

FRANKLIN COUNTY RETAIL REPORT 2017

An Analysis of Trends in:

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





Commissioner John O'Grady
President

Commissioner Marilyn Brown

Commissioner Kevin L. Boyce

To the residents of Franklin County and our partners in the retail sector:

Welcome to the 2017 Franklin County Retail Report. The annual Retail Summit and Retail Report represent an ongoing partnership between the Franklin County Board of Commissioners, our Economic Development and Planning Department, and the Columbus Chamber of Commerce, and provide a unique insight into the state of our retail marketplace in Central Ohio.

The Retail Report helps us to identify trends in retail, and can be predictive of future successes and challenges, and we believe that the information it provides is invaluable for retailers and government planners alike. Franklin County is now the largest county in Ohio, and our metro area is the fastest growing in the Midwest. The economic landscape also continues to change throughout the country, so our growth provides both challenges and opportunities, and it is important that we plan deliberately for the economy we want to see in our community.

As much as any other sector of the economy, retail drives Franklin County. Sales tax receipts make up about half of the county's General Fund, a percentage that is likely to increase as we continue to see cuts in state funding for local governments. Supporting innovation and expansion in retail will continue to be important to supporting the Central Ohio economy as we continue to work to make our community attractive to new and expanding businesses.

Innovative initiatives like our Smart Works suite of economic development programs are helping to spur continued growth in retail while also growing jobs for county residents. Energy Works helps local companies to reduce their environmental impact while saving money by offering lowinterest loans for green energy improvements. People Works connects county social services clients with businesses that are looking for a trained workforce, and Infrastructure Works helps other local governments to build new, lasting physical infrastructure to support development. Our Economic Development and Planning Department administers these initiatives, and is making a genuine difference in the business and retail landscape.

Thank you again for your interest in this report, and for all that you do for your businesses and our community.

Sincerely,

John O'Grady
President

Marilyn Brown

Kevin L. Boyce

The Franklin County Board of Commissioners

INTRODUCTION

Once upon a time, we lived in a society where as an area's population and economy grew, so did its retail sales, retail real estate and retail employment. This started to change with the introduction of e-commerce, first with books and music, and then electronics. People still need to try on clothes and shoes, right? That domino began to fall, too. Well, we'll always have groceries, except that Amazon just...

Since the early 2000s, there has been a de-coupling of the various components of the retail economy, where sales, real estate, employment and - for Ohio and its counties - sales tax revenue correlate less and less. Even among retailers and within retail real estate, there is greater differentiation by quality or business model: the prime shopping centers separate themselves from the pack; Ikea and Zara continue to open stores despite the bad news around the industry.

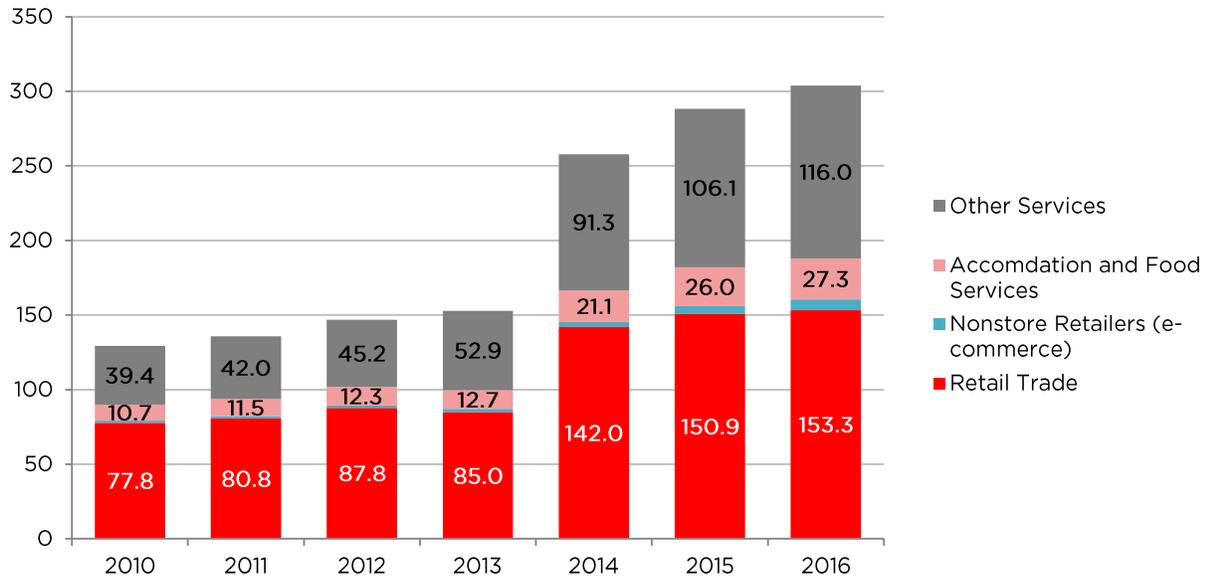
This report covers trends in retail sales tax, employment, and real estate. Key highlights include:

- Franklin County bricks-and-mortar retail sales tax revenue grew by 1.6 percent from 2015 to 2016, a marked slowdown from the previous year's 6.3 percent growth.
- Improved online sales tax collection in Ohio is providing a new source of revenue growth. For the first time, this report breaks out non-store retail tax revenue from the rest of retail trade. Despite its much smaller share, non-store retail saw almost as much revenue growth (\$2.1 million) as did bricks-and-mortar retail (\$2.4 million).
- Bricks-and-mortar retail's share of county sales tax revenue was barely a majority in 2016 (50.4 percent) and will likely fall below that for the first time ever in 2017.
- After a small recovery from 2011 to 2014, retail employment in Franklin County has decreased slightly, in contrast to e-commerce-driven employment growth in transportation and warehousing. Seasonal employment effects highlight the increasing retail-oriented nature of logistics.
- Retail vacancy rate in the Columbus market ticked up from a low of 5.4 percent in Q3 2016 to 6.7 percent in Q1 2017. Rents show some sign of softening and are at their lowest levels since 2012.
- The national picture for retail employment and real estate shows the industry will have to continue to adapt to e-commerce, by both providing a differentiated experience from online and working in tandem through omnichannel. Retail employment in particular may face new challenges with increasing technology and automation.

SALES TAX REVENUES

Franklin County’s overall sales tax revenue, not including COTA’s share, totaled \$303.9 million in 2016, 5.5 percent higher than the 2015 revenue of \$288.2 million. Revenue from retail trade, excluding non-store retail such as e-commerce, grew just 1.6 percent from \$150.9 million to \$153.3 million, compared to 6.3 percent growth between 2014 and 2015. Revenue growth was slower across other categories as well.

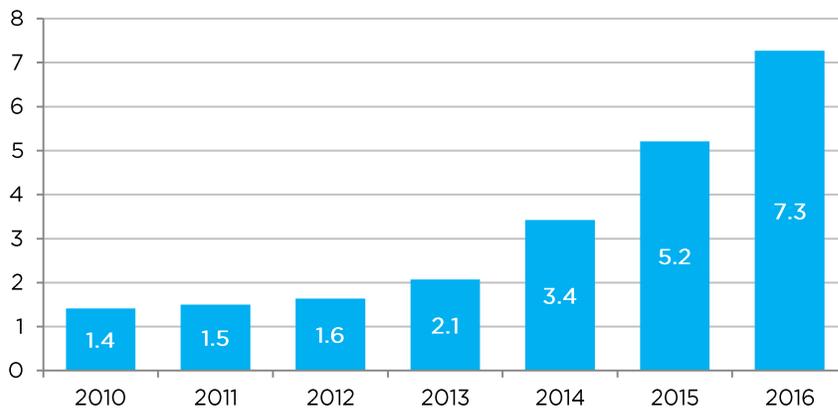
FIGURE 1: SALES TAX REVENUE (\$ MILLION), FRANKLIN COUNTY



Source: Ohio Department of Taxation

Revenue from non-store retail grew 39.6 percent between 2015 and 2016. Expanded and improved tax collection from online sales in Ohio has driven up revenue from non-store retail in recent years, though there likely remains a significant share of sales where taxes go uncollected.

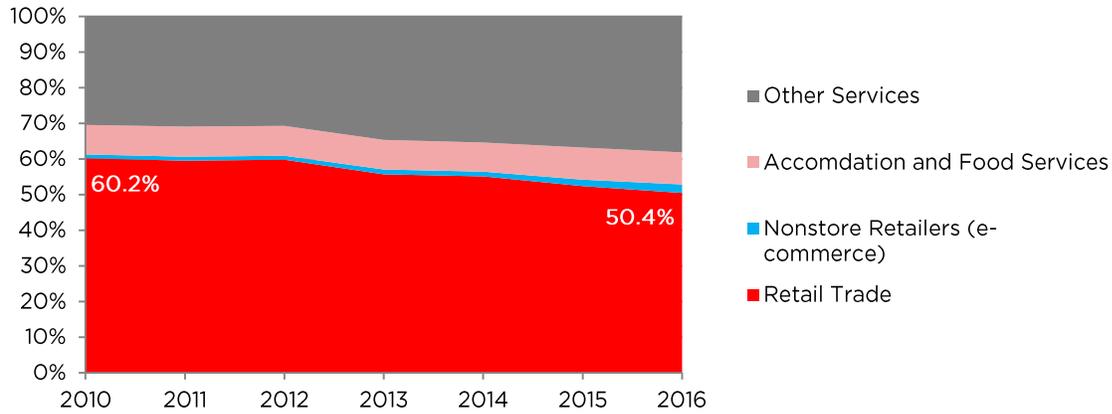
FIGURE 2: SALES TAX REVENUE FROM NON-STORE RETAIL (\$ MILLION), FRANKLIN COUNTY



Source: Ohio Department of Taxation

With the continued shift in the composition of the sales tax base, Franklin County’s revenue from bricks-and-mortar retail is now roughly half of total revenues and will likely shift to a minority share this year.

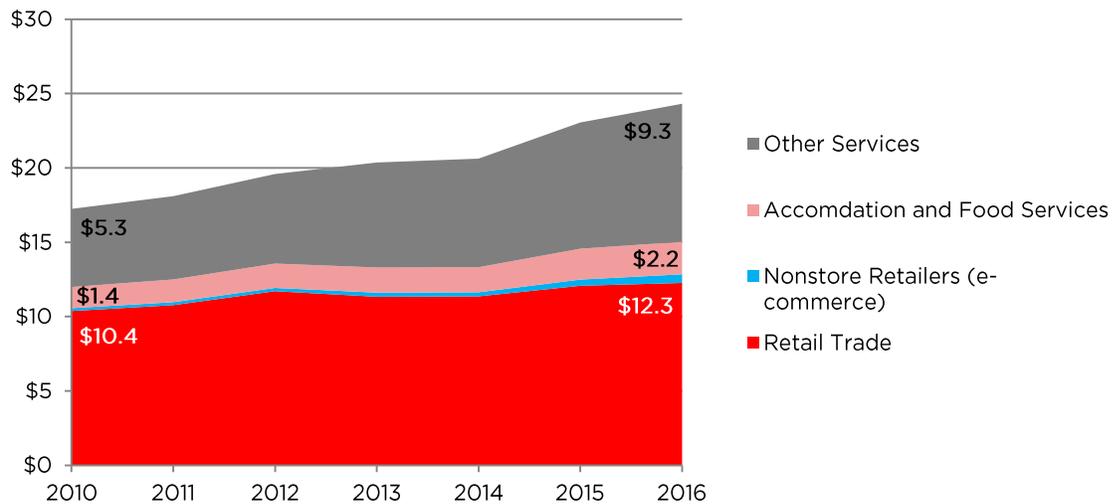
FIGURE 3: RETAIL AND ACCOMMODATION & FOOD SHARE OF FRANKLIN COUNTY SALES TAX REVENUE



Source: Ohio Department of Taxation

Franklin County’s retail sales tax base grew from \$12.07 billion in 2015 to \$12.26 billion in 2016, an increase of just \$191 million. In comparison, other services beyond retail and accommodation and food services grew from \$8.49 billion to \$9.28 billion, a \$792 million increase quadruple that of retail.

FIGURE 4: SALES TAX BASE (\$ BILLION), FRANKLIN COUNTY

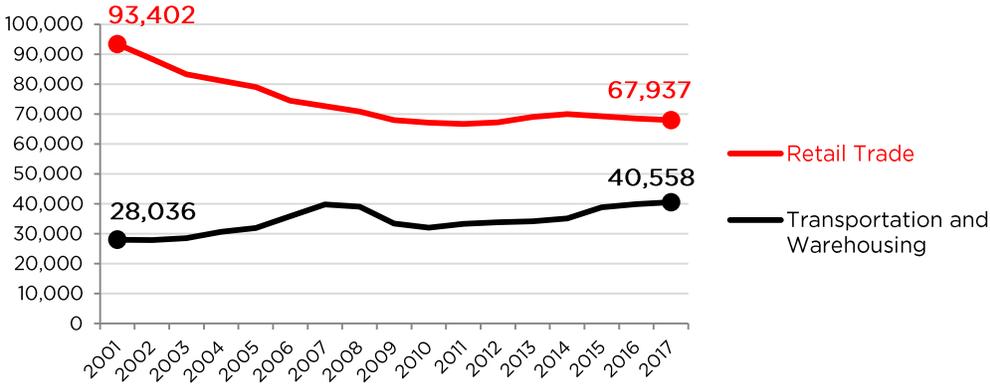


Source: Ohio Department of Taxation

EMPLOYMENT

Retail employment in Franklin County is estimated currently at 67,937, on a slight downward slide since 2014. Employment in transportation and warehousing, a major beneficiary of the e-commerce boom, continues to grow and has now surpassed its 2007 pre-recession peak.

FIGURE 5: EMPLOYMENT IN RETAIL AND TRANSPORTATION & WAREHOUSING, FRANKLIN COUNTY

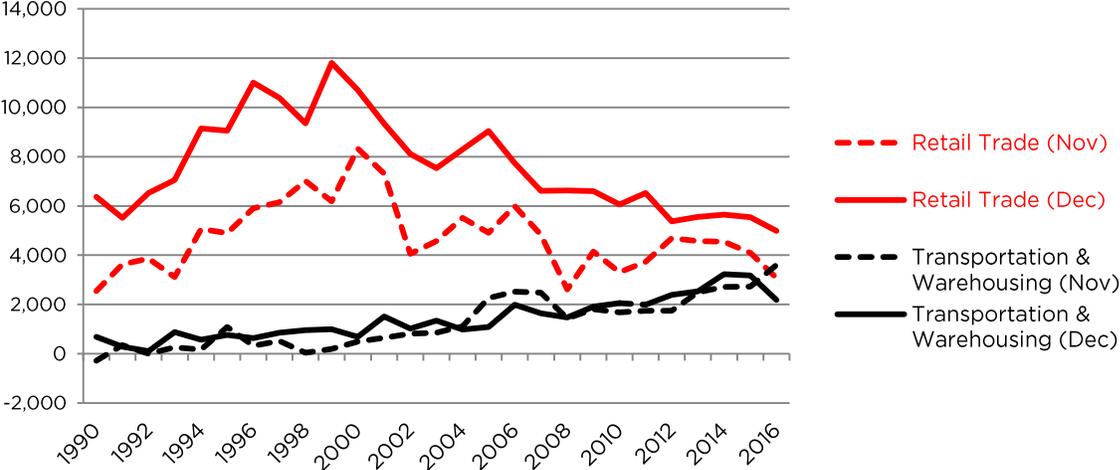


Source: EMSI

As retailers use third-party logistics providers for parts or all of their e-commerce, what one might consider retail employment is increasingly shifting over to transportation and warehousing. A key indicator is the seasonality of employment in each industry. After peaking at 12,000 in December 1999, the net seasonal employment effect on the Columbus metro’s retail industry shrunk to below 5,000 in December 2016. Meanwhile, seasonality which barely existed in transportation and warehousing in the 1990s continues to grow. Interestingly, 2016 marked the first time since 2007 that the December net effect fell below that of November.

After a debacle of holiday shipping delays in 2015, retailers and logistics companies may have stepped back a bit from just-in-time shipping and ramped up activities earlier.

FIGURE 6: NET SEASONAL EMPLOYMENT* IN NOVEMBER AND DECEMBER, COLUMBUS MSA



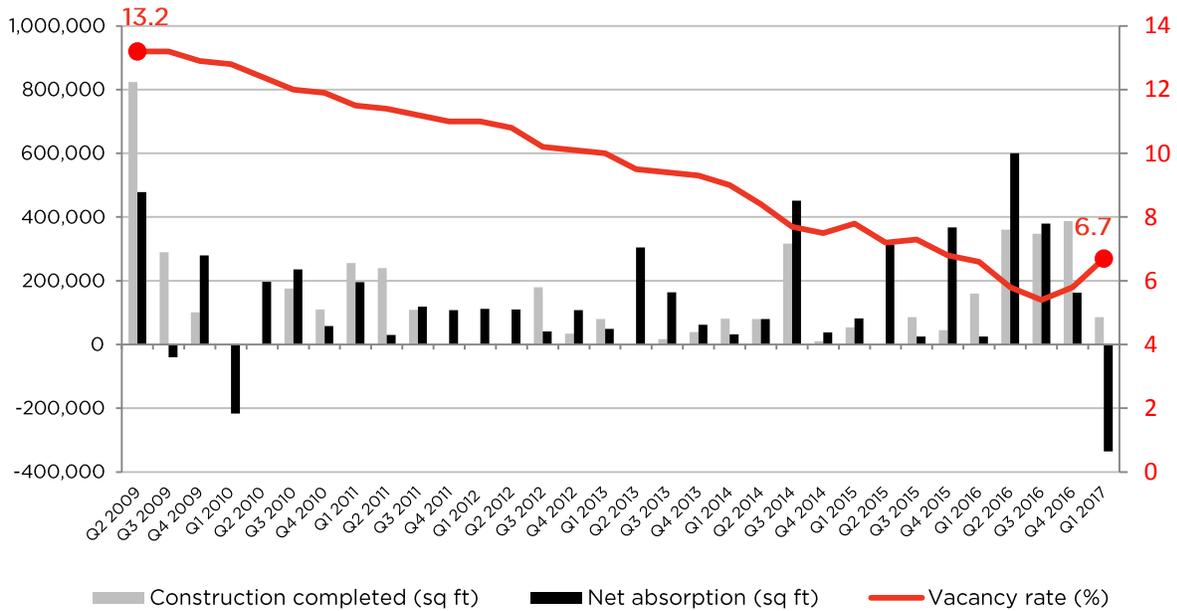
Source: U.S. Bureau of Labor Statistics, Columbus 2020

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

REAL ESTATE

After hitting a low of 5.4 percent in Q3 2016, the retail vacancy rate in the Columbus market (Franklin County and adjacent six counties) crept back up to 6.7 percent in Q1 2017 with recent completions outpacing absorption.

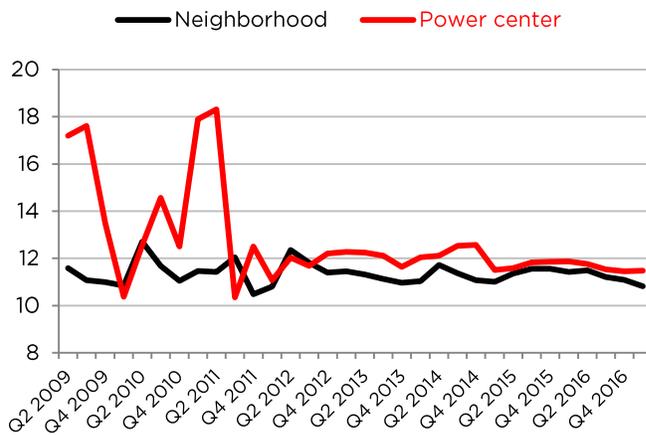
FIGURE 7: RETAIL CONSTRUCTION, ABSORPTION AND VACANCY, COLUMBUS MARKET, Q2 2009-Q1 2017



Source: Colliers International

Even when the retail vacancy rate was falling, rents did not rise, likely reflecting a long-term shift in the market due to pressure from e-commerce. As the rate has ticked up in the past year, rents have trended downward to \$11.48 per square foot for power centers and \$10.82 per square foot for neighborhood centers, their lowest levels since early 2012.

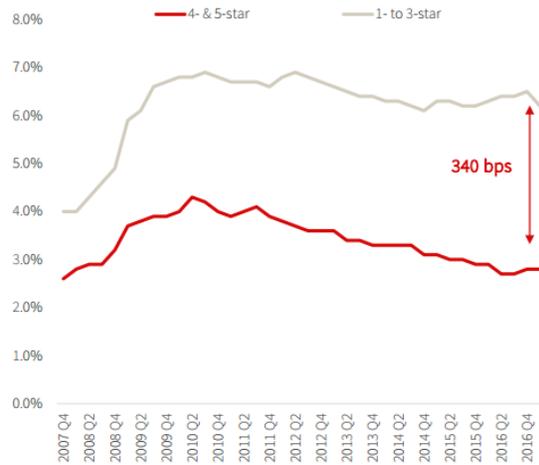
FIGURE 8: RETAIL AVERAGE ASKING RENTS (\$/SF), COLUMBUS MARKET, Q2 2009-Q1 2017



Source: Colliers International

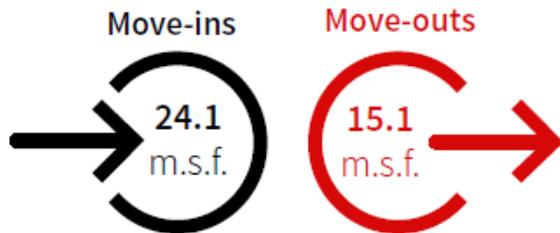
Jones Lang LaSalle’s Q1 2017 Retail Outlook dives deep into what is happening with retail real estate across the U.S. and reveals an increasing differentiation depending on the quality of the product. For instance, before the last recession, the top-tier malls on average had a vacancy rate 1.5 percentage points lower than other malls. With a growing premium on quality, this gap has increased to about 3.5 percentage points. This divergence can be seen with local shopping centers, such as the thriving Easton Town Center versus many of the other malls in the area.

FIGURE 9: VACANCY RATES OF PRIME VERSUS NON-PRIME MALLS, U.S., Q4 2007-Q4 2016



Source: CoStar, Jones Lang LaSalle

FIGURE 10: MALL SQUARE FOOTAGE OPENED OR CLOSED, U.S., Q2 2016-Q1 2017



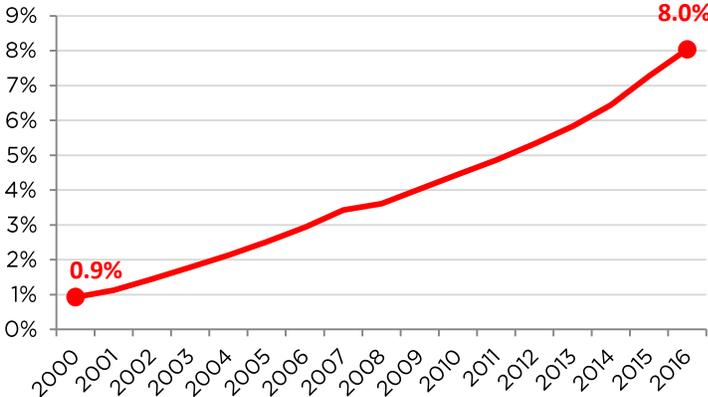
Source: CoStar, Jones Lang LaSalle

The JLL outlook also highlights that square footage of new stores in malls far outpaced the space vacated during Q2 2016 to Q1 2017, a finding that appears at odds with headlines around retail’s decline and pictures of empty, zombie malls. An explanation lies in real estate location and product. Much of the move-in activity is happening in new or newly refurbished malls, while the move-outs are more concentrated in outdated centers that are: a) falling behind in design, upkeep and tenant mix, b) located in areas where demographics have shifted unfavorably for retailers, or c) competing with newer or better retail real estate product elsewhere.

E-COMMERCE TRENDS AND IMPACTS

According to the U.S. Census Bureau, e-commerce’s share of national retail sales has risen from 0.9 percent in 2000 to 8.0 percent in 2016. In the fourth quarter of 2016, which includes holiday sales more oriented toward online retail, e-commerce accounted for 9.4 percent, up from 8.6 percent in fourth quarter of 2015. 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.

FIGURE 11: E-COMMERCE SHARE OF RETAIL SALES, U.S., 2000-2016



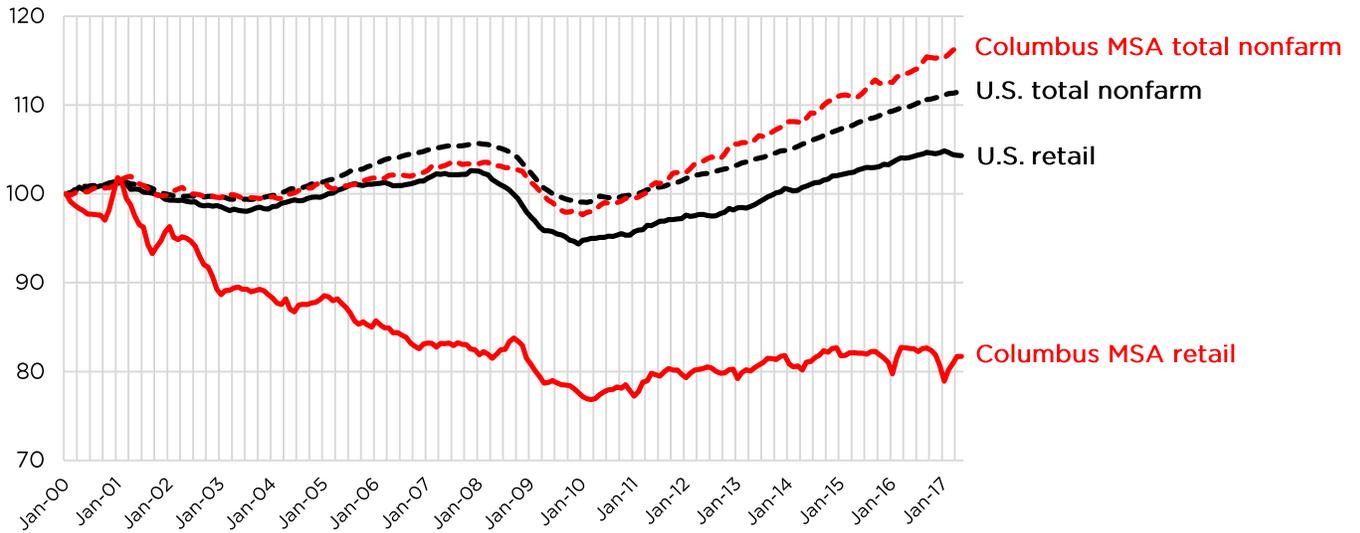
Source: U.S. Census Bureau

The year 2017 started with many headlines across the country about the “retail apocalypse”, as the list of store closures grew and retail employment in the U.S. fell by 80,000 from January to May 2017. Breaking through the clutter of media coverage, here are some clarifying points about retail employment across the U.S. and locally.

1. Most of the employment decline occurred in the first couple months of the year and has since stabilized to some extent. While this is not the best news, the start of 2017 was likely a significant market correction rather than a long-term acceleration.
2. A drop in national retail employment is rare in a non-recession period, but it has happened before. Again, not the best news, but not necessarily an apocalypse.
3. This is not a new trend. Growth in retail employment has been slow relative to the overall economy for years (Figure 12, next page).
4. Locally, Franklin County and the Columbus metro already went through major market corrections in retail during the previous decade. Despite some prominent store closures recently, the overall employment effect locally appears moderate relative to the U.S. Currently, Franklin County is under-retailed relative to the U.S., or at least less over-retailed in the face of oncoming e-commerce.
5. The latest decline in U.S. retail employment did impact a greater swath of retail categories, meaning there were fewer areas of retail growth to make up for the losses (Figure 13, next page).

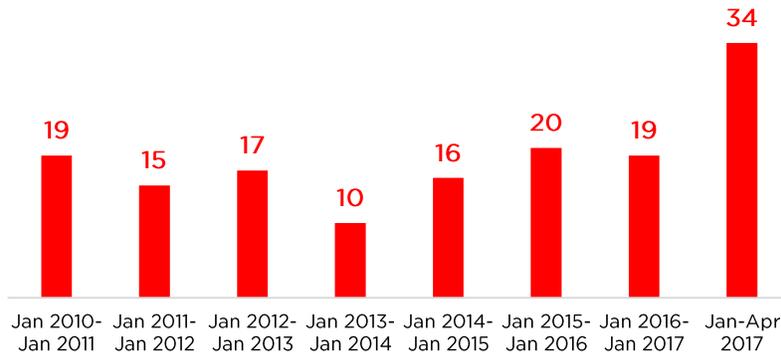
Overall, it appears that the latest drop in U.S. retail employment is actually a continuation of trend, though obviously one with ramifications across many communities. In addition to e-commerce growth, technology and automation will further contribute to the decline in retail employment, though not necessarily affecting retail real estate or sales in the same way.

FIGURE 12: RETAIL AND TOTAL EMPLOYMENT INDEX (JAN 2000 = 100), COLUMBUS MSA AND U.S., JAN 2000-MAY 2017



Source: U.S. Bureau of Labor Statistics, Columbus 2020

FIGURE 13: NUMBER OF THE 52 DETAILED RETAIL INDUSTRY CODES (6-DIGIT NAICS) WITH DECREASE IN U.S. EMPLOYMENT DURING PERIOD



Source: U.S. Bureau of Labor Statistics, Columbus 2020

FRANKLIN COUNTY RETAIL REPORT 2017

Prepared by Jung Kim, Managing Director of Research, Columbus 2020

As Managing Director, Jung Kim leads the research team, which conduct 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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FRANKLIN COUNTY RETAIL REPORT 2017

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. John O'Grady, Marilyn Brown and Kevin L. Boyce 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 OF COMMERCE

The Columbus Chamber of Commerce is a resources-based non-profit organization serving nearly 1,400 member organizations in Central Ohio. Providing support in areas such as research, marketing, talent advisement, networking, and government affairs, the Chamber has been helping businesses thrive since its founding in 1884.

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