INVESTMENT FORECAST

Retail

Louisville

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Resilient Economy To Benefit From Broader Recovery; CBD-Adjacent Assets Draw Interest

Pent-up consumer demand driving fundamentals to historic levels. While the national retail sector has experienced widespread hurdles since the onset of the pandemic, Louisville has been largely unaffected, partially due to less stringent capacity restrictions and minimal construction activity. Entering this year, the metro boasted a vacancy rate 80 basis points below the 2019 figure, with the average asking rent up 14 percent over the past two-year stretch. Just five of the metro's 24 submarkets entered 2022 with a vacancy rate that exceeded their year-end 2019 recording, with three of those areas still reporting sub-4 percent availability. Hiring in the metro is increasing at a speed exceeding the 2019 rate, producing a metrowide headcount within 0.5 percent of the pre-pandemic peak by the end of this year. Recovering hiring trends will lead to more foot traffic in office hubs like South Central, aiding recovery in the metro's few lagging locales. These positive trends should continue, as the projects scheduled to open this year are not sizable enough to affect existing properties, leading to the lowest retail vacancy rate of all major metros here.

High yields and comparatively low entry costs keep investment market liquid. Retail assets in Louisville have similar cap rates to other regional metros like Cincinnati and Indianapolis, but lower entry costs. This creates an environment where more private investors can participate. Deal flow is highest in downtown-adjacent South Central and Old Louisville, with single-tenant assets making up the vast majority of transactions. Cap rates on these deals hover between mid-5 percent and low-7 percent, with sales prices most commonly below $5 million. Sales activity is also accelerating in the St. Matthews submarket, due to strong performance and retailer demand, resulting in a sub-2 percent vacancy rate here. Last year saw more trades in this locale than were recorded in 2019 and 2020 combined. Buildings occupied by national chain restaurants and local eateries on Bardstown Road have garnered much of the interest within this submarket.

2022 Market Forecast

Employment up 2.3% — A total of 15,000 new jobs will be added to payrolls in 2022, down from the 22,000 positions gained last year.

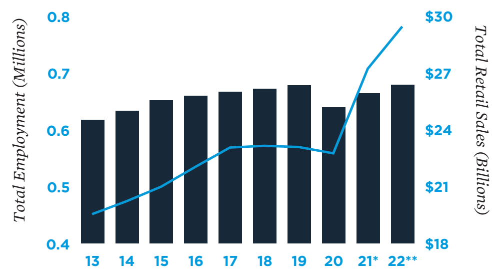
Construction 170,000 sq. ft. — About 45,000 more square feet will be delivered this year compared to 2021. Still, completions volume remains well below the annual market tallies from the last decade.

Vacancy down 30 bps — Net absorption will land roughly 200,000 square feet below what was recorded last year; this year's total, however, still roughly doubles deliveries, tightening vacancy to 2.7 percent.

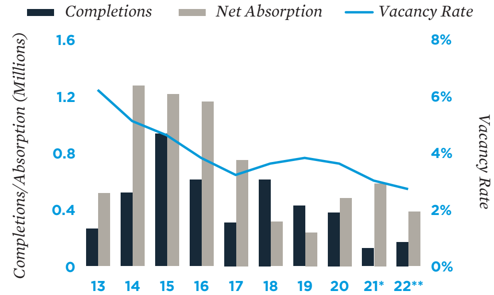
Rent up 4.4% — The average asking rent reaches $16.50 per square foot this year. This will be the third straight year of at least 4 percent growth and the sixth consecutive year of increase.

Investment — Revitalization efforts in South Clark County are catalyzing buyer interest as retail investors look to benefit from the addition of new mixed-use office and multifamily projects.

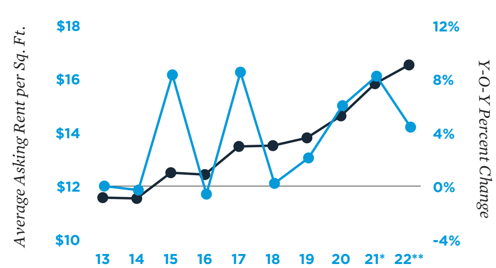
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.