Death of big box stores has not affected Columbus retail real estate

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The empty Macy's at Tuttle Crossing. The 225,000-square-foot space will turn into a family entertainment center next year.

The year may have been full of headlines about the death of the big box, but retail has been an active segment of the local commercial real estate market this year.

Data from NAI Ohio Equities showed vacancy among local retail space down half a percentage point to 3 percent compared to the second quarter of 2018, with 621,300 square feet of space absorbed during the quarter.

Rents are up 2.9 percent to $12.94 per square foot from the previous quarter, even as 23,700 square feet of space in three new buildings came online. Cap rates this year have been down just a bit to 8.12 percent from 8.38 in 2017.

Among the biggest deals of the quarter including auction group Fast Track It leasing an old 55,000-square-foot Hobby Lobby at 5865 Chantry Dr. and Escape Room taking 42,000 square feet in the old Target at 5731 Chantry Drive, both of the city's far east side.

To brokers, these deals show that former retail boxes can find new life, even if it isn't through a traditional retail chain.

“The world of retail is still very strong, it's just that we're not building shopping centers like we used to," said Mike Simpson, president of NAI Ohio Equities. "The growth of the sector is in smaller, niche and local."

Local brokers say the much heralded death of the big box has not spelled the end of the retail real estate business, although leasing activity has been focused on smaller sites.

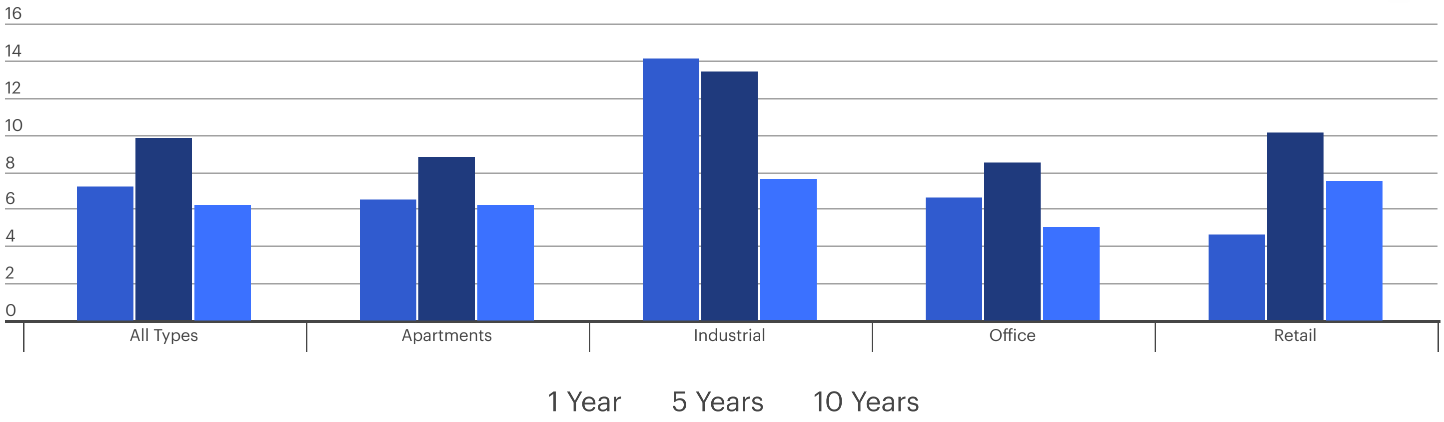
"Yeah, some of the big guys are closing, but the market (for retail space) from 1,200 to 60,000 square feet still has a lot of active tenants out there," said Tim Maly, whose Black Gate Partners focuses on retail leasing. "In Columbus vacancy is as low as I've ever seen it, numbers speak for themselves. I don’t see it slowing down next year."

And the new users looking at this kind of space are varied.

At a meeting of Institute of Real Estate Management this month in Dublin, developers and brokers said the changing market has forced some creativity. Some big boxes are being refilled with entertainment such as Scene 75's plan at Tuttle Crossing. Others see office conversions, such as Huntington Bank's converted Northland office. Still other retail spaces are finding more creative use like self storage or coworking.

"This used to be one of the most stabile asset classes, but people want flexibility," CBRE senior economist Spencer Levy said, noting the sharp decline in returns on equity for this kind of real estate – 4.6 percent for a 1-year term as compared to industrial real estate, which has become much more stable with average 14.1 percent one-year returns.

Return on Investment By Property Type (Nationwide)



Source: CBRE *(Graphic by Tristan Navera)*

This comes even as people are spending more online. Chase analyzed 7.7 million customers and 4 billion credit and debit card transactions in 2017 and found 39.2 percent of transactions were through online channels. Online spending has steadily increased in recent years, while brick-and-mortar spending has lagged.

“As online spending becomes an increasingly prominent part of our economy, it’s important for local leaders and small businesses to have a clearer understanding of its impact on local commerce,” Diana Farrell, CEO of JPMorgan Chase Institute, said in a statement.

Columbus has been on the lower end of that, at 34.3 percent, having only grown 1.4 percent from March 2015 to April 2018. Maly said there's a reason for that.

"We live in a vehicle-centric market, and people still have the inclination to shop local," Maly said. "If anything, that's grown – they go to a shop and they want to know the story behind it, and that they are buying from a local owner. Those guys can certainly coexist with big national chains."

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