

MARKETBEAT

Louisville

Retail Q2 2017



ECONOMIC INDICATORS

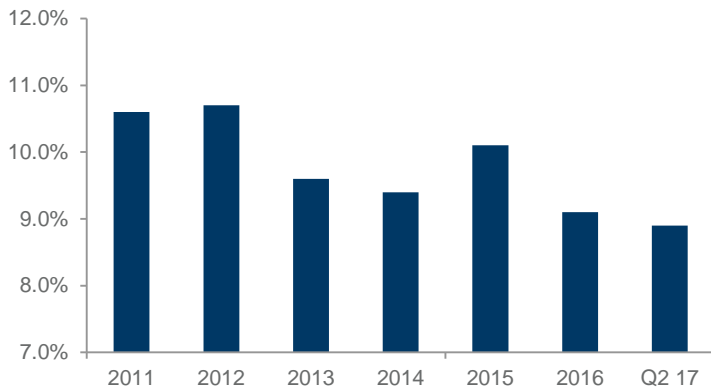
National	Q2 16	Q2 17	12-Month Forecast
GDP Growth	1.3%	2.3%	▲
CPI Growth	1.1%	1.9%	▲
Consumer Spending Growth	2.7%	2.7%	▼
Retail Sales Growth	2.2%	4.0%	■

*Forecast by Cushman & Wakefield. Values represent year-over-year % change.

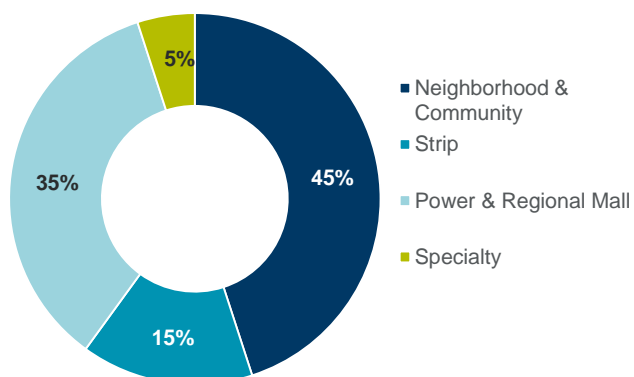
Regional	Q2 16	Q2 17	12-Month Forecast
Household Income	\$55,253	\$56,387	▲
Population Growth	0.5%	0.5%	▲
Unemployment	4.3%	4.2%	■

* Source: Moody's Analytics

Overall Vacancy Rate



Inventory by Type



Market Overview

The retail landscape in the Louisville, KY Metro area reflects the national trend of slow growth for retail projects, with some properties facing store closures throughout the Metro area. The lack of speculative retail development has led to a decrease in the overall market vacancy rate to 8.9% for mid-year 2017.

Most of the retail absorption in the first half of 2017 has come from existing tenants expanding their footprints in the Louisville Metro area. Most importantly, Kroger continues to expand footprints in Southern and Eastern Jefferson County, as well as in Southern Indiana. The other large leases completed in the first half of 2017 were primarily entertainment oriented projects that were located in second generation spaces. Floor and Décor absorbed the JC Penney site on Preston Highway. This gives them a central location that attracts homebuilders and homeowners from around the metropolitan area.

Currently, the only large speculative development is the Southpoint Commons, a 363,000-square foot (sf) lifestyle center located in Southern Jefferson County. As of yet, Southpoint Commons has not announced their anchors, though they do have architectural renderings of the facades and site plans that they are using to attract anchor and inline tenants for the development.

There are three long-proposed retail developments in northeastern Jefferson County, none of which have tentative start dates at this time. This speculative activity is difficult to compete in a sluggish retail environment that has national chains filling spaces left by bankruptcy and store closures throughout the country. There is enough retail activity in the Louisville Metro area to backfill well-located retail space. However, this sluggish environment does provide a severe challenge for new and speculative retail development.

Two large retail developers acquired land by the 6,000-acre RiverRidge Industrial Park located in Southern Indiana. This land is likely to become large retail centers servicing the ongoing development and expansion of RiverRidge. Neither of these developers have announced retailers that have signed leases for these land sites, as of this date. As RiverRidge continues to develop into a large employment center, these sites would be logical for new retail development.

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Rental rates in the metro area have remained stable with the highest rents in the market still at \$30 per square foot (psf). The average rent for inline grocery-anchored centers continued to be \$18 to \$24 psf, and service retail small space continues to command \$10 to \$12 psf during the first half of 2017. The vacant KMart building on Poplar Level Road has asking rents from \$8 psf for the space. Rents for second and third generation large box space continue to stay in the high single digits in an attempt to attract large box users to backfill these large retail buildings.

The sales activity for retail properties in the Louisville Metro area has slowed down in the first half of 2017. The Shoppes at Forest Green, a 47,000-sf retail strip center off Hurstbourne Parkway in Louisville, sold for \$144 psf in April of 2017. Another small retail center, a 15,000-sf property located off Brownsboro Road in northeastern Jefferson County sold for \$193 psf - the highest price per sf for retail property so far in 2017. The former KMart building in New Albany, Indiana was acquired by a local construction company with plans for speculative retail development and backfill for this 90,000-sf property.

At the very end of 2016, Norton Healthcare purchased a retail center in the Dupont area. Norton plans to demolish and build more medical office buildings on this retail site near their existing Suburban Hospital campus.

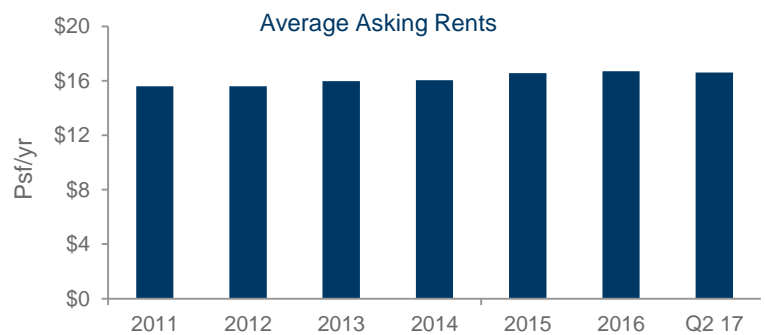
The Sears Building and Macy's Building at the Jefferson Mall were sold directly to the mall owner, CBL & Associates Properties, in January of 2017 for \$90 psf. CBL plans to redevelop the buildings upon the closure of Sears.

Outlook

The retail landscape in Louisville continues to be vibrant, albeit cautious, because of the national retail landscape. Well-located centers continue to demand increasing rental rates and have enjoyed high occupancy levels, and should continue to do so for the near future.

Speculative retail development has slowed to a crawl and is forecasted to remain cautious for the foreseeable future. Buyers continue to be attracted to Louisville because of the 100 basis point cap rate swings that they can achieve in Louisville versus other first tier markets. However, retail investors have become very selective in the type of assets they are looking to acquire. Retail buyers continue to be very aggressive in grocery-anchored retail centers. With secondary retail, or retail centers that have vacancy or near term roll-over, buyers have become very cautious. Buyers seem to be most aggressive in grocery-anchored retail centers or retail centers that would be sold at a deep discount that offer the buyer a deep value-add opportunity by redeveloping and re-tenanting those centers.

Economic indicators for the remainder of 2017 should continue to stabilize the Louisville Metro retail landscape with the backfilling of vacating national retailers and tenant expansion in the areas of Louisville that are experiencing employment growth.



About Cushman & Wakefield

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