

MARKETBEAT

Louisville

Retail Q4 2016



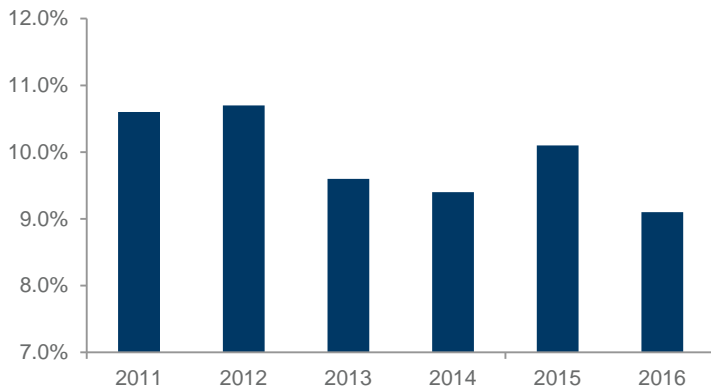
ECONOMIC INDICATORS

| National | | | |
|--------------------------|-------|--------|-------------------|
| | Q4 15 | Q4 16* | 12-Month Forecast |
| GDP Growth | 1.9% | 1.8%* | ▲ |
| CPI Growth | 0.4% | 1.6% | ▲ |
| Consumer Spending Growth | 2.6% | 2.8%* | ▼ |
| Retail Sales Growth | 2.0% | 4.0% | ▲ |

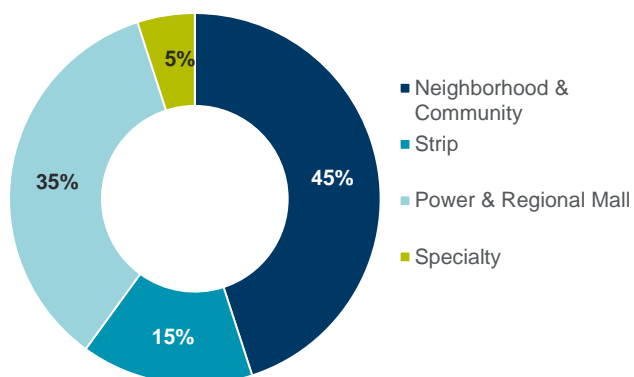
| Regional | | | |
|-------------------|----------|----------|-------------------|
| | Q4 15 | Q4 16 | 12-Month Forecast |
| Household Income | \$53,670 | \$56,187 | ▲ |
| Population Growth | 0.5% | 0.5% | ▲ |
| Unemployment | 4.8% | 4.0% | ■ |

* Source: Moody's Analytics

Overall Vacancy Rate



Inventory by Type



Market Overview

Retail real estate activity in Louisville continues to reflect stabilized occupancy levels with limited new development coming online in the metropolitan area. The overall market vacancy for retail space measured 9.1% at year-end 2016.

In 2016, Louisville Metropolitan area retail absorption reported approximately 635,840 square feet (SF). Two large leases were part of this absorption. The second Costco Wholesale Club in the metropolitan area moved into 3408 Bardstown Road occupying 153,000 SF, spurring some additional ancillary development along Bardstown Road just south of I-264. Retailers in this area are attracting residents from the densely-populated Highlands trade area where no large land tracts are available. Also experiencing large box retail absorption is Blankenbaker Business Center in eastern Jefferson County, which absorbed Malibu Jacks and the XEscape Movie Theater complex. There have been a number of entertainment-anchored retail tenants locating here due to the convenience of the easy interstate access of I-64/Blankenbaker Parkway interchange and excellent visibility along heavily travelled I-64.

Two large tenants continue to expand their footprint in the metropolitan area. Kroger expanded the Holiday Manor store, located on Brownsboro Road, to 120,000 SF and looks to expand other smaller footprints to meet their new large format size in the Louisville marketplace. Kroger did, however, close one store on north Dixie Highway, in Shively, which it occupied for approximately 50 years, and just announced the planned closing of another store located at 924 S. Second Street. Small retail expansions are being added to retail centers in Forest Springs, Middletown Crossing and the Shoppes of Middletown. These small developments range in size from 10,000 SF to 22,400 SF, mostly delivering inline space at market rents above \$20.00 per square foot (PSF). Kmart announced the closing of their last store in the Louisville area which is located at New Cut Road and Outer Loop. This marks the closure of three Kmart stores in the Louisville area since June of 2016. Macy's also announced the closing of their Jefferson Mall store. However, the mall developer quickly announced that they were acquiring this building for redevelopment for other tenants that would occupy this anchor position.

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Walmart's development on Outer Loop across from the Jefferson Mall opened in mid-November 2016. Additionally, the retailer expanded a new store at Crestwood in Oldham County, while continuing to look for large land parcels in an effort to fill in the Louisville metropolitan marketplace. Target moved out of 112,000 SF at 9070 Dixie Highway, leaving an opening for a number of large footprint tenants on south Dixie. EarthFare moved out of 24,380 SF at the Paddock Shops. However, this space was quickly filled by national retailer, Total Wine & More's first store in the Louisville retail marketplace. Menards announced that their second store in the Louisville retail trade area will be located in the southern part of Jefferson County. Menards continues to try to find retail land to add their large home improvement retail stores in the Louisville trade area. Fresh Thyme Farmers Market opened in St. Matthews and continues to scout additional sites for more locations in Jefferson County. Devonshire REIT announced plans for their 31 acres off Bardstown Road near the Gene Snyder Freeway, but remains quiet on retail tenants that will be anchoring this 221,000-SF retail strip center.

The Louisville retail market continues to attract national tenants that have expansion opportunities in the region such as Total Wines & More, Malibu Jacks and Fresh Thyme Farmers Market. With limited new speculative retail development planned, the Louisville marketplace should continue to provide stable occupancy rates and stable or rising rental rates for retail property owners in the Louisville Metropolitan Area.

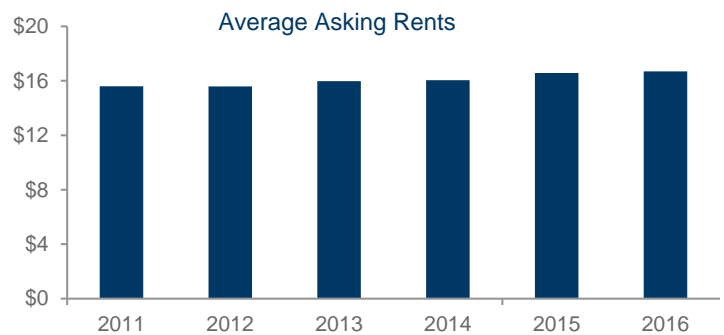
The completion of two major bridge projects, one in the Central Business District and one in far eastern Jefferson County, have changed some driving patterns for worktime commutes. These new routes should make traffic flow much easier around the metropolitan area while creating some retail opportunities, especially in the east end where easy access to and from southern Indiana is now available.

Investors continue to be attracted to the stabilized occupancy and rental rates in the Louisville metropolitan area. In May of this year, Westport Village was sold for \$23.8 million (or \$136 PSF) to a Georgia-based retail investor. The free-standing CVS off of Highway 22 also traded in June for a whopping \$443 PSF. These 2016 transactions give investors continued confidence that Louisville can attract investors seeking stable, well-located retail properties providing good returns.

Outlook

Louisville retail owners should expect upward pressure on rents given the lack of new or speculative retail development. Class A well-located centers have been able to increase rents at a rate of 2% to 4% on an annual basis while recording steady demand for prime locations. Cap rates for grocery-anchored retail centers should hover around 6.0%. Unanchored strip centers are trading at cap rates between 7.5% and 9.0% depending upon lease terms and tenant credit. Historically, these are all-time low cap rates for retail centers in the Louisville Metropolitan area.

The remainder of 2016 should continue to reflect positive absorption and lower vacancy rates given the lack of new speculative retail development. Retail tenants looking to find well-located retail space in Louisville will generally be willing to pay more than they have previously in Louisville to find the right retail locations in their targeted submarkets.



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