

FRANKLIN COUNTY RETAIL REPORT 2015



An Analysis of Trends in:

- SALES TAX REVENUES
- EMPLOYMENT
- REAL ESTATE
- E-COMMERCE TRENDS & IMPACTS
- CONSUMER DEMOGRAPHICS





Commissioner Marilyn Brown
President

Commissioner Paula Brooks

Commissioner John O'Grady

To the Residents of Franklin County and our partners in the Retail Sector:

Welcome, and thank you for your interest in the 2015 Franklin County Retail Report. The Retail Summit is an innovation of the commissioners, and this report is a product of the ongoing collaboration between the Franklin County Board of Commissioners, our Economic Development and Planning Department, and the Columbus Chamber of Commerce. This yearly report offers readers a glimpse of retail reality, helping us to identify trends within the marketplace, and gain up-to-date knowledge on the retail sector so that we can support it and ensure that it remains a pillar of the regional economy.

Franklin County continues to be the fastest growing urban county in Ohio, and Franklin County residents continue to benefit from local innovation and an improving national economy. The local retail sector is resilient; and businesses are hiring and investing, and consumers are spending. Supporting innovation and even risk-taking in retail will continue to be important to supporting the Central Ohio economy as we also continue to work to make our community attractive to established businesses looking to relocate.

One initiative to help spur continued retail expansion is the new Franklin County Downtown Works program, which is a partnership between the county commissioners and Heritage Ohio to preserve and revitalize the many smaller downtown areas in our county's cities and villages. It's an exciting program that we hope will help to enhance historic commercial districts along Franklin County's many Main Streets, and provide new retail spaces throughout the county and the customer base to support them. A thriving marketplace benefits the entire community.

The retail sector contributes a great deal to our economy each year, and sales tax receipts make up more than half of the county General Fund budget. The strength of our retail sales is one indicator of the health of our economy as a whole, and even residents not directly involved in retail rely on the local sale of goods and services to support their own enterprises. The retail marketplace creates opportunities for buying and selling, and generates customers for other industries.

The 2015 Retail Report highlights many of the exciting opportunities that continue to present themselves in the retail economy of Franklin County, as well as some of the challenges we face as a community. One of the biggest findings of this year's report is that online sales continue to challenge bricks and mortar retailers, and also contribute to the declining percentage of sales tax revenue made up from retail. The strongest retailers, however, are able to create an experience and provide customer service in their shops that insulates them from losing customers to online sellers. Franklin County has also seen a rise in logistics and transportation-related employment due to the increase of online sales.

Vacancies in retail space continue to decline in Franklin County, though rents have not seen a corresponding increase. In addition, the number of retail jobs in the county continues its slow increase but remains below historic highs. Our county's growing population and strong consumer demographics still support the retail sector, and our community's combination of students, young professionals, and middle class families makes Franklin County an ideal testing ground for new retail concepts.

We are proud to present you with the 2015 Franklin County Retail Report. We hope that this report will be of fundamental use to our region's business and government leaders, and will be a tool in continuing the growth and success that we see throughout Franklin County.

Thank you for all that you do for your businesses and your community, and remember to Buy Franklin County!

Sincerely,

Marilyn Brown
President

Paula Brooks

John O'Grady

FRANKLIN COUNTY RETAIL: AN E-COMMERCE STORY

This report covers trends in retail sales tax, employment, real estate, and consumer demographics through the lens of one county in central Ohio. What binds together these topics from the physical retail world is the impact they have experienced due to the virtual one: e-commerce.

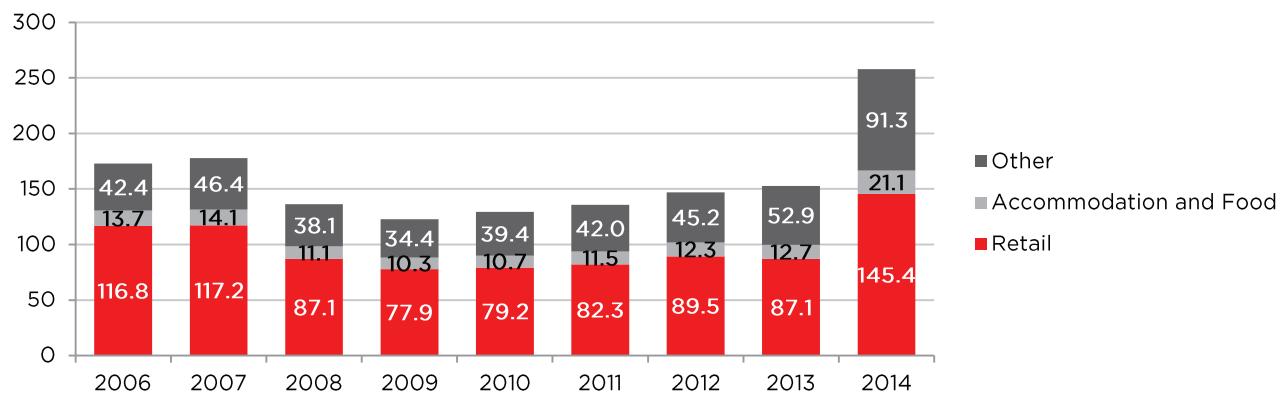
- Most people associate sales tax with retail, but retail now represents just over half (56 percent) of Franklin County's sales tax revenue. Without broad application of an online sales tax, as proposed by the Marketplace Fairness Act, the decline of retail's share of sales tax may continue.
- The number of retail jobs in the county remains a quarter (25 percent) below its early 2000s peak. Meanwhile, e-commerce has fueled employment growth in logistics as well as in occupations within the retail industry associated with customer fulfillment.
- Development of new retail space is opportunistic and spotty across the market. The vacancy rate keeps dropping, but rents are not rising.

Retail in Franklin County is a story about the impact e-commerce has had on sales tax revenues, employment, and real estate. Notably some retailers are adapting to enhance experiences in stores and shopping centers, leveraging features not possible online. The growth of mobile commerce can provide additional benefits if bricks-and-mortar retailers can embrace new combinations of retail design and technology. Franklin County's growing population and strong consumer demographics may be the ideal testing ground for new retail concepts that emerge.

SALES TAX REVENUES

Franklin County's overall sales tax revenue, not including COTA's share, totaled \$257.8 million in 2014, 69 percent higher than the 2013 revenue of \$152.7 million. This increase corresponds with the change in the county sales tax rate from 0.75 to 1.25 percent (COTA adds another 0.50 percent). A look beyond revenues, however, reveals the impact of e-commerce on local sales tax.

FIGURE 1: RETAIL SALES TAX REVENUE (\$ MILLION), FRANKLIN COUNTY, 2006-2014

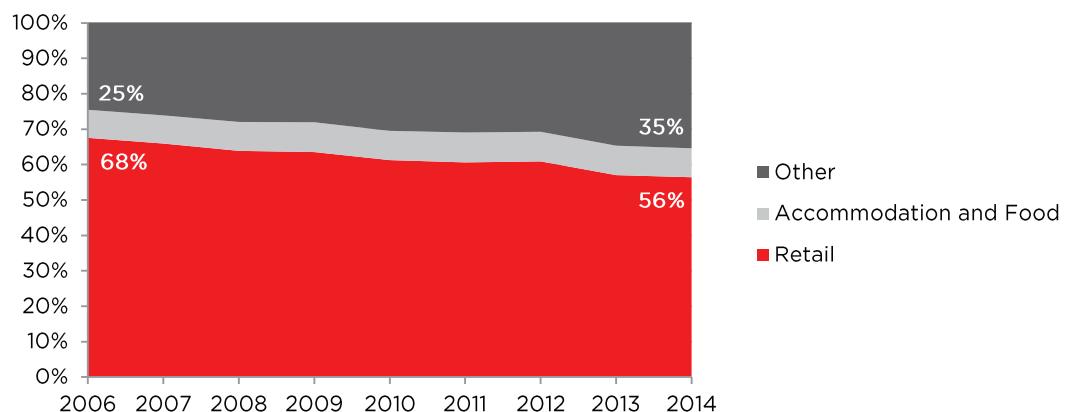


Source: Ohio Department of Taxation

SALES TAX REVENUE LESS AND LESS DEPENDENT ON RETAIL TRADE

Franklin County's revenue from retail trade was \$145.4 million in 2014, 56 percent of its total sales tax revenue. Retail's share has declined in recent years, now 12 percentage points lower than its 68 percent share in 2006.

FIGURE 2: RETAIL AND ACCOMMODATION & FOOD SHARE OF FRANKLIN COUNTY SALES TAX REVENUE

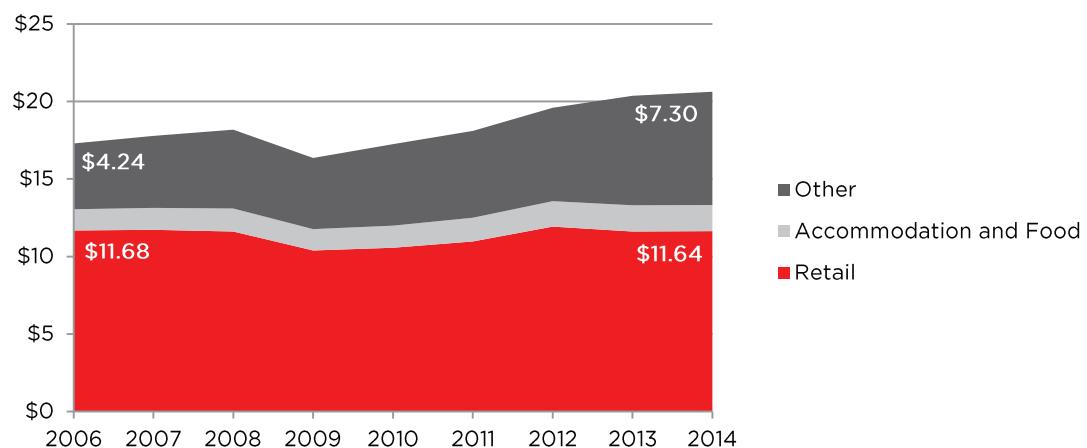


Source: Ohio Department of Taxation

Franklin County's retail sales tax base has remained flat at \$11.64 billion in 2014 compared to \$11.68 billion in 2006. Meanwhile, the base in accommodation and food has increased 23 percent from \$1.37 billion to \$1.69 billion. If the county were able to fully capture sales tax on e-commerce, the retail base and revenues could have grown at a pace similar to those for food and accommodation.

The biggest driver of sales tax revenue growth in the county has been outside of retail and other consumer-facing categories. Expansion of the base in professional services, wholesale trade, and other non-retail categories has helped fuel growth of 72 percent from \$4.24 billion in 2006 to \$7.30 billion in 2014.

FIGURE 3: SALES TAX BASE (\$ BILLION), FRANKLIN COUNTY



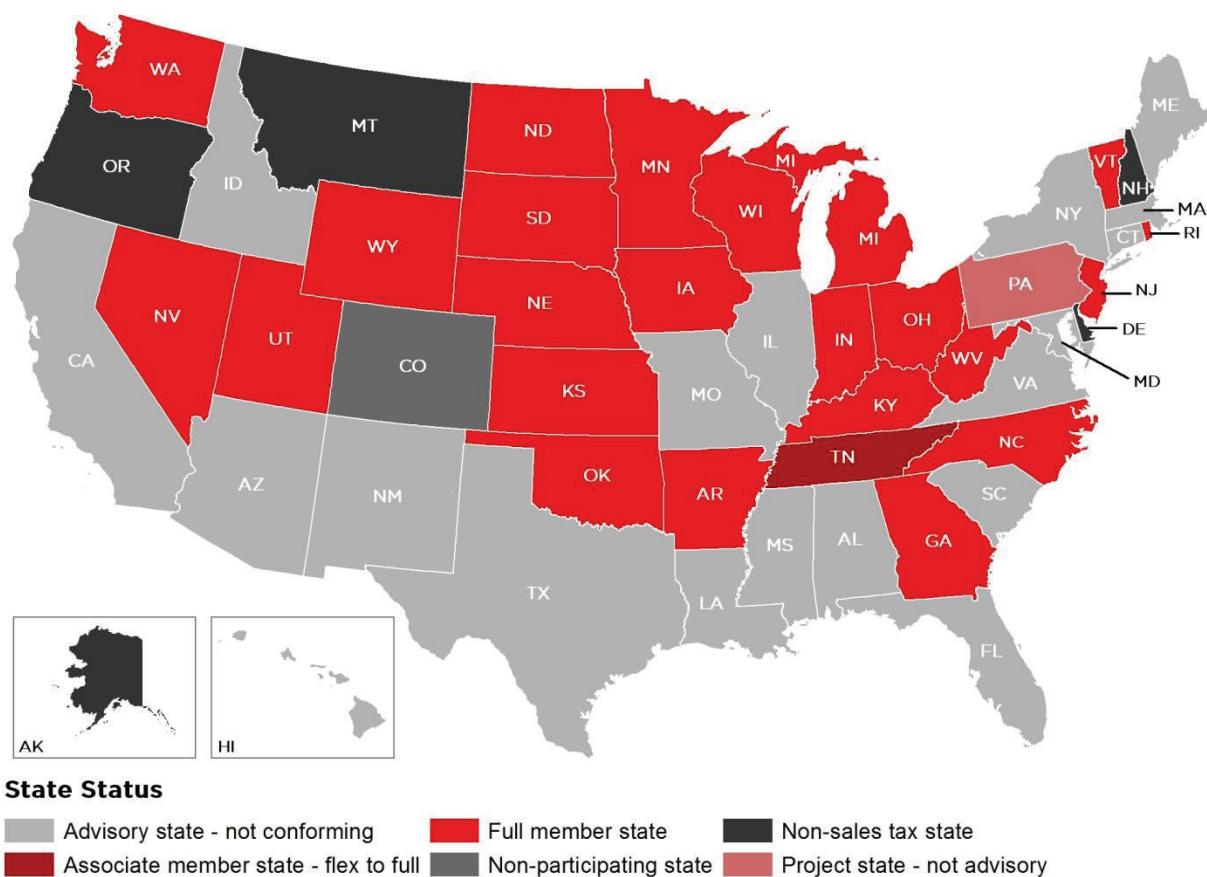
Source: Ohio Department of Taxation

MOVING TOWARD AN ONLINE SALES TAX

Introduced in Congress in 2013, the Marketplace Fairness Act proposes to require online and catalog retailers to collect sales tax. If passed, this legislation will help address the issue of stagnating tax revenues from retail sales, not just in Franklin County but for state and local governments around country. Retailers both bricks-and-mortar and pure e-commerce, most notably Amazon, are supporting the Marketplace Fairness Act.

While states await federal action, many have taken initiative among themselves to improve online sales tax collection. Ohio is one of 24 full member states in the Streamlined Sales Tax Project (SSTP), which seeks to standardize tax collection and administration practices and technology. In particular, SSTP facilitates application of sales tax on purchases from out of state, including e-commerce. In addition to the full members, 20 other states are participating and moving toward the SSTP standard. The tools and systems developed through SSTP may help implement the Marketplace Fairness Act if adopted.

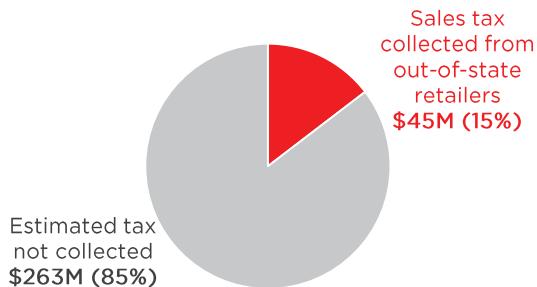
FIGURE 4: U.S. STATES BY PARTICIPATION LEVEL IN SSTP



Source: Streamlined Sales Tax Governing Board, Inc.

Ohio's involvement in SSTP has helped improve collection of taxes on online sales. In fiscal year 2014, Ohio collected \$45 million from out-of-state retailers, 68 percent higher than five years earlier. However, the state's Department of Taxation estimates that this is only a slice of \$308 million in potential revenue. A federally coordinated effort as promoted by the Marketplace Fairness Act can only help to close the gap.

FIGURE 5: SALES TAX COLLECTED BY OHIO FROM OUT-OF-STATE RETAILERS VS. ESTIMATED TAX NOT COLLECTED, FY 2014



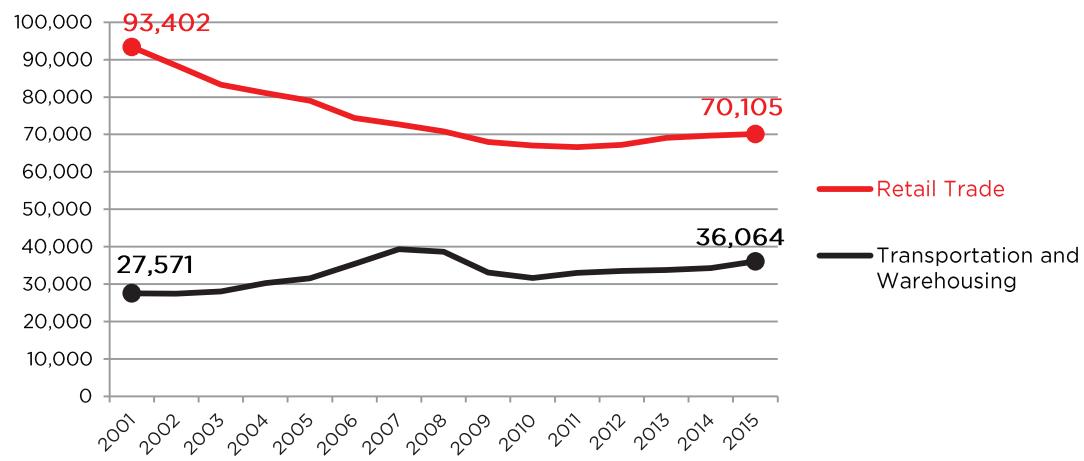
Source: Ohio Department of Taxation, via Dayton Daily News 7/20/14 ("Ohio online sales tax revenue hits historic high" - <http://www.daytondailynews.com/news/news/ohio-online-sales-taxes-revenues-rise-as-businesses-nghWi/>)

EMPLOYMENT

RETAIL'S EFFECT ON LOGISTICS

From 2001 to 2011, retail employment in Franklin County fell 29 percent from 93,402 to 66,657. It has since stabilized and now stands at 70,015. In the meantime, employment in transportation and warehousing, a major beneficiary of the e-commerce boom, increased 31 percent from 2001 to 2015 and has recovered faster than retail since 2010.

FIGURE 6: EMPLOYMENT IN RETAIL AND TRANSPORTATION & WAREHOUSING, FRANKLIN COUNTY



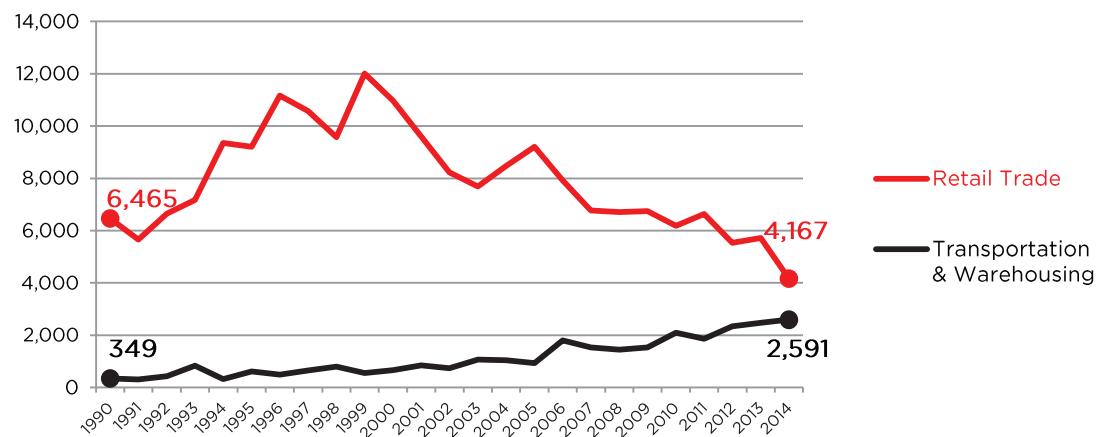
Source: EMSI

As some retailers use third-party logistics providers for parts or all of their e-commerce activity, what one might consider retail employment is increasingly shifting over to transportation and warehousing. A key indicator is the shifting seasonality of employment in each industry. After peaking at more than 12,000 in December 1999, the net seasonal

employment effect on the Columbus metro area's retail industry shrunk to approximately a third of that peak (4,167) in December 2014.

Meanwhile, seasonality that barely existed in transportation and warehousing during the 1990s reached a new peak of 2,591 in December 2014. Even though manufacturing and other industries support transportation and warehousing, the increased seasonal effect shows the growing prominence of e-commerce.

FIGURE 7: NET SEASONAL EMPLOYMENT* IN DECEMBER, COLUMBUS MSA



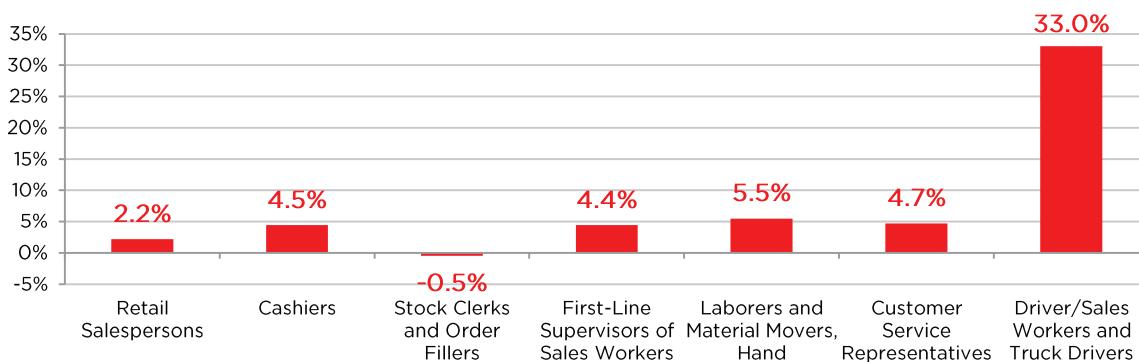
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics; Columbus Chamber

*Net seasonal employment is calculated as the difference between seasonally adjusted and unadjusted employment.

LOGISTICS' EFFECT ON RETAIL

Some retailers are keeping and growing their e-commerce logistics activity in house. A breakdown of retail industry employment by different occupations shows slow recovery in store-related functions such as retail sales, cashiers, and stock clerks. Growth rates are somewhat higher in e-commerce-related occupations such as picker packers and customer service representatives. The contrast is most noticeable in the number of truck drivers employed within the retail industry, which has grown by a third since 2010.

FIGURE 8: CHANGE IN EMPLOYMENT BY RETAIL TRADE OCCUPATION, FRANKLIN COUNTY, 2010-2015



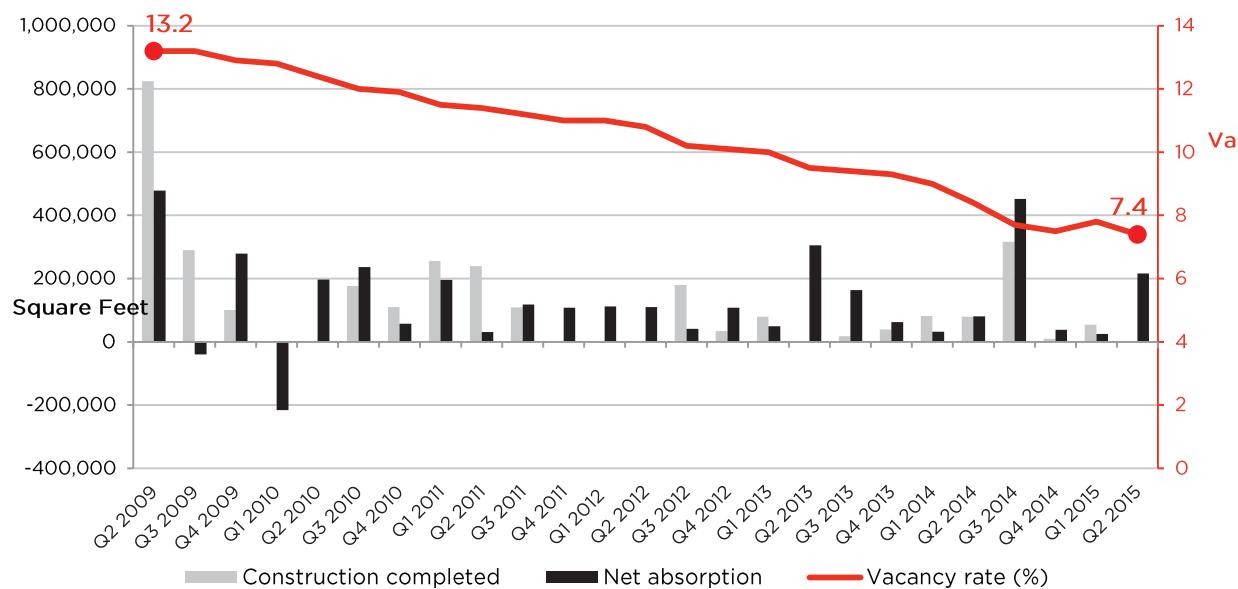
Source: EMSI

REAL ESTATE

VACANCY RATES CONTINUE TO FALL...

Since a peak of 13.2 percent in the second quarter of 2009, the retail vacancy rate in the area comprising Franklin County and the adjacent six counties has steadily decreased to 7.4 percent in the second quarter of 2015. Until the recent uptick in the first quarter, the vacancy rate saw 20 consecutive quarters of decline.

FIGURE 9: RETAIL CONSTRUCTION, ABSORPTION AND VACANCY, COLUMBUS MARKET, Q2 2009-Q2 2015

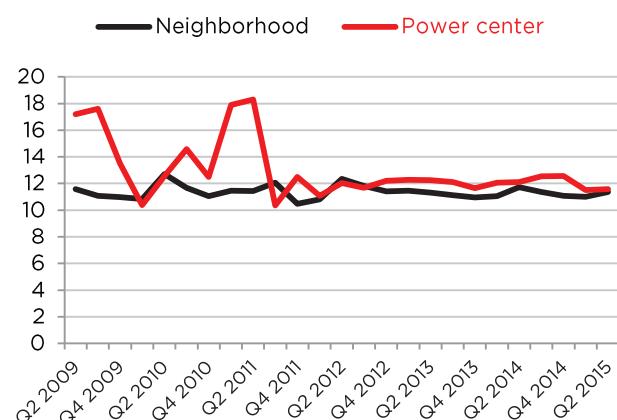


Source: Colliers International

...BUT RENTS REMAIN FLAT

The falling vacancy rate has not translated into higher rents for retail space. Since mid-2011, asking rents for available neighborhood and power center retail have hovered in the \$11-12 per square foot range. Increasingly, there appears to be a permanent shift in the market due to pressure from e-commerce. Retail spaces that provide consumers a special experience can thrive, whether it is Easton Town Center or boutiques in the Short North. Commodity retail on the other hand, where space serves merely to store and display merchandise, continues to lose to the web.

FIGURE 10: RETAIL AVERAGE ASKING RENTS (\$/SF), COLUMBUS MARKET, Q2 2009-Q2 2015



Source: Colliers International

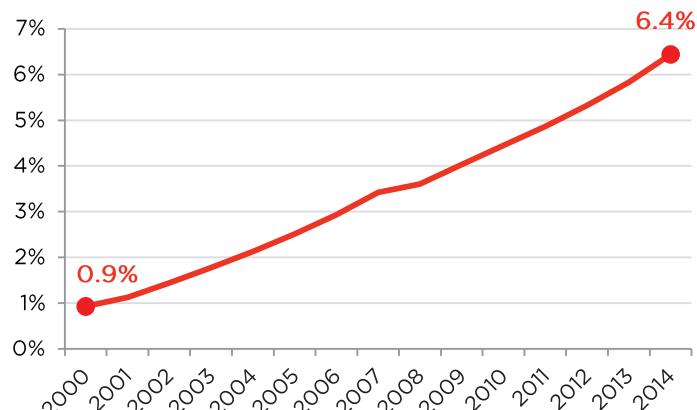
E-COMMERCE TRENDS AND IMPACTS

E-COMMERCE CONTINUES TO GROW

According to the Census Bureau, e-commerce's share of U.S. retail sales has risen from 0.9 percent in 2000 to 6.4 percent in 2014. While this may seem like a small slice of the overall retail pie, it represents a larger share of the industry's growth and profits. The figures are also higher in certain categories such as electronics and books.

Forrester Research forecasts that e-commerce will only continue to grow, from \$334 billion this year to \$480 billion by 2019. Various aspects of bricks-and-mortar retail, from sales tax to employment to real estate, will face more pressure from e-commerce.

FIGURE 11: E-COMMERCE SHARE OF RETAIL SALES, U.S., 2000-2014



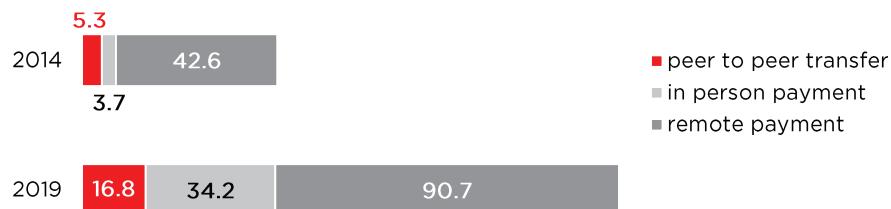
Source: U.S. Census Bureau

MOBILE COMMERCE: AN OPPORTUNITY FOR BRICKS & MORTAR?

Mobile commerce straddles both the e-commerce and physical retail space. Mobile web and smartphone apps can handle e-commerce transactions similar to what one would do on a computer. According to Forrester Research, the estimated \$42.6 billion in remote payments on mobile in 2014 will grow to \$90.7 billion by 2019.

For in-person purchases, mobile will continue to replace cash and credit, with apps like Google Wallet and Apple Pay. In-person payments via mobile are projected to increase nearly ten-fold from \$3.7 billion in 2014 to \$34.2 billion in 2019. However, mobile as a substitute for cash or credit is only the start – the element of technology can provide retailers additional opportunities to understand and interact with consumers in the physical space.

FIGURE 12: MOBILE-BASED SALES (\$ BILLION), U.S., 2014-2019 PROJECTED



Source: Forrester Research Inc.

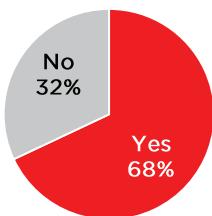
HOW BRICKS & MORTAR WILL SURVIVE AND THRIVE

The advent of smartphones has fueled retailer concerns about showrooming, or the practice of examining products in a physical store before buying them online. Amazon, Google and other companies large and small have apps or app features that facilitate showrooming. A recent global survey by PricewaterhouseCoopers only confirms the popularity of this practice, with 68 percent of respondents answering that they have browsed products in a store before purchasing online. However, the survey found that “web-rooming” was just as common a practice. Seventy percent of respondents browsed products online before purchasing in-store.

FIGURE 13: SHOWROOMING VS. WEB-ROOMING

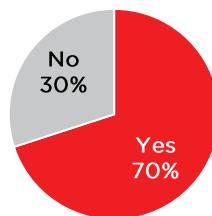
Showrooming

Have you ever intentionally browsed products at a store but decided to buy them online?



“Web-rooming”

Have you ever intentionally browsed products online but decided to buy them in-store?

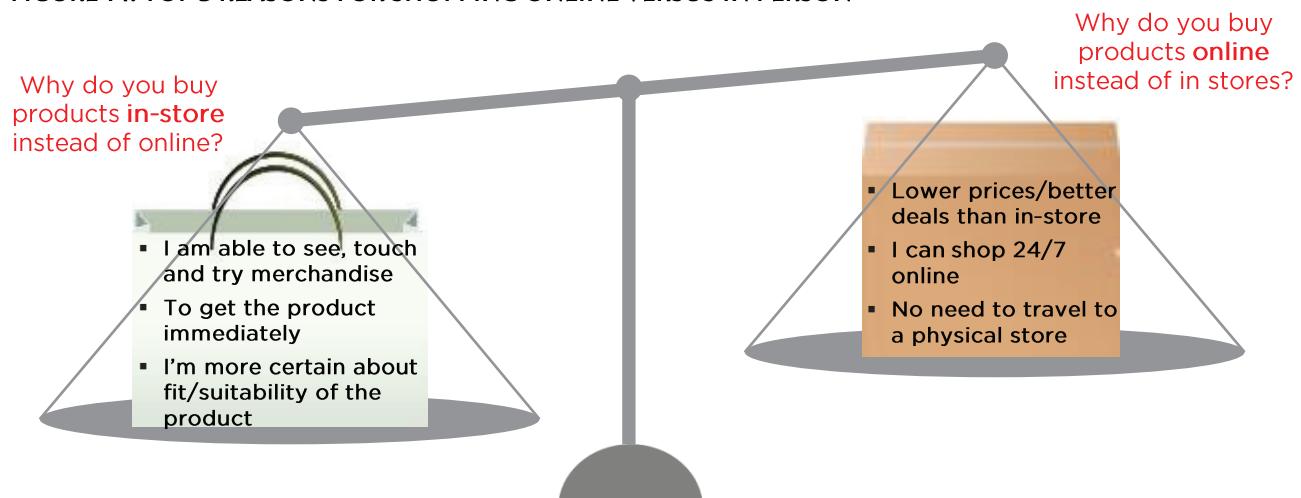


Source: Global PwC 2015 Total Retail Survey

Showrooming will continue to be a challenge, especially as improving technology further eases e-commerce purchases via mobile. But smartphones may also support web-rooming by combining the ability to research online, as well as browse in person, and to obtain a product immediately.

The PwC survey shows that there are certain bricks-and-mortar retail experiences that e-commerce cannot replace, and vice versa (see Figure 14 below). By designing great retail spaces and experiences that work hand in hand with technology, “traditional” retail can continue to appeal to consumers in ways that are not possible with e-commerce alone.

FIGURE 14: TOP 3 REASONS FOR SHOPPING ONLINE VERSUS IN PERSON



Source: Global PwC 2015 Total Retail Survey

TEST MARKET, USA

FRANKLIN COUNTY ≠ AVERAGE

Franklin County's demographics offer significant advantages as a test market to retailers, but not necessarily because it is representative of the U.S. Being younger and smarter, Franklin County may also point to trends in the frontier between bricks-and-mortar and e-commerce.

The Franklin County population is younger than that of the U.S.

Median age



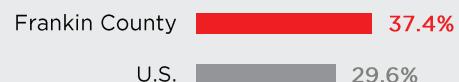
A greater share of the Franklin County population is enrolled in college or graduate school.

Percent of population enrolled in higher education



A greater share of the Franklin County adult population has at least a bachelor's degree.

Percent of adults age 25+ with bachelor's degree+



A greater share of working-age Franklin County residents are in the labor force.

Labor force participation rate of population age 16+



Franklin County households are less likely to be the traditional family of old, but young families comprise a higher share.

Percent of households that are non-family



Percent of households that are married-couple family

Franklin County 39.6%

U.S. 48.0%

Percent of households with children under age 6 only

Franklin County 7.3%

U.S. 6.2%

Franklin County has a lower median household income, but this is influenced by the differences in household types, namely fewer families. When controlled for household type, Franklin County often has higher median incomes.

Median household income: all households



Median household income: families



Median household income: non-families



Median household income: married couple families



Source: U.S. Census Bureau, 2013 American Community Survey

WHY NOT-SO-AVERAGE FRANKLIN COUNTY IS A TEST MARKET

Compared to the U.S., Franklin County is younger, smarter, more likely to be working, and with higher incomes when controlled for household type. The county's high share of college students, singles and young families are just beginning to develop loyalties in many product categories. Columbus and Franklin County are not going to be the best test market for everything, but the area has a concentration of demographic segments that are highly desirable for many retailers.

ESRI, a provider of demographics and business data, uses what it calls Tapestry Segmentation to understand the lifestyles and life-stages of consumers.¹ This method uses household/family types, income, geography and other characteristics to classify households into 68 different market segments. The top ten Tapestry segments in Franklin County are completely distinct from those of the U.S. overall (Figure 15), reflecting the various demographic differences.

FIGURE 15: TOP 10 TAPESTRY SEGMENTS IN FRANKLIN COUNTY VS. U.S.*

Franklin County



U.S.



Source: ESRI, 2014

*The sizes of the words are proportional to the percentage of households that each segment represents in their respective geography.

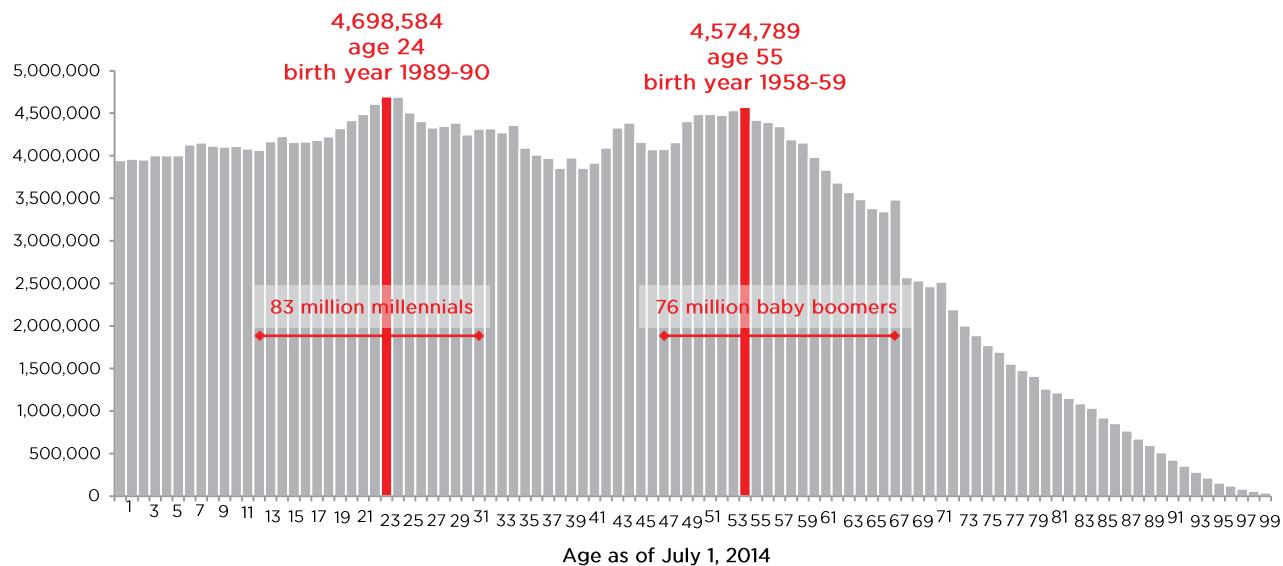
¹For more information, see: <http://www.esri.com/landing-pages/tapestry>.

CHANGING DEMOGRAPHICS

HAVE WE REACHED PEAK MILLENNIAL?

Many people tend to view each generation across a span of years: 1946-1964 for the birth of baby boomers or 1982-2000 for millennials. Attention falls heavily on the earliest cohort of each generation, but the peak years for baby boomers and millennials are better proxies for when and how each generation will impact retail and other aspects of society. Born in 1990, the peak millennial has surpassed the typical college age range and is likely in the workforce, producing ramifications on businesses, urban living, and retail that were hardly visible even a few years ago. Meanwhile, we are not yet seeing the full effects of retiring baby boomers, with the peak boomer still nearly a decade away from normal retirement age.

FIGURE 16: U.S. POPULATION BY SINGLE YEAR OF AGE

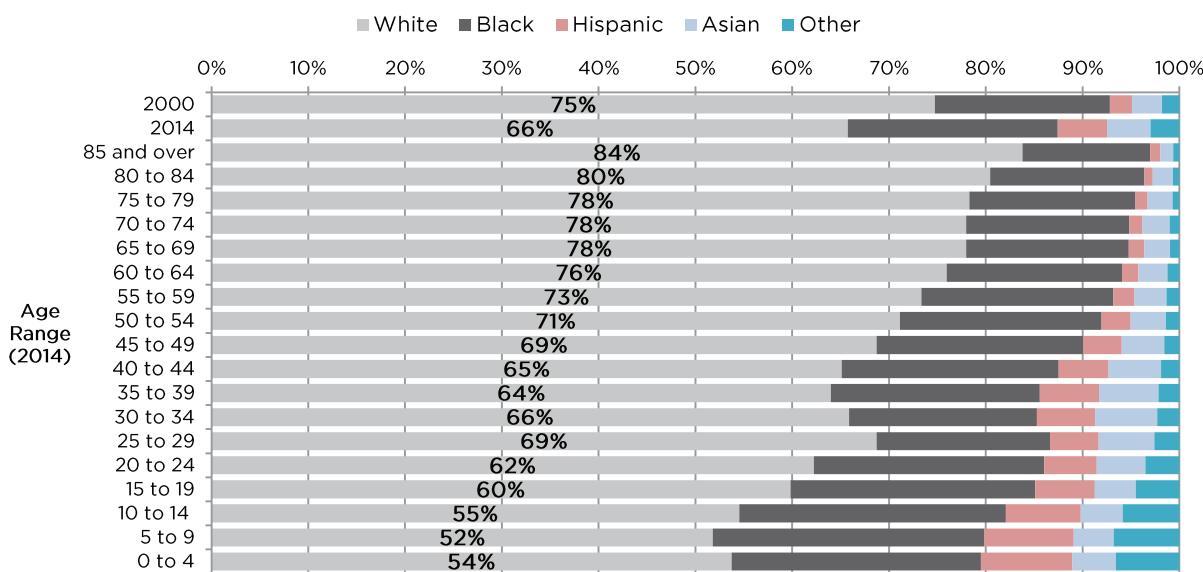


Source: U.S. Census Bureau, 2014 Population Estimates

A MORE DIVERSE FRANKLIN COUNTY

Franklin County is more diverse today than ever before. From 2000 to 2014, the non-white share of the county population rose from 25 percent to 34 percent. This trend will only continue, as evidenced by the significant variation in demographics by age. While non-whites represent approximately 20 percent of the population among Franklin County seniors, they represent nearly half among young children. All major racial and ethnic minority groups have increased their share of the population. Growth in the number of multi-racial people, a major component of the 'Other' category, has added to the non-white share of the population.

FIGURE 17: FRANKLIN COUNTY POPULATION BY AGE RANGE AND BY RACE/ETHNIC GROUP



Source: U.S. Census Bureau, 2000 Decennial Census and 2014 Population Estimates

THE FUTURE OF RETAIL (IS) IN FRANKLIN COUNTY

Franklin County's retail sales tax base has stabilized since the recession, but sales tax overall is increasingly driven by tax base expansion in non-retail industries. The slow growth of the retail sales tax base mirrors county trends in retail employment and real estate. In-store employment and retail construction have remained mostly flat, even as the general economy grows. Opportunities may exist for particular development projects, but lower vacancies have not spurred new construction across the market. As time passes, this looks like the new norm.

From a fiscal perspective, expansion of sales tax application to online sales will provide a boost to Franklin County and state and local governments across the country. This may in theory also eliminate some cost advantages of e-commerce, but effects will likely be minimal. Bricks-and-mortar retailers will need more than a small reduction in cost disparity to succeed.

Successful retailers heed the importance of place-making and experience to emphasize advantages that bricks-and-mortar will always have over online shopping. The growth of mobile commerce supports both e-commerce and stores. Can physical retailers leverage the opportunities provided by technology? Their success in Franklin County and elsewhere may depend on this.

Franklin County is blessed by strong demographics, a growing and diversifying population comprising desirable segments that are great test markets for a number of products and services. But the same young professionals, college students, and new families are also the segments more likely to adopt the latest in electronic and mobile commerce. In the years ahead, the county may be a testing ground not just for individual retailers but for the retail industry as a whole as it evolves with technology.

FRANKLIN COUNTY RETAIL REPORT

Presented by Franklin County and the Columbus Chamber

FRANKLIN COUNTY BOARD OF COMMISSIONERS

As the administrative head of Franklin County government, the Board of Commissioners sets the strategic direction and fiscal priorities for the 30th largest county in the nation. Commissioners Marilyn Brown, John O'Grady and Paula Brooks have established the Economic Development & Planning Department to promote organized growth supported by the principles of economic vitality, social equity, progressive land use, planning, and environmental responsibility.

For more information on business development assistance in Franklin County please contact:

James Schimmer, Director
Department of Economic Development & Planning
150 South Front Street, FSL Suite 10, Columbus, Ohio 43215

Development.FranklinCountyOhio.gov | 614.525.5631 | edinfo@franklincountyohio.gov

COLUMBUS CHAMBER

The Columbus Chamber of Commerce is a resources-based non-profit organization serving over 1,300 businesses in Central Ohio. Providing support in areas such as research, marketing, talent advisement, networking, and government affairs, the Chamber has been in existence for 131 years, helping businesses thrive every step along the way.

Learn more about the Columbus Chamber | Columbus.org | 614.221.1321

FRANKLIN COUNTY RETAIL REPORT



Prepared by Jung Kim, Research Director, Columbus Chamber

As Research Director at the Columbus Chamber, Jung leads the Research team, which conducts economic and business research in support of Columbus 2020 economic development efforts and provides support to Columbus Chamber members.

Jung has a Master of Science in Regional and Urban Planning from the London School of Economics and a Bachelor of Arts in Sociology and Urban Studies from Northwestern University. His prior experience includes Community Research Partners, a nonprofit research center based in Columbus; the State of New Jersey's Office of Smart Growth; and Strategic Planning Advice, an economics and planning consulting firm in the UK. He is a member of the American Planning Association and the Urban Land Institute.

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