

# Retail Apocalypse! Is The End Near?

## Key Takeaways

- After recording two consecutive quarters of occupancy losses, the Cleveland retail market recorded positive net absorption totaling nearly 250,000 square feet during the second quarter.
- The majority of this gain, however, can be attributed to completions of fully leased buildings or additions to existing centers. The net result was a slight increase in vacancy of 10 basis points to 9.0 percent.
- The overall asking rental rate currently averages \$11.20 per square foot (NNN) for all property types and has remained steady over the past 12 months, as is the case with individual property categories. A notable exception is the community center sector, which has recorded an increase of 9.5 percent year-over-year to \$12.71 per square foot.

## Summary & Outlook

Across the country the effects of what is becoming known as the “Retail Apocalypse” of 2017 are generating headlines and the Northeast Ohio retail market has not been immune. Retailer bankruptcy filings continue to mount – now up 32 percent year-over-year. Many are mom and pop operations, but more name brands joined the list over the past three months including, Rue 21, Payless, Bebe and Gymboree. Most filings, though, are Chapter 11, meaning that the vast majority of the struggling chains are looking for debt relief and a chance to reinvent themselves in the age of e-commerce.

There are some, however, that will not survive and the argument can be made that they should not. We all can relate recent experiences at some brand-name stores that left one wondering how this company was still in business. Antiquated check out systems, poor employee training and outdated design and display elements are some of the factors that say that their time has come and gone. Periods of disruption weed out weaker competitors and after the dust settles, a more efficient, relevant market emerges that better meets its customers’ needs.

As of late June, announcements of store closures reached approximately 5,300, which is the second highest number recorded at the midpoint of a year. A forecast by Fung Global Retail & Technology predicts nearly 9,500 store closure announcements by year-end. This represents an increase of 53% over the number of closures at the peak of the Great Recession.

Does this mean the end of the traditional shopping center as we know it? Will e-commerce’s growing, yet still small, share of overall retail sales totally reshape the retail landscape? The answers more than likely will be no and yes.

### Market Indicators

Relative to prior period

	Q2 2017	Q3 2017*
VACANCY	↑	↑
NET ABSORPTION	+	-
CONSTRUCTION	↑	↔
RENTAL RATE**	↑	↔

\* Projected, relative to prior period  
\*\* Neighborhood Center Rents

### Summary Statistics

Q2 2017 Cleveland Retail Market

Cleveland

Vacancy Rate	9.0%
Change From Q3 2016 (basis points)	+10
Absorption (Square Feet)	248,448
Under Construction (Square Feet)	1,272,781
Completions (Square Feet)	350,739
<b>Asking Rents</b> Per Square Foot Per Year	
Overall Market	\$11.20
Community Center	\$12.71
Neighborhood Center	\$10.49
Conv/Strip Center	\$11.22

## Cleveland | Q2 2017 Retail Property Type Data

MARKET	INVENTORY (SF)	TOTAL AVAILABLE (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	SUBLEASE AVAILABLE (SF)	QTRLY NET ABSORPTION (SF)	YTD TOTAL NET ABSORPTION (SF)	AVG WTD ASKING RATES (NNN)
Regional Ctr	20,066,883	1,939,761	1,689,507	8.4%	125,815	-85,339	-74,093	\$9.00
Community Ctr	11,923,654	2,250,220	2,013,025	16.9%	3,840	43,278	30,772	\$12.71
Neighborhood Ctr	34,760,241	4,823,677	4,011,167	11.5%	89,756	159,009	207,602	\$10.49
Conv/Strip Ctr	23,923,758	1,999,703	1,612,608	6.7%	10,318	-23,419	-5,500	\$11.22
Freestanding	26,509,535	1,533,459	1,147,792	4.3%	55,947	149,334	-185,474	\$12.64
General	2,130,566	219,435	205,170	9.6%	0	5,585	4,985	\$13.00
<b>Grand Total</b>	<b>119,314,637</b>	<b>12,766,255</b>	<b>10,679,269</b>	<b>9.0%</b>	<b>285,676</b>	<b>248,448</b>	<b>-21,708</b>	<b>\$11.20</b>

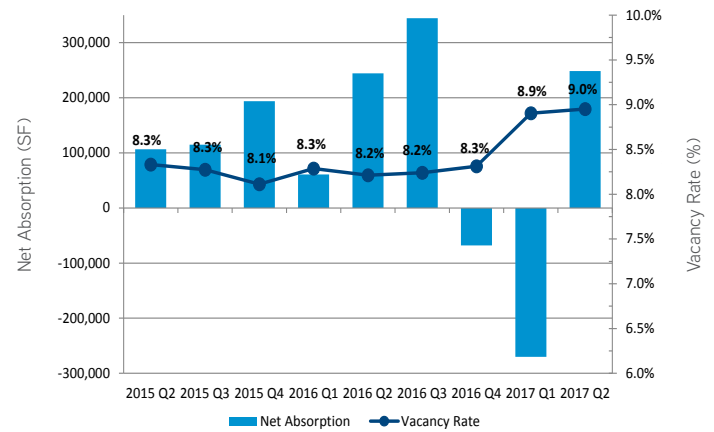
## Summary & Outlook (cont.)

As more shopping moves online, recent studies indicate that the shoppers who have yet to reach their prime earning years, the Millennials and Generation Z, do enjoy the in-store experience. It just won't be the same store that their grandparents or parents knew. They will mix online and in-store shopping activity more, even for the purchase of a single item. Studies show that in-store shopping activity drives 50% of e-commerce sales, while 60 percent of consumers begin online but make the final purchase in-store. The "buy online pickup in store", or BOPIs, trend is growing, making physical stores double as a mini-fulfillment centers.

The younger cohort, Generation Z, actually prefers in-store shopping more so than their slightly older counterparts. The successful retailers going forward will effectively blend their physical store experience with internet based applications and other technology. Artificial intelligence (AI) offers retailers ever growing opportunities to connect with their customers. However, how this technology is implemented should be approached with caution. Many consumers have assigned the term "creepy" to this collection of data that provides knowledge about their shopping habits and preferences. The balance between privacy and convenience is a fine line.

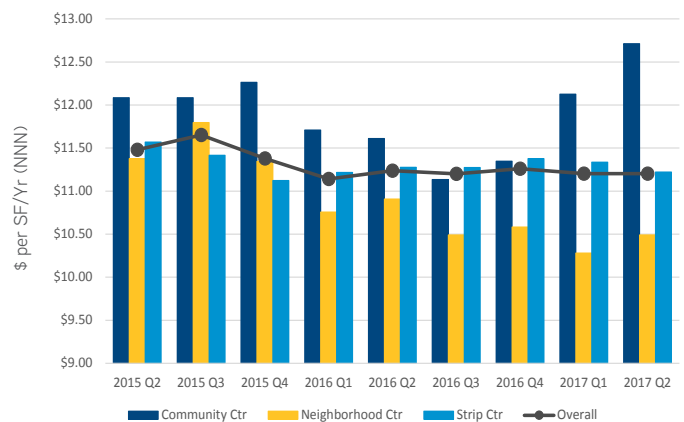
Brick and mortar stores are likely to remain relevant far into the future, but the case can be made that we will need fewer of them. The current U.S. market is oversupplied with retail space and the bifurcation between Class A and Class B & C properties is growing. In the mall asset class, there is no in between. Well established mall properties in prime locations will survive and grow stronger, while the others will be shuttered. The need for creative re-purposing of retail properties will grow and there are as many alternatives as there are real estate property types, including mixed-use, medical, industrial, multifamily, entertainment and self-storage, among other uses.

## Retail Vacancy/Absorption



Positive net absorption during Q2 was due primarily to new supply and the overall vacancy rate inched upward.

## Retail Average Asking Rental Rates



Overall asking rental rates have remained fairly stable over the past 12 months, averaging \$11.20 per square foot.

Sources: Colliers Research, Xceligent

## Cleveland | Q2 2017 Submarket Data

MARKET	INVENTORY (SF)	TOTAL AVAILABLE (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	SUBLEASE AVAILABLE (SF)	TOTAL QTRLY NET ABSORPTION	YTD TOTAL NET ABSORPTION	AVG WTD ASKING RATES (NNN)
<b>Downtown Cleveland</b>	<b>2,130,566</b>	<b>219,435</b>	<b>205,170</b>	<b>9.6%</b>	<b>0</b>	<b>5,585</b>	<b>4,985</b>	<b>\$13.00</b>
General	2,130,566	219,435	205,170	9.6%	0	5,585	4,985	\$13.00
<b>Cuyahoga County East</b>	<b>23,771,343</b>	<b>3,552,362</b>	<b>3,290,375</b>	<b>13.8%</b>	<b>136,146</b>	<b>175,355</b>	<b>243,873</b>	<b>\$11.86</b>
Regional Ctr	6,010,648	1,197,394	1,133,386	18.9%	125,815	-28,039	-33,002	\$10.00
Community Ctr	2,800,103	765,827	740,701	26.5%	2,413	45,500	98,607	\$13.50
Neighborhood Ctr	5,818,364	713,394	662,485	11.4%	0	9,975	2,606	\$10.83
Conv/Strip Ctr	4,821,462	502,172	435,228	9.0%	7,918	-403	27,340	\$12.40
Freestanding	4,320,766	373,575	318,575	7.4%	0	148,322	148,322	\$10.50
<b>Cuyahoga County West</b>	<b>26,311,266</b>	<b>2,223,128</b>	<b>1,808,902</b>	<b>6.9%</b>	<b>58,827</b>	<b>11,020</b>	<b>-38,914</b>	<b>\$12.94</b>
Regional Ctr	5,477,206	257,368	249,334	4.6%	0	-41,480	-46,630	--
Community Ctr	2,718,975	388,020	292,780	10.8%	0	2,660	-4,060	\$15.00
Neighborhood Ctr	6,951,183	1,009,442	804,443	11.6%	2,880	69,489	125,555	\$12.45
Conv/Strip Ctr	6,265,064	427,921	359,146	5.7%	0	-16,719	-54,902	\$13.48
Freestanding	4,898,838	140,377	103,199	2.1%	55,947	-2,930	-58,877	\$8.42
<b>Geauga County</b>	<b>3,893,197</b>	<b>240,555</b>	<b>192,030</b>	<b>4.9%</b>	<b>2,400</b>	<b>7,138</b>	<b>72,197</b>	<b>\$9.48</b>
Regional Ctr	398,802	7,067	7,067	1.8%	0	0	27,117	--
Community Ctr	384,592	50,333	10,333	2.7%	0	7,500	12,500	--
Neighborhood Ctr	1,190,175	120,055	112,280	9.4%	0	3,238	21,980	\$9.83
Conv/Strip Ctr	774,001	62,350	62,350	8.1%	2,400	-3,600	10,600	\$8.08
Freestanding	1,145,627	750	0	0.0%	0	0	0	\$14.00
<b>Lake County</b>	<b>9,852,508</b>	<b>1,625,006</b>	<b>1,343,334</b>	<b>13.6%</b>	<b>0</b>	<b>-51,495</b>	<b>-239,939</b>	<b>\$9.95</b>
Regional Ctr	1,169,955	77,350	0	0.0%	0	0	0	--
Community Ctr	625,705	115,892	72,664	11.6%	0	0	0	--
Neighborhood Ctr	3,756,012	833,701	738,680	19.7%	0	-53,257	-78,543	\$6.00
Conv/Strip Ctr	2,123,552	245,507	179,434	8.4%	0	1,762	16,362	\$9.64
Freestanding	2,177,284	352,556	352,556	16.2%	0	0	-177,758	\$13.50
<b>Lorain County</b>	<b>10,927,435</b>	<b>1,350,620</b>	<b>1,062,768</b>	<b>9.7%</b>	<b>10,000</b>	<b>29,861</b>	<b>-52,447</b>	<b>\$10.47</b>
Regional Ctr	1,688,677	95,575	2,575	0.2%	0	16,400	18,100	--
Community Ctr	1,626,186	634,642	614,541	37.8%	0	-9,980	-90,668	\$6.75
Neighborhood Ctr	3,429,269	292,862	253,562	7.4%	10,000	24,738	25,818	\$10.50
Conv/Strip Ctr	1,745,390	89,107	57,014	3.3%	0	-1,297	-5,697	\$10.81
Freestanding	2,437,913	238,434	135,076	5.5%	0	0	0	--
<b>Medina County</b>	<b>5,238,441</b>	<b>492,216</b>	<b>352,222</b>	<b>6.7%</b>	<b>76,996</b>	<b>-9,918</b>	<b>4,721</b>	<b>\$11.56</b>
Regional Ctr	525,975	2,935	2,935	0.6%	0	0	6,377	--
Community Ctr	149,710	17,034	17,034	11.4%	1,427	-2,400	1,670	\$12.00
Neighborhood Ctr	2,189,866	357,569	259,692	11.9%	75,569	-10,603	-6,308	\$10.63
Conv/Strip Ctr	931,407	114,678	72,561	7.8%	0	3,085	2,982	\$11.66
Freestanding	1,441,483	0	0	0.0%	0	0	0	--
<b>Portage County</b>	<b>3,892,310</b>	<b>285,089</b>	<b>272,989</b>	<b>7.0%</b>	<b>0</b>	<b>26,961</b>	<b>28,069</b>	<b>\$13.50</b>
Community Ctr	67,020	6,326	6,326	9.4%	0	0	0	--
Neighborhood Ctr	1,201,248	153,812	151,812	12.6%	0	0	0	\$7.00
Conv/Strip Ctr	868,811	67,681	57,581	6.6%	0	1,961	3,069	\$18.00
Freestanding	1,755,231	57,270	57,270	3.3%	0	25,000	25,000	\$22.00
<b>Stark County</b>	<b>14,363,177</b>	<b>1,354,744</b>	<b>980,892</b>	<b>6.8%</b>	<b>0</b>	<b>76,692</b>	<b>-21,028</b>	<b>\$9.35</b>
Regional Ctr	2,148,825	157,761	153,911	7.2%	0	0	-22,536	\$8.00
Community Ctr	1,138,381	136,463	127,706	11.2%	0	0	10,000	\$13.81
Neighborhood Ctr	4,334,271	646,121	404,989	9.3%	0	56,550	65,812	\$9.28
Conv/Strip Ctr	2,615,435	168,644	142,981	5.5%	0	15,142	19,249	\$9.34
Freestanding	4,126,265	245,755	151,305	3.7%	0	5,000	-93,553	\$2.70
<b>Summit County</b>	<b>18,934,394</b>	<b>1,423,100</b>	<b>1,170,587</b>	<b>6.2%</b>	<b>1,307</b>	<b>-22,751</b>	<b>-23,225</b>	<b>\$11.29</b>
Regional Ctr	2,646,795	144,311	140,299	5.3%	0	-32,220	-23,519	--
Community Ctr	2,412,982	135,683	130,940	5.4%	0	-2	2,723	\$11.75
Neighborhood Ctr	5,889,853	696,721	623,224	10.6%	1,307	58,879	50,682	\$10.63
Conv/Strip Ctr	3,778,636	321,643	246,313	6.5%	0	-23,350	-24,503	\$10.97
Freestanding	4,206,128	124,742	29,811	0.7%	0	-26,058	-28,608	\$25.00
<b>Grand Total</b>	<b>119,314,637</b>	<b>12,766,255</b>	<b>10,679,269</b>	<b>9.0%</b>	<b>285,676</b>	<b>248,448</b>	<b>-21,708</b>	<b>\$11.20</b>

## Notable Retail Sales | Q2 2017

PROPERTY NAME/ADDRESS	SALE DATE	SALE PRICE	BLDG SIZE (SF)	BUYER	SELLER	TYPE	SUBMARKET
Walmart - 2700 W State Rd	Jun-17	\$16,710,400	200,084	Realty Income Corporation	DDR Corporation	Freestanding	Stark County
North Olmsted Towne Center (Partial)	May-17	\$15,850,069	95,101	Glimcher Group	Lucky Investments Inc	Community Ctr	Cuyahoga West
Cuyahoga Falls Market Center	May-17	\$11,500,000	79,772	Realty Resource Capital Corp	RPAI	Neighborhood Ctr	Summit County
25735 1st St	May-17	\$7,746,900	58,300	Spirit Realty Capital Inc	Baywest Properties Ltd	Freestanding	Cuyahoga West
Regos Square Plaza	Jun-17	\$3,300,000	40,545	BRK Hospitality LLC	Boston Square 1 Ltd	Conv/Strip Ctr	Cuyahoga West
Market Square	May-17	\$2,350,000	127,881	Interra Capital Group	C-III Capital Partners	Neighborhood Ctr	Portage County
Crossroads Marketplace	Apr-17	\$2,200,000	31,204	KSA Holdings LLC	ACM Management Corp	Conv/Strip Ctr	Cuyahoga West
The Washington Post Center	May-17	\$1,820,000	20,000	Washington Post Plaza LLC	Washington Post Company Ltd	Conv/Strip Ctr	Geauga County

## Notable Retail Leases | Q2 2017

PROPERTY NAME/ADDRESS	LEASE DATE	LEASE SF	ASKING RATE	LEASE TYPE	TENANT	TYPE	MARKET
Greenbriar Plaza	May-17	30,500	negotiable	NNN	Vitcom Electronics	Neighborhood Ctr	Cuyahoga West
Southland Shopping Center	Jun-17	27,182	negotiable	NNN	Aspire Fitness	Regional Ctr	Cuyahoga West
Giant Eagle Plaza	May-17	25,298	negotiable	NNN	Tractor Supply Co.	Neighborhood Ctr	Geauga County
Midway Market Square	Apr-17	25,031	negotiable	NNN	Altitude Trampoline Park	Conv/Strip Ctr	Lorain County
The Vineyards	Jun-17	19,002	negotiable	NNN	Powerhouse Gym	Neighborhood Ctr	Lake County
Avon Commons	May-17	18,000	negotiable	NNN	PetSmart	Regional Ctr	Lorain County
Market Square at Montrose	Jun-17	17,018	negotiable	NNN	The Clothing Warehouse	Regional Ctr	Summit County
1370 Canton Rd	Apr-17	13,920	negotiable	NNN	Bedrooms Today	Freestanding	Summit County
Fairlawn Plaza Shopping Center	Apr-17	10,263	negotiable	NNN	Ashley Furniture Homestore	Conv/Strip Ctr	Summit County
Stow-Hudson Towne Centre	Jun-17	9,375	\$6.00	NNN	Talent Tree	Conv/Strip Ctr	Summit County
35546 Detroit Rd	Apr-17	7,250	negotiable	NNN	Melt Bar & Grilled	Freestanding	Lorain County
Sagamore Square	Apr-17	5,000	negotiable	NNN	Once Upon a Child	Neighborhood Ctr	Summit County

\* Renewal or expansion

**554** offices in  
**66** countries on  
**6** continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **192**

EMEA: **112**

Colliers International  
200 Public Square, Suite 1200  
Cleveland, OH 44114  
+1 216 239 5060  
colliers.com/ohio



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## RETAIL BROKERAGE SERVICES | contact

**Christopher Seelig, ccim**  
Senior Vice President

**Ryan Fisher**  
Vice President

**Michael Weiss**  
Vice President

**Lauren White**  
Associate

**Brian A. Hurtuk, SIOR**  
Managing Director | Principal

### FOR MORE INFORMATION

**Loren M. DeFilippo, ccim**  
Director of Research | Ohio

**+1 216 239 5060**



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Sources: Moody's Analytics, Xceligent, CoStar Group & Colliers Research