

# Columbia retail adapts to succeed

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## Key Takeaways

- › Experiential retailers and specialized customer service are driving the success of brick-and-mortar shops.
- › Dispelling negative rumors, the retail market is thriving and adapting new business strategies for continued success.

## The adaptive state of retail

Despite the negative press about the retail real estate market, it is actually in an adaptive state, responding to the changing environment and fueled by an expanding economy. According to K.C. Conway, the Director of Research and Corporate Engagement at the Alabama Center for Real Estate, the retail real estate market is seeing a number of optimistic changes. Due to trends leaning toward e-commerce, customer convenience and a rapid delivery pace, retailers must adapt and provide the appropriate services in an effort to remain successful. There are many shop owners who are using retailer-controlled distribution centers to save money, shorten the supply chain and keep their retail inventory off-site and ready to ship. Not only does this provide stable retail footing, it also bodes well for the industrial sector. This is good news for South Carolina retailers, since 65%-70% of the United States population lives on the East Coast; therefore, East Coast fulfillment center retail will be able to ride the coattails of the rapidly growing logistics market within the state. In addition, empty malls will be filled more quickly because the new trend is to turn vacant mall space into a warehouse fulfillment center. Malls are also being repurposed into mixed-use facilities with first floor retail space, office space and school space in order to bring life and foot traffic to areas with no current activity. Finally, there is a lot of media attention given to retail store closings, but according to Conway's report, "in 2017, 750 brands opened stores versus 250 that closed stores" and "for each company closing stores, 2.7 are opening stores." This is a much different story than the apocalyptic one generally told when speaking of the retail market.

While the retail market is predicted to do much better than previously thought, the U.S. economy is also holding solid, with steady growth and high levels of consumer confidence. The Federal

## Market Indicators

Relative to prior period	Q1 2018	Q2 2018
VACANCY	↑	↓
NET ABSORPTION	+	+
CONSTRUCTION	↓	↑
RENTAL RATE**	↓	↑

Note: Construction is the change in Under Construction.

\*\*Rental rates for current quarter are for CBD. Rent forecast is for metro-wide rents.

## Summary Statistics

Q1 2018 Columbia Retail Market	Core	Non-Core
Vacancy Rate	6.13%	12.85%
Change From Q1 2017 (basis points)	141	-28
Absorption (Thousand Square Feet)	-38.7	85.4
New Construction (Thousand Square Feet)	-	-
Under Construction (Thousand Square Feet)	170	-

## Asking Rents

Per Square Foot Per Year	Core	Non-Core
Shopping Center Shop Space	\$20.84	\$11.21
Change From Q1 2017	-7.13%	-3.11%
Urban Retail	\$23.00	-

Open Market Committee (FOMC) met in March and raised the benchmark federal funds rate range from 1.25%-1.50% to 1.50%-1.75%; this hike is due to a strong job market within expanding economic conditions. The FOMC is confident about attaining their longer-reaching inflation target of 2.0% so long as that price point is gradually achieved; therefore, the retail market sector can expect continued growth due to consumer confidence and ongoing success within a morphing retail marketplace.

## Market Conditions

The Columbia retail market absorbed 46,620 square feet over the past year, and the overall average triple net shopping center rental rate was \$13.38 per square foot, with core retail space rent averaging \$20.84 per square foot. The overall market vacancy rate was 9.70%, which is slightly higher than the 9.18% rate during the first quarter of 2017, and the core retail area vacancy rate average was 6.13%.

## Shopping Centers

The Columbia shopping center market is comprised of 13.14 million square feet of shop space. During the first quarter of 2018, the shopping center market absorbed 41,488 square feet and the market vacancy rate rose slightly from 9.18% at the end of last year to 9.70% this quarter. Also, the average triple net shopping center overall market rental rate was \$13.38 per square foot this quarter and the core shopping center rental rate average was \$20.84 per square foot.

## Urban Retail

There are 1.93 million square feet of urban retail in Columbia in six distinct urban areas. Triple net average rental rates remained at \$23.00 per square foot. Overall vacancy was 11.2% during the first quarter of 2018; the Five Points area had the lowest vacancy rate of 8.3%, followed by the Vista, with 9.8% vacancy. The Main Street (CBD) had 18.1% vacancy.

## Northeast Columbia

The Northeast Columbia submarket has 3.95 million square feet of retail space and is the largest of all of the Columbia submarket sectors. The Northeast vacancy rate dropped from 10.93% during the fourth quarter of 2017 to 10.25% this quarter and absorbed 11,580 square feet, mostly in non-core shop space. The average triple net shopping center rental rate in Northeast Columbia was \$16.46 per square foot.

## Harbison & St. Andrews

The Harbison & St. Andrews submarket has 3.6 million square feet of retail space, making it the second largest submarket in Columbia. The vacancy rate during the first quarter of 2018 rose to 12.08%, up from 9.85% during the fourth quarter of 2017, and absorbed 8,022 square feet this quarter. The average triple net overall shop space rental rate was \$10.77 per square foot, and the core shopping centers leased for \$32.00 per square foot in this submarket.

## Definitions

This report includes two distinct types of data.

**Shopping Center Retail** is defined as all retail shopping centers except for regional shopping centers that are 20,000 square feet or larger, designed to accommodate at least one anchor or junior anchor tenant. This is further divided into core and non-core retail nodes.

A **core retail** node is in an amalgamation that draws shoppers from across the region to a particular submarket. It will have a mix of anchor, junior anchor and shop space tenants and will include a variety of food service and soft goods retailers that exist only in core retail markets.

A **non-core** retail node is located at the edge of a submarket. It is generally designed with a single retail anchor and attracts shoppers from the surrounding neighborhoods only.

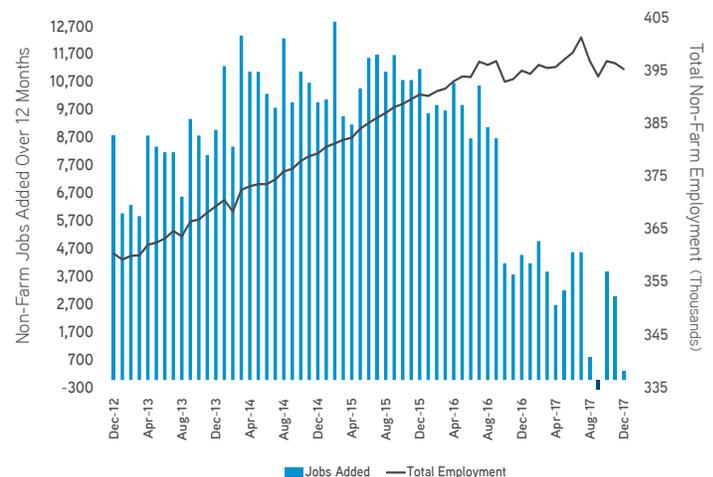
Anchor space is typically 25,000 square feet or greater and is designed to accommodate a single tenant.

Junior anchor space is typically 10,000 to 25,000 square feet and is designed for a single tenant. It can anchor a shopping center but is generally paired with an anchor and shop space.

Shop space is typically less than 10,000 square feet and is generally attached to a center with an anchor, junior anchor or both.

**Urban Retail** is defined as a street-oriented retail district where the primary way the tenant approaches the property is as a pedestrian. It typically has a mix of luxury retailers not found in traditional shopping centers and is found in urban locations. It is usually the street level or first level of a multistory building in a highly urbanized area.

## Columbia, SC MSA Employment Trends



Source: South Carolina Bureau of Labor Statistics

## Q1 2018 Retail Market Summary Statistics

SHOPPING CENTER MARKET	INVENTORY (SF)	VACANCY RATE (%)	ANCHOR SPACE (GREATER THAN 25,000 SF)		JR. ANCHOR SPACE (10,000 SF-25,000 SF)		SHOP SPACE (LESS THAN 10,000 SF)	
			VACANT (SF)	ASKING RENT (NNN)	VACANT (SF)	ASKING RENT (NNN)	VACANT (SF)	ASKING RENT (NNN)
<b>CAYCE/WEST COLUMBIA</b>								
Core	276,970	7.31%	-	-	16,051	\$12.00	4,200	\$15.33
Non Core	935,984	24.71%	69,252	\$5.00	65,889	\$7.04	96,101	\$9.58
<b>Cayce/West Columbia Total</b>	<b>1,212,954</b>	<b>20.73%</b>	<b>69,252</b>	<b>\$5.00</b>	<b>81,940</b>	<b>\$8.01</b>	<b>100,301</b>	<b>\$9.84</b>
<b>DOWNTOWN</b>								
Non Core	144,812	2.49%	-	-	-	-	3,600	\$25.00
<b>Downtown Total</b>	<b>144,812</b>	<b>2.49%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,600</b>	<b>\$25.00</b>
<b>GOLDEN TRIANGLE</b>								
Core	1,247,294	1.42%	-	-	-	-	17,709	\$21.20
<b>Golden Triangle Total</b>	<b>1,247,294</b>	<b>1.42%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,709</b>	<b>\$21.20</b>
<b>HARBISON/ST. ANDREWS</b>								
Core	1,325,084	11.05%	61,785	-	36,000	-	48,700	\$32.00
Non Core	2,274,847	12.68%	86,005	-	19,500	-	182,856	\$9.25
<b>Harbison/St. Andrews Total</b>	<b>3,599,931</b>	<b>12.08%</b>	<b>147,790</b>	<b>-</b>	<b>55,500</b>	<b>-</b>	<b>231,556</b>	<b>\$10.77</b>
<b>LEXINGTON</b>								
Core	1,210,105	1.74%	-	-	-	-	21,110	\$19.74
Non Core	518,162	11.05%	33,218	-	10,800	\$15.00	13,236	\$20.64
<b>Lexington Total</b>	<b>1,728,267</b>	<b>4.53%</b>	<b>33,218</b>	<b>-</b>	<b>10,800</b>	<b>\$15.00</b>	<b>34,346</b>	<b>\$20.12</b>
<b>NORTH COLUMBIA</b>								
Non Core	353,774	14.12%	-	-	-	-	49,964	\$8.00
<b>North Columbia Total</b>	<b>353,774</b>	<b>14.12%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,964</b>	<b>\$8.00</b>
<b>NORTHEAST COLUMBIA</b>								
Core	2,100,049	8.18%	-	-	-	-	171,785	\$20.09
Non Core	1,849,817	12.60%	96,343	\$6.04	32,952	\$9.75	103,750	\$14.55
<b>Northeast Columbia Total</b>	<b>3,949,866</b>	<b>10.25%</b>	<b>96,343</b>	<b>\$6.04</b>	<b>32,952</b>	<b>\$9.75</b>	<b>275,535</b>	<b>\$16.81</b>
<b>SOUTHEAST COLUMBIA</b>								
Non Core	900,419	3.69%	-	-	18,000	-	15,200	\$11.00
<b>Southeast Columbia Total</b>	<b>900,419</b>	<b>3.69%</b>	<b>-</b>	<b>-</b>	<b>18,000</b>	<b>-</b>	<b>15,200</b>	<b>\$11.00</b>
<b>Core vs. Non Core</b>								
Core	6,159,502	6.13%	61,785	-	52,051	\$12.00	263,504	\$20.84
Non Core	6,977,815	12.85%	284,818	\$5.66	147,141	\$8.16	464,707	\$11.21
<b>Total Shopping Center Market</b>	<b>13,137,317</b>	<b>9.70%</b>	<b>346,603</b>	<b>\$5.66</b>	<b>199,192</b>	<b>\$8.82</b>	<b>728,211</b>	<b>\$13.38</b>
<b>URBAN RETAIL</b>								
Main Street (CBD)	369,170	18.1%						\$25.00
Vista	709,490	9.8%						\$30.00
Five Points	481,784	8.3%						\$25.00
Other	375,749	10.5%						\$12.00
<b>Total Urban Retail</b>	<b>1,936,193</b>	<b>11.2%</b>						<b>\$23.00</b>

## Lexington

The Lexington submarket has grown to 1.7 million square feet. The vacancy rate this quarter dropped slightly lower than last quarter to 4.53% and posted a positive absorption of 709 square feet. The overall average triple net shopping center lease rate in Lexington is \$20.12 per square foot. In this quickly growing region, the non-core rental rates are higher at \$20.64 per square foot than the core rental rates of \$19.74 per square foot.

## The Golden Triangle

The Golden Triangle spans two retail corridors on the southeast side of the city, Forest Drive and Garners Ferry/Devine Street, and all 1.25 million square feet of shopping centers within this area are considered core, with limited space for additional development. During the first quarter of 2018, the Golden Triangle vacancy rate was 1.42% and the average triple net shop space rental rate was \$21.20 per square foot.

## Recent Transactions

### Sales

- › The 180,000-square-foot former Dillard's at Columbia Place located at 7201 Two Notch Road was sold to Richland County in February for an undisclosed sale price.
- › A 51,010-square-foot retail storefront at Ballentine Market with the address of 1331-1351 Dutch Fork Road in Irmo was sold in February for \$3.7 million. This retail center is fully leased and anchored by Food Lion.
- › A three-property portfolio of 717, 721 and 729 Lady Street in Columbia was sold for \$1.25 million in January.
- › A fully-leased 16,000-square-foot retail strip center in Sumter, SC was sold for \$1.3 million.

### Leases

- › TSN Realty leased 34,161 square feet in Northeast Columbia at 7515 Two Notch Road in a freestanding retail building.
- › In January, Planet Fitness leased 20,000 square feet and Badcock Home Furnishings leased 17,500 square feet within a strip mall located at 1470 Chestnut Street in Orangeburg.

## Gross Retail Sales & Employment

Non-farm employment is growing within the Columbia Metropolitan Statistical Area (MSA). Per the Bureau of Labor Statistics' most recent data from December 2017, the Columbia MSA had 395,500 non-farm employees. Data from the South Carolina Department of Revenue says gross retail sales in the Columbia MSA reached \$14.2 billion over the last 6 months which spans from August 2017 through January 2018.

## Market Forecast

Urban retail continues to be in demand in the downtown area, and currently established retailers are succeeding due to increasing foot traffic from the nearby multifamily residents and more visitors to downtown in general. Tenants with an aspiration to locate within the urban submarket recognize the location value and are willing to pay higher rental rates to offer their business to downtown consumers.

Upscale sports venues such as Top Golf and boutique bowling alleys are an increasingly popular retail use, and Columbia property owners may get creative with their redevelopment projects in order to draw more of these trendy and fun attractions to the Columbia area. Despite the rumors that retail is dying, shopping centers are profitable, and consumers are still visiting them on a frequent basis and purchasing products. The most successful brick-and-mortar shops are those who offer the consumer a unique experience that makes them want to return, specialize their customer service in order to make the consumer feel special and carry items customers prefer to see and touch before buying. The Columbia retail market can expect a positive year due to continued success and construction in the vibrant Lexington submarket, a tightening urban retail market and increasing demand for The Golden Triangle's retail space; vacancy rates will drop and rental rates will increase.

## Around South Carolina

### Charleston, SC

- › The Charleston retail market continues to tighten as core shopping center vacancies are filled. During the first quarter of 2018, core shopping center space vacancy was 3.21% and the average triple net shopping center rental rate was \$15.02 per square foot. As the nature of retail changes, so will the retail shop needs and desired locations within the Charleston market.

### Greenville, SC

- › Retail space within core shopping centers tightens toward full capacity and the shopping center vacancy rate in core properties is down to 4.75%. The triple net core shop space rental rate is \$15.00 per square foot. In addition, Spartanburg's growth will draw investors and new retailers to the region.

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