

MARKETBEAT

Louisville

Retail Q2 2018



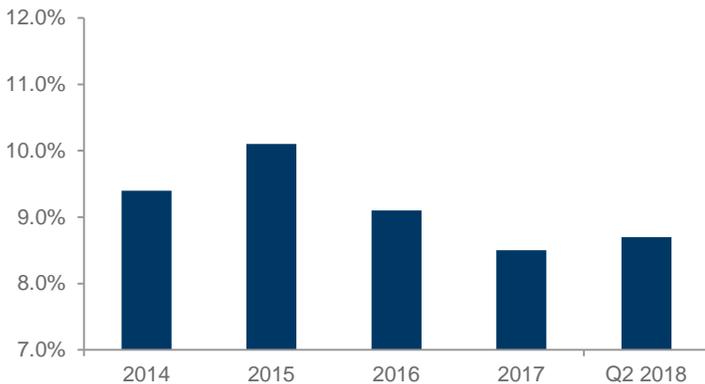
ECONOMIC INDICATORS

National	Q2 17	Q2 18*	12-Month Forecast**
GDP Growth	2.2%	3.0%	▲
CPI Growth	1.9%	2.8%	▲
Consumer Spending Growth	2.7%	2.5%	▲
Retail Sales Growth	4.3%	5.3%	▲

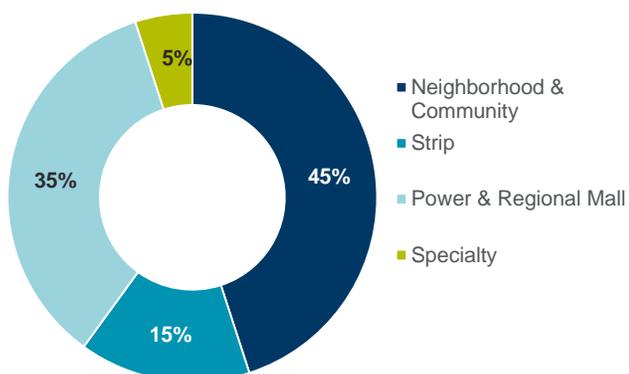
Regional	Q2 17	Q2 18	12-Month Forecast
Household Income	\$56,560	\$57,964	▲
Population Growth	0.5%	0.4%	▼
Unemployment	4.3%	3.6%	▼

Source: Moody's Analytics

Overall Vacancy Rate



Inventory by Type



Market Overview

Following larger regional and national trends, local landlords are shifting away from traditional store models in favor of entertainment and experiential retail concepts. This shift is present both in Louisville's downtown Central Business District (CBD) as well as in suburban submarkets.

Significant new construction and redevelopment of historic properties continue at a brisk pace in the CBD, driven largely by tourism and convention-related dollars. Major bourbon distillers, such as Brown Forman, Heaven Hill and Beam Suntory brands have opened new distilleries, museums and tasting rooms downtown, providing thousands of visitors each year a unique opportunity to experience the bourbon distillation process from start to finish. Additionally, The Kentucky International Convention Center is in the final stages of a \$200 million renovation, with a number of significant trade shows and conventions already scheduled for the third and fourth quarters of 2018.

Hospitality developers are looking to profit from the increased traffic downtown, with several substantial projects recently completed and delivered to market. Near the convention center, the new 30-story Omni Louisville Hotel added 612 new guest rooms and suites, 70,000 square feet (sf) of meeting and event space and over 20,000 sf of street level restaurant and retail space. In the trendy NuLu neighborhood of downtown, the new AC Marriott added 156 guest rooms, bringing visitors closer to some of the city's best restaurants, art galleries, bars and lounges. On Main Street in the heart of Louisville's "Whiskey Row", the dual-branded Marriott Hotel Moxy and Hotel Distil are under construction with an additional 315 rooms, restaurant space and rooftop lounge areas set for delivery early next year.

In the eastern Louisville suburbs, big changes are happening at both Mall St. Matthews and Oxmoor Mall. At Mall St. Matthews, Dave & Busters is taking 40,000 sf of second floor department store space most recently occupied by Forever 21; this follows the recent addition of a 12-plex cinema at the property. At Oxmoor Mall, Topgolf has proposed their first Louisville location on the site of a Sears box that has gone dark. As part of the Topgolf redevelopment, plans have been filed for 34,000 sf of new speculative space to accommodate three new restaurants, all with outdoor dining areas. At Jefferson Mall in south Louisville, Round1 Bowling & Amusement is making their entry into the market, converting a former Macy's location into a new entertainment and restaurant venue in time for the Christmas shopping season.

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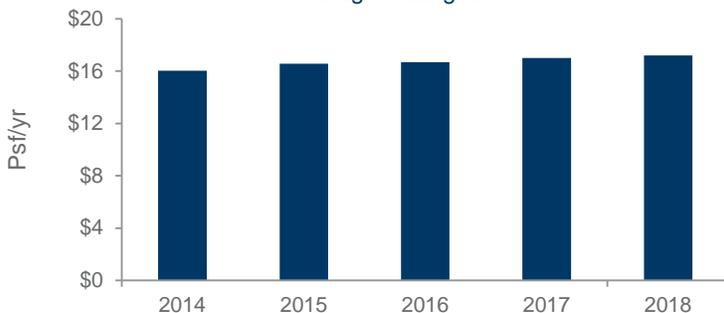


In southeast Louisville's Fern Creek, speculative development work continues at SouthPointe Commons, a new 363,000-sf lifestyle center. Lowe's will anchor the roughly \$80 million development, the first phase of which is set to open in spring of 2019. Across the Ohio River in southern Indiana, Kroger has opened a new 90,000 sf "marketplace" store at Jeffersonville Commons, a new 50-acre retail development near the River Ridge Commerce Center, a major office and industrial park home to over 8,500 employees daily. As the park continues to grow and add employees, we project this area will continue to attract new retail developments. Two other southern Indiana retail projects, Jefferson Ridge and Bridgepointe Commons, have also broken ground nearby and are in the early stage of construction.

Rents remain strong and stable in high-demand locations – along the highly-trafficked Shelbyville Road corridor in eastern Louisville as well as downtown Louisville, the most sought-after locations are closing in on \$30.00 per square foot per year (psf). Inline rents of 2,000 sf in commercial strip properties in the eastern and northeastern submarkets average \$16.00 psf. In the southern and southwestern submarkets, rents for similar properties are slightly lower at \$14.00 psf. Softness continues for asking rents on vacant big box sites, ranging between \$6.00 - \$8.00 psf.

Total sales volumes for retail properties remain relatively tepid, although there is still significant investor interest for corporate backed, single tenant net leased properties. Cap rates for these types of properties are still fairly common in a range between 5.5% and 6.0%. We see much less investor demand for multi-tenant strip centers, with corresponding cap rates typically trending above 8.0%.

Average Asking Rents



Outlook

The outlook for the larger Louisville economy remains positive, with steady population growth, job and wage growth, and total economic performance in the metropolitan area that continues to outpace the national average.

We expect retail vacancies to remain low and rents stable at prime locations in the CBD, eastern and northeastern submarkets where population densities and demographics income profiles remain strong. Conversely, lower-traffic, lower-density sites face challenges going forward with higher vacancy and lower rents projected for the near future.

With a limited inventory of new speculative development coming to market, the bulk of anticipated retail absorption is expected to come from tenant relocations, driven by landlord competition and incentivized rent packages including abated rent and increased tenant improvement dollars. Slow sales volumes seem likely to receive a shakeup in a rising interest rate environment, with a slight expansion in cap rates and compression in buyers' purchasing power destined to create positive friction in the market.

U.S. Trends

- While many retail categories are in contraction mode and some iconic retailers are facing major challenges, not all categories are shrinking.
- Dollar stores, discounters, off-price apparel concepts are aggressively growing.
- Food related retail remains in expansion mode, but growth is slowing.
- These trends have equated to tepid demand and an extremely bifurcated marketplace where Class A projects are accounting for nearly all of the nation's occupancy growth.

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