

Specialized retail remains successful

Crystal Baker Research Coordinator | South Carolina

Key Takeaways

- › Average retail market rental rates gradually rise as the Columbia market absorbs non-core shopping center space.
- › Specialized brick-and-mortar stores are able to effectively compete with online retailers.

Successful brick-and-mortar grocery concepts

In a world where grocery delivery and dinner box kits are only a click away, how are brick-and-mortar grocery stores succeeding? They are utilizing specialized store concepts in order to thrive. Within the Columbia MSA, from 2016 until present, there have been 10 new grocery stores built, two currently under construction and one proposed to be built. However, these new grocery stores are not guaranteed automatic success; in order to compete they will offer convenient online ordering with in-store pick-up, meal preparation by order and, often, home delivery. Shown below are the prevalent evolving grocery store concepts being developed that cater to specific clientele demands in order to succeed as brick-and-mortar grocery stores in Columbia.

- › **Lifestyle shops** are a one-stop shop; these shopping centers are appealing to consumers who want to make one stop to purchase items necessary for any situation. Lifestyle centers often have a coffee shop, a gas station with automotive necessities, medical services/pharmacy, an apparel section, home decor, a bistro/pizza parlor and a deli offering prepared meals in addition to general grocery needs. Some of the grocers within this category are: Walmart, Costco, Kroger and Publix.
- › **Fresh and local:** this type of store may not be based locally; however, local producers and farmers supply much of the produce and products. Therefore, the purchased goods will support local farmers and merchants from the local area surrounding the grocery store. In this way, consumers can feel positive about “giving back” to the neighborhoods in which they live. These grocers offer fresh local goods in addition to high-end, organic food choices, promoting clean eating and

Market Indicators

Relative to prior period	Q2 2018	Q3 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

Q2 2018 Columbia Retail Market	Core	Non-Core
Vacancy Rate	5.56%	14.48%
Change From Q2 2017 (basis points)	+6	+138
Absorption (Thousand Square Feet)	-24.91	138.39
New Construction (Thousand Square Feet)	-	-
Under Construction (Thousand Square Feet)	72.81	59.16

Asking Rents

Per Square Foot Per Year	Core	Non-Core
Shopping Center Shop Space	\$20.84	\$11.94
Change From Q2 2017	-8.92%	+1.88%
Urban Retail	\$20.03	-

environmentally-conscious packaging with an “old world market” feel. The Fresh Market and Lowes Foods succeed using the fresh and local concept.

- › **Discount grocers** offer inexpensive, high quality products at deeply discounted prices. They often carry their own brands within the supermarket and sell inexpensive beer and wine. In order to keep costs low, the stores are small, waste-efficient by presenting produce within the original boxes and often use natural lighting to reduce the cost of utilities. Discount grocers often have a “surprise merchandise” section with in-and-out merchandise specials advertised within their weekly circulars. Lidl and Aldi are successful using the discount grocery concept.

The message is clear: in order to succeed as a brick-and-mortar grocer, one needs to know the specific clientele and cater to them instead of attempting to appeal to the masses. Convenience, freshness and affordability are the main components of the main successful grocery store concepts, and within the Columbia MSA, the concepts have caught on and are prospering for these grocery stores.

Market Conditions

Shopping Centers

The Columbia shopping center market is comprised of approximately 13.4 million square feet and absorbed 113,433 square feet during the second quarter of 2018. Overall average shop space weighted rental rates rose from \$13.38 per square foot during the first quarter of 2018 to \$13.84 per square foot this quarter. Core rental rates averaged \$20.36 per square foot and non-core shop space rental rates were \$11.94 per square foot. Despite the positive absorption, the Columbia retail market vacancy rate rose to 10.29% during the second quarter of this year, because the market has 78,299 square feet of additional availabilities compared to last quarter.

Urban Retail

There are 1.93 million square feet of urban retail in Columbia in seven distinct urban areas. Triple net weighted rental rates for the remaining urban spaces averaged \$20.03 per square foot. The overall vacancy rate during the second quarter of 2018 was 8.26% with 159,218 square feet of core vacancy and no sublease space available.

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 submarket posted a net negative absorption of 1,835 square feet and the submarket vacancy rate rose from 10.25% during the first quarter of this year to 10.73% this quarter. The core rental rates averaged \$20.09 per square foot, while non-core rental rates were \$16.56 per square foot in the Northeast. The overall Northeast submarket rental rate average for the remaining available space was \$18.27 per square foot, 146 basis points higher than last quarter.

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** center is in an amalgamation that draws shoppers from across the region. 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 center will be one that 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.

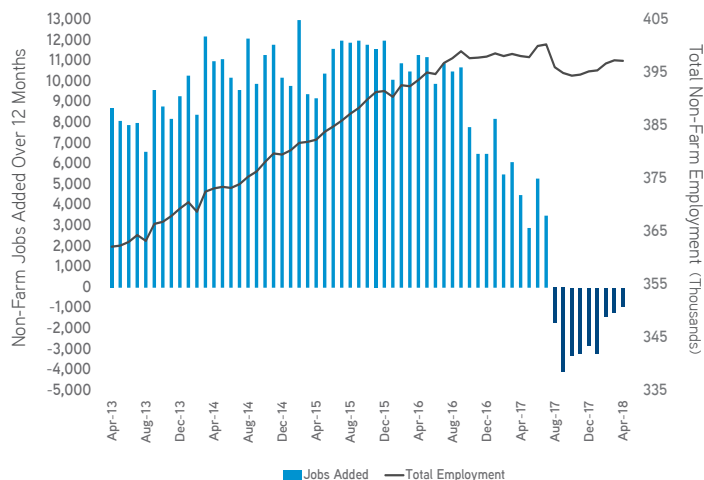
Anchor space is typically 25,000 square feet or greater and is designed to accommodate a single tenant.

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

Harbison & St. Andrews

The Harbison & St. Andrews submarket has approximately 3.6 million square feet of retail space, making it the second largest submarket in Columbia. This submarket absorbed 37,701 square feet during the second quarter of 2018; however, due to the net negative core absorption of 11,901 square feet, the vacancy rate rose from 12.08% last quarter to 13.60% this quarter. The average triple net Harbison & St. Andrews submarket weighted rental rates decreased because there were no core rental rates to average; however, non-core weighted rental rates increased from \$9.25 per square foot to \$10.14 per square foot for the remaining available space.

Lexington

The Lexington submarket has grown to 1.73 million square feet and is tight, with few remaining availabilities. The Lexington sector absorbed 10,550 square feet this quarter and the submarket vacancy rate dropped again this quarter from 4.53% during the first quarter of 2018 to 3.92% during the second quarter. There are only 10,560 square feet of core retail space remaining in this submarket and the core vacancy rate dipped to 0.87%. The average weighted triple net Lexington rental rates for retail space rose to \$21.24 per square foot, up from \$20.12 per square foot during the first quarter of 2018. There are currently two grocery stores under construction on Platt Springs Road. Publix will be a 55,813-square-foot grocery store, and an approximately 17,000-square-foot Aldi is expected to open in July 2018.

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. The Golden Triangle submarket absorbed 2,473 square feet this quarter and the vacancy rate was 1.22%, down from 1.42% during the first quarter of 2018. Only 15,236 square feet of shop space is left in this submarket and the average triple net weighted rental rate is \$22.29 per square foot, the highest average in the Columbia retail market.

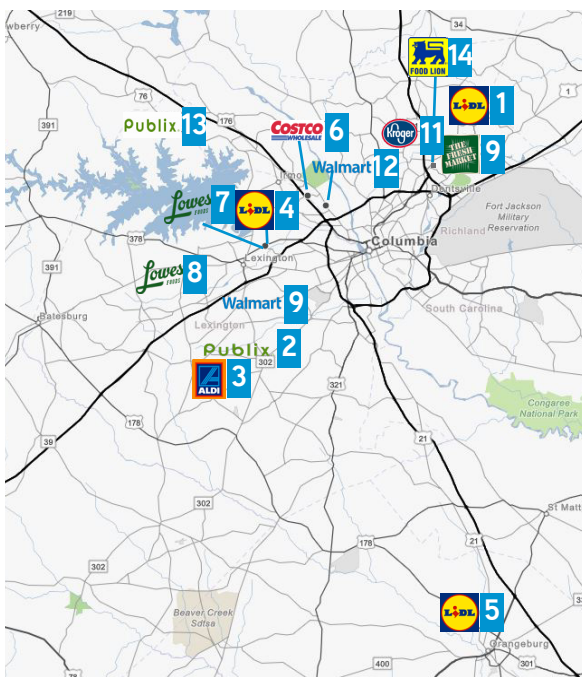
Recent Transactions

During the second quarter of 2018, real estate activity was busy within the Columbia region. There were 80 sale transactions completed. These sales include three Columbia-area Gateway Academies, which were part of a 21-property portfolio sale. There were 72 leases signed during the second quarter of 2018.

Sales

- › Lexington Towne Center is a 131,809-square-foot retail center and was purchased for \$12.6 million in June.
- › Friarsgate Plaza in Irmo was sold for \$2.6 million. It is a 67,810-square-foot retail storefront building.
- › 7711 Two Notch Road is a 5,748-square-foot restaurant; it was purchased for \$2.25 million during April.

New grocery stores built 2016-present



MAP #	GROCERY STORE NAME	ADDRESS	CITY	BUILDING STATUS	CONSTRUCTION YEAR
1	Lidl	4730 Hardscrabble Rd.	Columbia	Proposed	2009
2	Publix	5441 Platt Springs Rd.	Lexington	U.C.	2018
3	Aldi	5506 Platt Springs Rd.	Lexington	U.C.	2018
4	Lidl	5215 Sunset Blvd.	Lexington	Existing	2018
5	Lidl	2510 North Rd.	Orangeburg	Existing	2017
6	Costco	507 Piney Grove Rd.	Columbia	Existing	2017
7	Lowes	5222 Sunset Blvd.	Lexington	Existing	2017
8	Lowes	2440 Augusta Hwy.	Lexington	Existing	2017
9	Fresh Market	10286 Two Notch Rd.	Columbia	Existing	2017
10	Walmart	1019 Old Barnwell Rd.	West Columbia	Existing	2016
11	Kroger	475 Killian Rd.	Columbia	Existing	2016
12	Walmart	3603 Broad River Rd.	Columbia	Existing	2016
13	Publix	1235 Chapin Rd.	Chapin	Existing	2016
14	Food Lion*	9003 Two Notch Road	Columbia	Existing	Acquiring

**Food Lion is not a "newly" constructed building; however, it is acquiring a BI-LO store.
U.C. = "Under Construction"*

- › A 4,894-square-foot Sumter restaurant, located at 2497 Broad Street, sold for \$2,175,000.
- › At Garners Ferry Marketplace in Columbia, a 4,406-square-foot restaurant was purchased for \$1.75 million.
- › Ashland Park, a 40,244-square-foot retail strip center located in the Harbison & St. Andrews submarket, sold for \$1.6 million.
- › Columbia Plaza, a 32,311-square-foot retail center located at 7201 Parklane Road, was purchased for \$1.5 million.

Leases

- › At 4045-4123 West Beltline Boulevard in Columbia, a 22,090-square-foot retail space was leased by Citi Trends.
- › Planet Fitness leased 12,839 square feet at 421 Bush River Road in Columbia.

Construction Pipeline

Construction activity is active in the Columbia retail market, with 131,974 square feet of retail currently under construction.

Under Construction

- › A 55,813-square-foot Publix grocery store is currently under construction at 5441 Platt Springs Road in Lexington.
- › 18,061 square feet is under construction at 175 Meeting Street in West Columbia; it will be built as restaurant space to complement the nearby residential construction.
- › 5506 Platt Springs Road in Lexington is an approximately 17,000-square-foot Aldi; it is expected to be delivered in July 2018.

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 April 2018, the Columbia MSA had 397,300 non-farm employees. Data from the South Carolina Department of Revenue says gross retail sales in the Columbia MSA reached \$30.81 billion over the last 12 months which spans from February 2017 through February 2018.

Market Forecast

The Columbia retail market is successful by drawing clientele to shops catering to their specific needs. By focusing on a particular client niche and using internet convenience options such as home delivery choices and online ordering with curbside pick-up, brick-and-mortar shops are able to effectively compete with online retailers. The Columbia retail market should expect positive non-core absorption. Due to the tight market, there may be little to no vacancy changes within the core market shop space. The core weighted rental rates for the remaining available space will decrease

because there is not much space left and the remaining space is likely lacking in efficient configuration and quality. Non-core rental rates in Columbia shop spaces are expected to rise as the market tightens. Overall, the Columbia retail market is healthy, rental rates are predicted to rise as the market vacancy declines.

Around South Carolina

Charleston, SC

- › The Nexton interchange opened on I-26 and will conveniently connect Nexton Parkway in Berkeley County to Summerville. The core vacancy rate averaged 4.07% and non-core vacancy was 7.61% within this region. The average weighted rental rate for the market, core areas and non-core areas were relatively the same and averaged \$19.89 per square foot.

Greenville, SC

- › The Greenville-Spartanburg-Anderson market can expect retail expansion to continue through 2018. Due to positive market activity, new retail businesses and investors will be attracted to the Greenville-Spartanburg-Anderson region. Rental rates will continue to rise at a greater rate in core shop space, due to the tight market, than the rates within non-core space. Average triple net shop space rental rates increased this quarter to \$13.63 per square foot from \$13.17 per square foot during the first quarter of 2018.

Commercial Real Estate Growth Cycle: Where the market stands & where it is going.

NEW CONSTRUCTION
RENTAL RATE
EMPLOYMENT
OCCUPANCY



Q2 2018 Retail Market Summary Statistics

			ANCHOR SPACE (GREATER THAN 25,000 SF)		JR. ANCHOR SPACE (10,000 SF- 25,000 SF)		SHOP SPACE (LESS THAN 10,000 SF)	
SHOPPING CENTER MARKET	INVENTORY (SF)	VACANCY RATE (%)	VACANT (SF)	ASKING RENT (NNN)	VACANT (SF)	ASKING RENT (NNN)	VACANT (SF)	ASKING RENT (NNN)
CAYCE/WEST COLUMBIA								
Core	276,970	7.31%	-	-	16,051	\$12.00	4,200	\$15.67
Non Core	935,984	26.60%	110,313	-	43,389	-	95,230	\$11.02
Cayce/West Columbia Total	1,212,954	22.19%	110,313	-	59,440	\$12.00	99,430	\$11.28
DOWNTOWN								
Non Core	144,812	2.49%	-	-	-	-	3,600	-
Downtown Total	144,812	2.49%	-	-	-	-	3,600	-
GOLDEN TRIANGLE								
Core	1,247,294	1.22%	-	-	-	-	15,236	\$22.29
Golden Triangle Total	1,247,294	1.22%	-	-	-	-	15,236	\$22.29
HARBISON/ST. ANDREWS								
Core	1,325,084	11.95%	61,785	-	36,000	-	60,601	-
Non Core	2,274,847	14.56%	132,192	-	19,500	-	179,441	\$10.14
Harbison/St. Andrews Total	3,599,931	13.60%	193,977	-	55,500	-	240,042	\$10.14
LEXINGTON								
Core	1,210,105	0.87%	-	-	-	-	10,560	\$22.00
Non Core	518,162	11.05%	33,218	-	10,800	\$15.00	13,236	\$20.90
Lexington Total	1,728,267	3.92%	33,218	-	10,800	\$15.00	23,796	\$21.24
NORTH COLUMBIA								
Non Core	353,774	14.09%	-	-	-	-	49,852	\$8.00
North Columbia Total	353,774	14.09%	-	-	-	-	49,852	\$8.00
NORTHEAST COLUMBIA								
Core	2,100,049	6.56%	-	-	-	-	137,812	\$20.09
Non Core	1,849,817	15.47%	134,961	\$5.82	32,952	-	118,176	\$16.56
Northeast Columbia Total	3,949,866	10.73%	134,961	\$5.82	32,952	-	255,988	\$18.27
SOUTHEAST COLUMBIA								
Non Core	900,419	3.69%	-	-	18,000		15,200	\$11.00
Southeast Columbia Total	900,419	3.69%	-	-	18,000		15,200	\$11.00
MARKET TOTALS								
Core	6,159,502	5.56%	61,785	-	52,051	\$12.00	228,409	\$20.36
Non Core	6,977,815	14.48%	410,684	\$5.82	124,641	\$15.00	474,735	\$11.94
Total Shopping Center Market	13,137,317	10.29%	472,469	\$5.82	176,692	\$13.21	703,144	\$13.84
URBAN RETAIL								
East Gervais	30,776	0.00%						-
Five Points	481,784	8.20%						\$12.06
Innovista	138,438	7.14%						\$30.00
Main Street	369,160	15.54%						20.96
South Main Street	158,022	2.40%						-
Township	39,833	7.55%						-
Vista Gervais Street	709,117	6.44%						\$20.61
Total Urban Retail	1,927,130	8.26%						\$20.03

400 offices in
69 countries on
6 continents

\$2.7

billion in
annual revenue

2

billion square feet
under management

15,400

professionals
and staff

FOR MORE INFORMATION:

Liz H. McCary
Vice President, Marketing | South Carolina
+1 803 401 4269
Liz.McCary@colliers.com

Crystal Baker
Research Coordinator | South Carolina
+1 803 401 4230
Crystal.Baker@colliers.com

COLUMBIA RETAIL PROFESSIONALS:

Rox Pollard
Vice President & Director
of Retail Services Team
Rox.Pollard@colliers.com

Danny Bonds
Brokerage Associate
Danny.Bonds@colliers.com

JP Scurry
Vice President
JP.Scurry@colliers.com

Scottie Smith
Brokerage Associate
Scottie.Smith@colliers.com

Tripp Bradley
Vice President
Tripp.Bradley@colliers.com

Taylor Wolfe
Brokerage Associate
Taylor.Wolfe@colliers.com

Craig Waites
Vice President
Craig.Waites@colliers.com

Paige Bryant
Brokerage Associate
Paige.Bryant@colliers.com

Colliers International | South Carolina
1301 Gervais Street, Suite 600
Columbia, South Carolina 29201
+1 803 254 2300
colliers.com



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