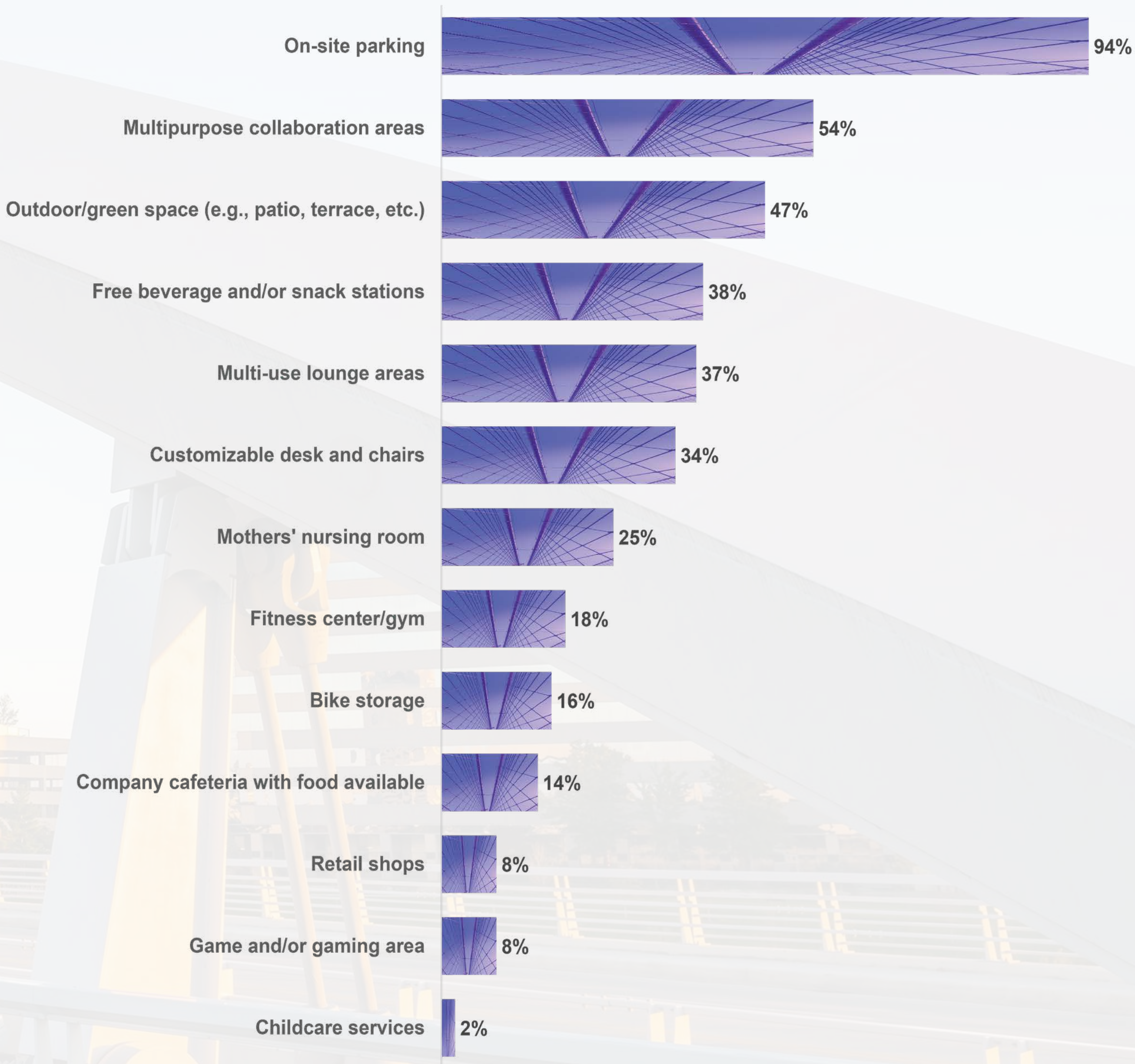
### Capital Investments Planned for Office Space



## AMENITIES

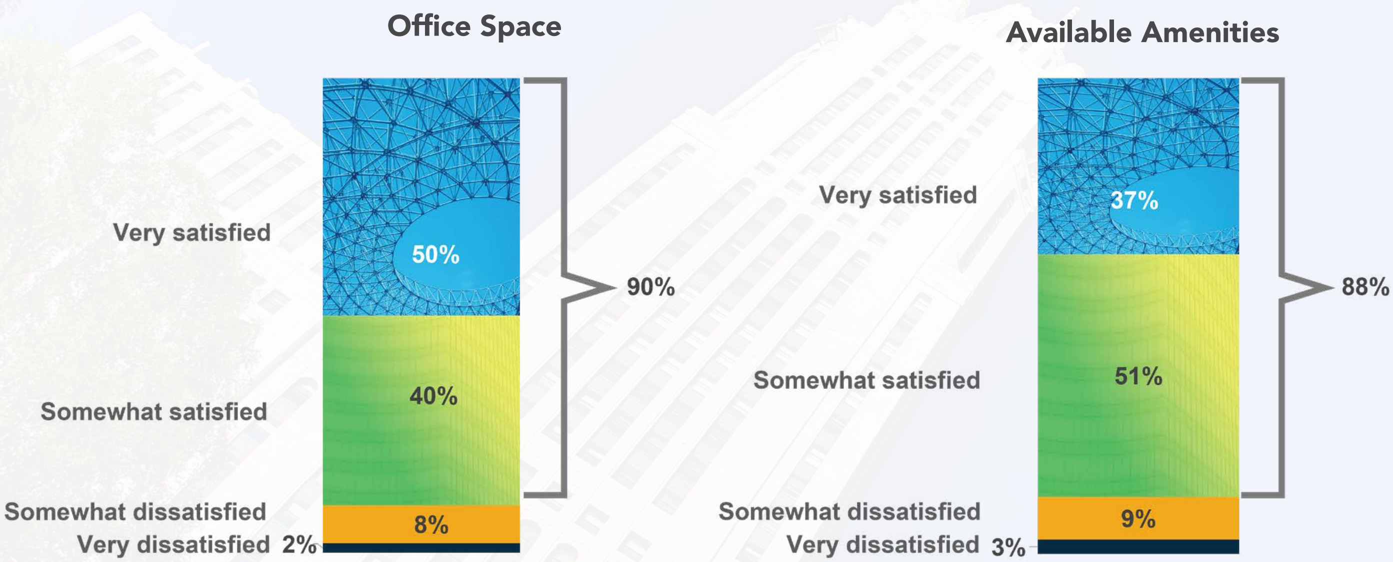
Nearly all companies provide on-site parking at their offices, and roughly half offer multipurpose collaboration areas or outdoor/green space.

**Office Amenities Currently Available**



50% of respondents are very satisfied with their current office environment, while only slightly over 1/3 are very satisfied with available amenities.

**Level of Satisfaction**

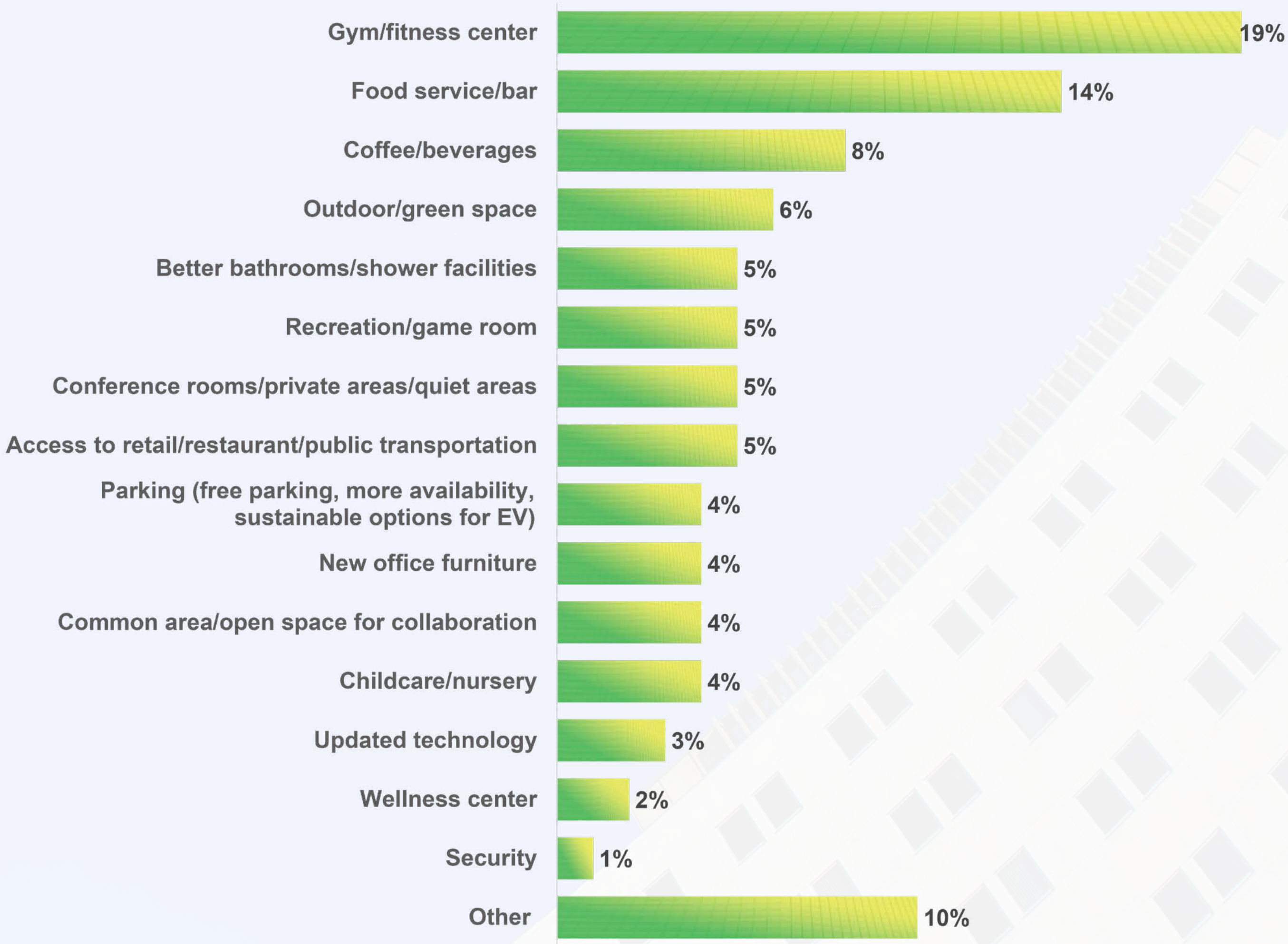



**"Conversions—or the transformation of office buildings to make them suitable for other uses—are one creative and exciting option available to owners of distressed office space. But they are also fairly complicated, requiring a keen understanding and analysis of market demand, cost outlays, eligible locations and building layouts, and economic impact. Public sentiment is always an important factor, as is the ability to secure additional necessary financing from tax credits and other non-dilutive capital. Several of our clients have navigated these complex project requirements and completed conversions that will energize and enhance our region well into the future."**

**Alan S. Ritchie**
**Chair, Construction;**
**Co-Chair, Site Selection;**
**Director, Project Management Consultants**

When asked about amenities not currently available to them that they would like, a gym/fitness center, food and beverages, and outdoor/green space topped employees' wish lists. While slightly over 60% of total respondents are somewhat satisfied or dissatisfied with available amenities, only 10% of survey respondents have plans to add amenities.

**Amenities Not Currently Available But Would Like To See**
(Open-Ended Question)




84% of companies have neither employed nor plan to employ a workspace strategy service for their office space to help them create an office that supports the behavior and culture of the company by assisting with things like layout, amenities, overall style, and design.

## Conclusion

Both the data in this survey and our own experience with clients and in our community convince us that Columbus is at an inflection point. The path to continued growth depends on our ability to accept, adjust to, and even embrace change. It will require recognizing opportunities and applying innovative strategies to convert them into meaningful wins. It will mean finding new uses for some of our empty spaces and rethinking the function of the office. By working together, all downtown stakeholders—both public and private—can ensure that Columbus keeps going places.