NEW CONSTRUCTION, MIXED-USE DRIVE COLUMBUS OFFICE MARKET ACTIVITY

Andy Dutcher
Senior Vice President
of Office Brokerage,
NAI Ohio Equities

Matt Gregory
Senior Vice President
of Office Brokerage,
NAI Ohio Equities

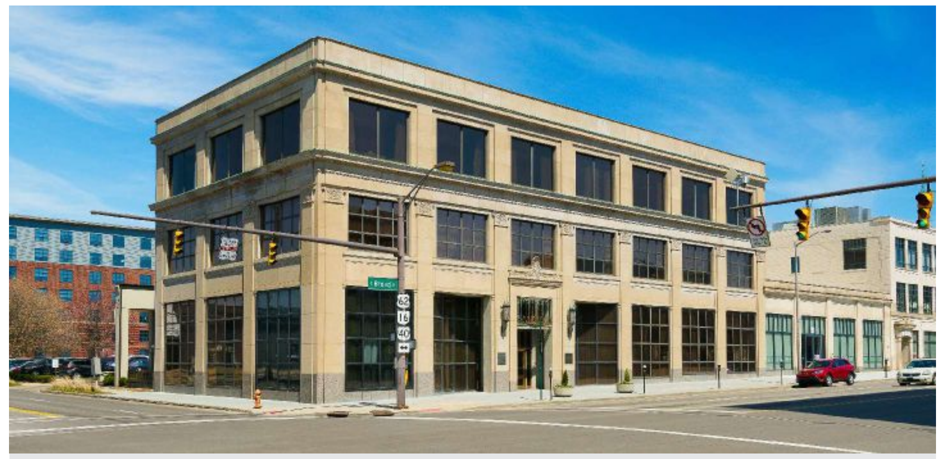
As a whole, commercial real estate in Columbus has experienced high levels of activity in recent years, and the office market has been no exception. The amount of new office space hitting the market has kept vacancy and average rental rates relatively flat, pacing the economic growth of the region. The vacancy rate has hovered around 6 to 7 percent, and the average rental rates are around $18 to $19 per square foot on a gross basis.

Developers in the region are anticipating continued growth, so there is an additional 830,000 square feet of office space currently under construction. With that amount of new construction, we don't expect the vacancy or rental rates to change dramatically in the coming year. Let's look at the trends driving these numbers.

Population, economic growth

Columbus continues to grow quickly. Columbus offers residents a low cost of living, great drivability, plenty of amenities and economic opportunity. Since 2010, the metro area has grown by 10.8 percent, adding over 200,000 people, which makes Columbus the 14th-largest city in the United States with over 2 million total residents. The population growth hasn't slowed down; from 2017 to 2018, the area grew 1.2 percent, and forecasts expect continued growth with 1 million new residents anticipated by 2050.

The region's economy has grown alongside the population, with new employers, large expansions and startups all adding to the office market. A highly educated labor force, low business costs, increased venture capital funding and a business-friendly environment have all contributed to Columbus's desirability. Just some of the employer headlines: Chipotle is moving its headquarters to Columbus in the coming year, Google has planned a $600 billion data center and startups Root Insurance and CoverMyMeds have made Columbus home.



A new owner of a historic office building in downtown Columbus plans to renovate the property, which dates back to 1926.

In particular, the downtown area has transformed in the past decade. Downtown population grew from 12,900 in 2010 to 17,647 in 2018. There are new restaurants, retail spaces and, of course, office space. The rapid growth means we are seeing a lower vacancy rate in downtown than the surrounding submarkets.

Shift to new Class A

The city's growth is not the only reason for the amount of new office construction. Demand for new, more modern office spaces has also been a contributing factor. Employers are looking for smaller footprints, more flexible layouts, bigger windows, open floor plans and collaboration areas. The older, traditional office buildings are becoming functionally obsolete.

With the strong economy, employers are willing to pay a premium for new spaces. Class A office space built in the 2000s is leasing for $13 to $15 per square foot on a triple net basis, compared with $18 to $20 or higher for new Class A space. Demand is high for these brand-new spaces, and speculative office buildings are getting interest as soon as they are announced from both local and out-of-town employers. For example, the Lincoln building in the Short North was 94.4 percent leased before opening.

New construction is happening all over the city, but downtown is experiencing especially high rates of urban infill as companies want to be close to the city center. New downtown builds, such as 80 on the Commons and the Gravity project by Kaufman Development, are putting pressure on owners to update older buildings.

Properties that have not undergone renovations or have out-of-date floor plates are struggling. We can see this trend in the high vacancy rate at Fifth Third Center, which is currently only 36.8 percent leased, as well as other buildings around Cap Square. Land costs are still affordable enough that new Class A space is making financial sense, and the older buildings will need to be updated in order to survive in the current market.

Increase in mixed-use

While modern floor plans and design are part of the draw of new office spaces, employees and employers are also demanding more amenities. They want a work-live-play environment, even if they are not located downtown.

This led to an increase in mixed-use developments in recent years, such as Bridge Park in Dublin. Bridge Park is a multi-building development encompassing 195,000 square feet of retail and 840,000 square feet of Class A office space, along with over 400 residential units.

Much of the upcoming office space currently under construction is also part of the mixed-use trend. Take, for example, White Castle's planned headquarters. The Reach on Goodale will include its home office along with a 254-unit apartment community, amphitheater, community center and 66,000 square feet of office space.

There is also the redevelopment of the Scioto Peninsula. The Phase I plan details 240,000 square feet of office space, 550 residential units, 180 hotel rooms and street-level retail. While not finalized, the site could have as many as 2 million square feet of office space, 1,800 residential units and 400 hotel rooms.

So far, the new construction has kept pace with the influx of businesses and residents. But with all of the new developments currently in the planning or construction phase, the success of these ventures depends heavily on continued population growth in the region.

Think of us for your next Columbus Area project...
Ask us how we can help you incorporate sustainability into your next project!
U.S. GREEN BUILDING COUNCIL MEMBER

UNDER CONSTRUCTION...
Meridian DESIGN BUILD
MAGNA
MAGNA SEATING
Lancaster, OH - 153,000 SF
DEVELOPER: SunCap Property Group
ARCHITECT: Ware Malcomb
DESIGN BUILD • GENERAL CONTRACTING
CONSTRUCTION MANAGEMENT
Please contact us for any upcoming project needs!
847.374.9200 • www.meridiandb.com