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DEVELOPMENT

AN OFFICE MAGNET: 191 West Nationwide Boulevard, a six-story development located in Columbus, ohio's trendy Arena District, is one of many office buildings that is drawing tenants away from the city's staid, downtown market.

Urban Hot Spot Alters Columbus

Nationwide's Arena district redefines city's office market and brings residents back downtown. By Michael Pramik

On a cool October evening, a couple sporting Toronto Maple Leafs jerseys stroll across Front Street in downtown Columbus, Ohio, as their hockey team prepares to play in Nationwide Arena. Nearby, three men in suits step out of their law office, hop into a silver Lexus and speed away. Down the street, two-dozen twentysomethings line up at Lifestyle Communities Pavilion to purchase tickets for a rock concert.

The energy in the Arena District on this weeknight is unmistakable. In less than a decade, this sleepy swath of downtown, once known for housing prisoners in the Ohio Penitentiary, has become the city's hottest urban territory: 75 acres injected with more than $600 million of private and public investment.

The Arena District, primarily developed by Columbus-based insurer Nationwide Mutual Insurance Co., is more than downtown's northern anchor. It's the site where the city's dream of having a professional sports franchise came true with the arrival of the National Hockey League's Blue Jackets. It's been a boon to the neighboring Greater Columbus Convention Center, which is happy to direct visitors to the Arena District's restaurants and bars.

And it provides a seamless link from the CBD and the Ohio Statehouse to Short North, a trendy amalgamation of art galleries, residences, restaurants and shops. The Arena District has hosted the Rolling Stones, Cirque du Soleil and the NCAA men's basketball tournament.

With apartments and condominiums, the district also has brought hundreds of residents downtown and helped redefine the local office market with 1.2 million sq. ft. of space, and more on the way. But as companies have been keen to snap up office space as quickly as it is built, some areas of the region have suffered.

Columbus' economy is diverse enough that it typically ranks among the nation's top 10 markets. But it hasn't been so strong that businesses are moving there en masse, and many of the Arena District's office residents abandoned space nearby.

Commerce National Bank economist Jim Newton says that when the Arena District was conceived in 1997 Ohio's unemployment rate was 3%, far below the national average of 4.9%. According to the Ohio Department of Job and Family Services, the unemployment rate in October registered 5.1%, higher than the national average rate of 4.4%.

"The Arena District has put a new face on downtown, where we have entertainment, we have living and we have office in one area," says Rob Click, senior managing director with the Columbus office of CB Richard Ellis. "But we don't have enough new demand to fill up all the office space, and it's had a negative impact in the traditional office area around the statehouse square."

Putting the pieces together

The Arena District took shape quickly after

MOMENTOUS DEAL: The $150 million arena built by Nationwide Realty Investors. sits on the former site of the Ohio Penitentiary. NRI funded the deal in exchange for the right to develop and control the Arena District development, which has helped energize the area.

Columbus voters rejected a fifth attempt in two decades to finance a downtown arena (see sidebar p. 49). By the time the first puck dropped at Nationwide Arena in October 2000, Nationwide Realty Investors (NRI), the insurer's development arm, had developed five commercial buildings offering 388,000 sq. ft. of office space and 102,000 sq. ft. of restaurant and retail space. In place were commitments for the first movie theater to be built downtown in seven decades and for Lifestyle Communities Pavilion, an indoor/outdoor concert venue.

The office buildings mirror recently built suburban structures that had been luring businesses from the urban core: built of brick, at most seven stories tall, and surrounded by lots of parking. NRI boasts seven parking garages in the Arena District and 10,307 parking spaces with between three and 3.5 parking spaces per 1,000 sq. ft. of rentable space. That compares favorably with other downtown office buildings that have an allocation of one space per 1,000 sq. ft., says John Hall, a broker with CB Richard Ellis.

Eventually NRI turned its attention to housing. In 2003, it broke ground on Arena Crossing, a 252-unit apartment complex north of the original Arena District boundary that is the biggest downtown multifamily development in recent memory. Linked to the arena by a pedestrian bridge, Arena Crossing was a big hit. Despite rents of $1.01 to $1.08 per sq. ft. compared with a downtown median of 88 cents per sq. ft., NRI President Brian Ellis says that Arena Crossing is 100% leased with a waiting list.

In 2004, NRI began developing Burnham Square, a $28 million condominium complex that contains 98 one- and two-bedroom units that have fetched up to $500,000. Just a handful of condos remain unsold. Owners are a mix of single and married young professionals, empty nesters and dual-income couples with no kids, or Dinks, says Ellis.

In February, NRI pushed ahead with the Condominiums at North Bank Park — its most ambitious project yet — without much regard to the overall condominium market in central Ohio. It had observed the brisk pace of sales at Burnham Square. "Burnham Square was pretty high end, but buyers wanted more high end," Ellis says. "We were losing buyers because they weren't big enough, and everybody was focusing on the views."

This 109-unit complex is part rehab, part new build, and it's been designed with a significant wow factor. It will combine loft-style condos in a renovated warehouse along with 88 units in a new, 20-story tower that will afford a commanding view of downtown.

In November, NRI announced the development of a seven-story, 125,000 sq. ft. office building that will serve as the headquarters for Lifestyle Communities, a condominium developer which will relocate 238 employees to the Arena District from a site near the city's outer belt. NRI says the building will be completed in the second quarter of 2008. Before then, NRI will have christened a new 133,000 sq. ft. building that Nationwide will fill at least partially with employees from other central Ohio locations.

Baseball will make its debut in the Arena District in 2009. NRI is overseeing the construction of Huntington Park, a $55 million stadium that will become the home of the minor-league Columbus Clippers. Corporate sponsors already have ponied up $24 million for naming rights to the stadium, concourse and scoreboard. Ellis calls the stadium a perfect fit for the Arena District, bringing activity during the typically slow summer months.

Riding economic swings

From the time that Nationwide announced it would build the arena to the year after it opened, a period of four years, the vacancy rate for all classes of office space downtown rose from 6.9% to a staggering 20.7%, according to CB Richard Ellis, due to a combination of new supply and economic recession.

In June 1998, downtown got its first high-rise in a decade, a 220,000 sq. ft. expansion of Fifth Third Center. Later that year, the Ohio Environmental Protection Agency leased 445,000 sq. ft. at the Lazarus Government Center.

Affected in part by the dot-com bust, the economy recessed from March to November 2001. Its effects were felt long after the September 2001 terrorist attacks. In central Ohio, 12,000 manufacturing jobs were lost from the beginning of 2001 until the end of 2002, says economist Bill Lafayette with the Columbus Chamber.

Some white-collar businesses struggled as well, including those in the financial services industry and the retail trade. By the end of 2001, vacancies in the downtown office market had topped 20% for all classes of space, and kept rising until they ballooned to 26% in the second quarter of 2003. "The downtown office market went from very good to very bad in a really short window of time," recalls Frank Kass, president of local developer and investor Continental Real Estate Cos.

Historically, the region has had trouble recruiting quality employees because they perceive greener pastures elsewhere, says Commercial National Bank economist Newton, adding that the city and the suburbs spend too much time fighting each other for existing businesses and employees rather than recruiting new ones. "The tax environment in the state of Ohio stinks," adds Newton. "And if it stinks in Ohio, Columbus being part of it has the same basic odor. It's been a huge [employment] shift in fewer than 10 years."

Yet Lafayette notes that some industries have flourished, notably the professional services market. And many professional firms have flocked to the Arena District. "They're all [the companies] trying to hire good, young attractive people," Kass says. "They're saying we don't need to be at the statehouse. We can be in a new district."

They're willing to pay among the highest rental rates in central Ohio: $15.50 to $16.50 per sq. ft. Brokers say that current rates in the downtown core range from $10 to $12 per sq. ft. net. Full-service rents cost an extra $8 per sq. ft., says Ellis.

Impact on the downtown core

The Arena District's combination of new buildings and plentiful parking has hurt properties such as the 37-story Huntington Center, which is now struggling with 25% vacancy. The Huntington Center is on Capitol Square in the city's core, about three-quarters of a mile from the Arena District.

Colliers Turley Martin Tucker reports absorption through the third quarter downtown has been positive, but only by 28,848 sq. ft., less than a half percent of the total 8.1 million sq. ft. of downtown office space. It also compares negatively to total absorption in the Columbus market this year of 559,992 sq. ft., or 2.4% of the 23.6 million sq. ft. of office inventory. Vacancy rates have been improving, however. CB Richard Ellis reports 18.4% vacancy downtown, down from 19.7% at the end of 2005. NRI reports that its 1.2 million sq. ft. of commercial space is only 9% vacant.

Meanwhile valuations are tumbling for many buildings in the core. Franklin County recently reappraised the Huntington Center, reducing its valuation by 20% to $115 million. The State Teachers Retirement System of Ohio, the building's majority owner, insists the building is worth less than $94 million.

The lower value of some buildings has created a buyer's market. NRI, Continental Real Estate and other investors paid $29 million for the 34-story former Borden Building two years ago. In 1998 it sold for nearly $48 million.

Meanwhile the Arena District continues to shine. "Everybody's trying to revitalize that core area around the [Ohio] Statehouse to make it more appealing," says commercial broker Randy Stephens with Colliers Turley Martin Tucker, another Arena District tenant. "The Arena District sucked a lot of tenants from that area, but it's hard to replace a tenant once you've lost one."

Michael Pramik is a Columbus-based writer.

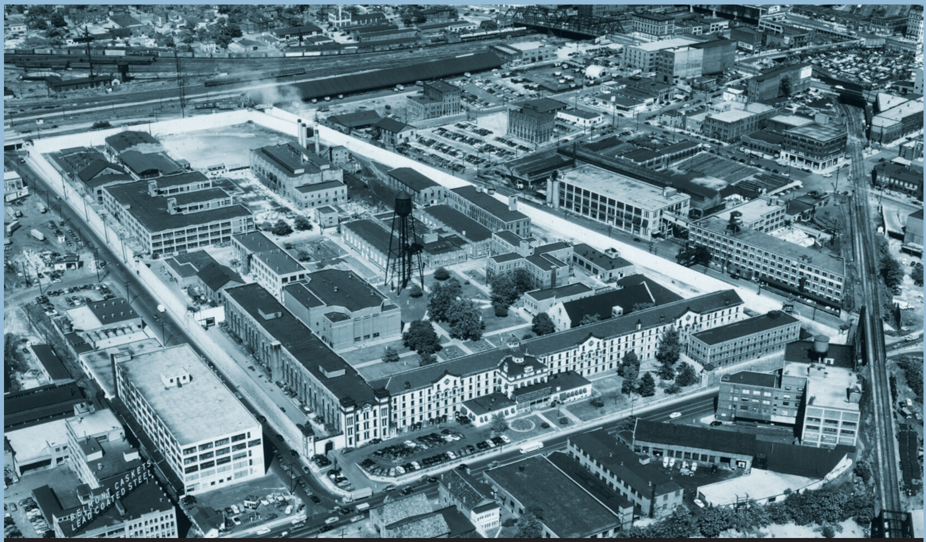
Arena District plan was once on thin ice

For two decades, Columbus city fathers tried to convince their constituencies that what they really needed to do was pay more taxes to build downtown arenas. But Columbus residents didn't bite. Twice in the 1980s the city tried to use taxes to build a proposed "New World Center," a combination convention center and indoor football stadium. Both efforts failed. Additionally, bids to create a temporary sales tax and float bonds for a civic arena were turned down in 1978 and 1981.

The fifth attempt initially appeared to be the final blow. In 1995, a task force initiated by former Mayor Greg Lashutka recommended that a $277 million complex be built at the old Ohio Penitentiary site that would include a hockey arena for a possible NHL expansion team and a soccer stadium for the fledging Columbus Crew of Major League Soccer.

"There didn't appear to be a way to privately fund either one," says Bill Jennison, executive director of the Franklin County Convention Facilities Authority.

Taxpayers rejected a three-year, 0.5% sales tax proposal on the ballot in Franklin County in May 1997. But the NHL was serious about the expansion franchise and gave the city's business and civic leaders 30 days to come up with a solution.



BREAKING OUT: After years of wrangling with taxpayers over the Ohio Penitentiary site for an NHL arena, Columbus business and civic leaders hammered out a cost-sharing plan.

Getting off the dime

Led by former Nationwide Mutual Insurance Co. CEO Dimon McFerson, and Worthington Industries CEO John McConnell, a plan for a privately built arena and franchise ownership was pieced together. McConnell became the majority owner of the team, which would lease the $150 million arena built by Nationwide Realty Investors (NRI), the insurer's development subsidiary.

To make the deal work, NRI was granted control of a large, mixed-use district that it could develop and control. NRI President Brian Ellis says that the insurer was willing to accept a lower return on the arena if it could secure the land to undertake the Arena District development.

Ellis says that the return on the arena has ranged between 4% and 5%, but that NRI expects to get stabilized returns from 9% to 10% on other Arena District projects. "Once we subsidized the [arena] return, that gave us an opportunity to do a development and earn market returns."

Key piece of the puzzle

The facilities authority, a nonprofit entity created to build the city's convention center, paid $10 million for most of the ground that the arena would occupy and leased it through an intermediary to NRI for 25 years with a 25-year option. The city agreed to sell NRI 13.5 acres at the abandoned penitentiary located south of the planned arena, for $11.7 million.

There was sentiment to save the structure, which housed prisoners from 1834 to 1979, but practicality won out. The city sold the land at market value assuming the arena was not going to be built. NRI and The Dispatch Printing Co., its minority partner, acquired enough additional land to make the district concept workable.

Columbus agreed to supply the infrastructure. Most of that cost is being covered by tax-increment financing in which a share of property taxes on newly built assets is diverted to service the infrastructure debt. Money from the 30-year TIF, after taxes for schools are taken out, pays 65% of the infrastructure cost.

Infrastructure costs, including streets, utility lines, a railroad bridge and the widening of Neil Avenue, the project's original western boundary, were set at $35 million. Even though the price ballooned to $53 million because of cost overruns and debt interest, the city is pleased because it's on the hook for only 35% of the cost.

"I don't hesitate a moment to say from a public investment standpoint I'd do that deal every day of the week," says Columbus Auditor Hugh Dorrian. "We didn't pay for any of those buildings up there, and the city is experiencing a great return in employment, income taxes and cultural events."

Meanwhile, Columbus Crew owner Lamar Hunt, 74, who died in December, paid $28.5 million to build Columbus Crew Stadium on state-owned land north of downtown. The 22,555-seat stadium was the first constructed for major-league soccer in the United States when it opened in 1999. Hunt agreed to pay the Ohio Expositions Commission $50,000 a year for 25 years to lease the stadium land. In exchange, one of Hunt's corporations got a share of parking fees.

"What Columbus has done is quite unique," says Jennison. "Two private owners stepped forward and took risks to build privately funded facilities. Usually there is a large amount of public participation in those projects. While there's been some, it's not nearly to the level you normally see in other cities."

—Michael Pramik