

MARKET REPORT

Retail
Louisville Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

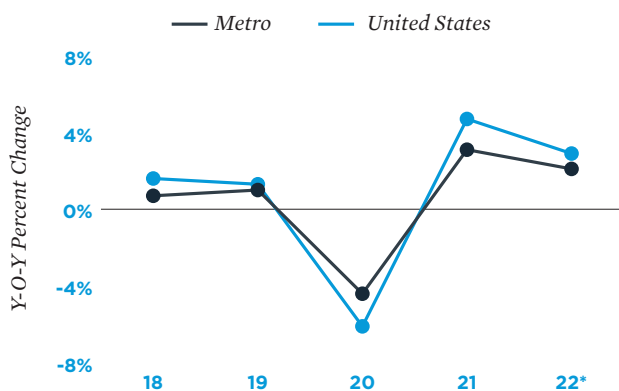
2Q/22

Suburban Retail Stands Out; New Vendor Entrances Signal Continued Success

Limited development sustains strong fundamentals. Following the smallest completion tally on record in 2021, builders continue to add space at a rate below the metro's historical norm. This is welcome news for retail owners, as construction will not greatly impact performance trends in the near term. The metro ended last year with a sub-3 percent vacancy rate, one of the lowest among major markets nationally. In March, the CBD, Southeast Louisville and Plainview-Middletown were the only submarkets with vacancy above 5 percent, but conditions are improving quickly in the latter, evidenced by a 250-basis-point drop in vacancy year-over-year.

Diversifying grocery segment to aid absorption. In 2021, a duo of grocery store brands signaled their intentions to expand into Louisville. Publix announced two store locations in the metro, one in Jefferson County and a near 60,000-square-foot facility in Springhurst. At the same time, Iowa-based Hy-Vee announced an expansion into Louisville, with a location on Bardstown Road planned for the first store. While neither of these companies plan on opening a location until 2023, new entrants in the grocery segment of the market will ultimately aid foot traffic at adjacent retailers. Additionally, local sit-down eateries have started to increase leasing activity, especially along The Dixie Highway in South Central and Shelbyville Road in St. Matthews. Farther along Shelbyville Road, more than half of first quarter net absorption stems from Shelby County, largely due to a 150,000-square-foot Walmart move-in here.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**14,000
JOBS**
will be created

EMPLOYMENT:

The metrowide employment count in Louisville is on pace to surpass the pre-pandemic high during this year. At the end of 2022, job creation will put payrolls roughly 5,000 workers ahead of the high observed in 2019.



**280,000
SQ. FT.**
will be completed

CONSTRUCTION:

Annual completions rise after fewer than 100,000 square feet was completed in 2021. This year's construction slate is still mild relative to prior periods, however, falling roughly 80,000 square feet below the five-year trailing average.



**0
BASIS POINT**
change in vacancy

VACANCY:

After falling to 2.9 percent in 2021, retail vacancy in Louisville will hold firm. This year and 2021 will be the only annual periods since 2007 to record retail vacancy below 3 percent, signaling a thriving retail environment for expanding vendors.

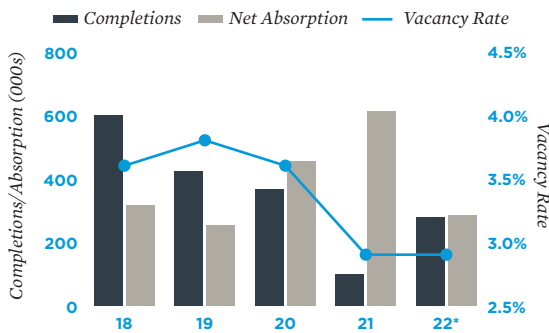


**1.0%
INCREASE**
in asking rent

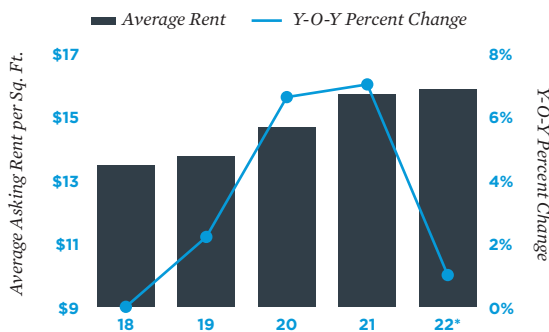
RENT:

Following the above-average 7 percent climb last year, per-square-foot asking rents are poised to reach \$15.85 in 2022. While this year's gain is tame, retail asking rents have climbed more than 15 percent in Louisville since the end of 2019.

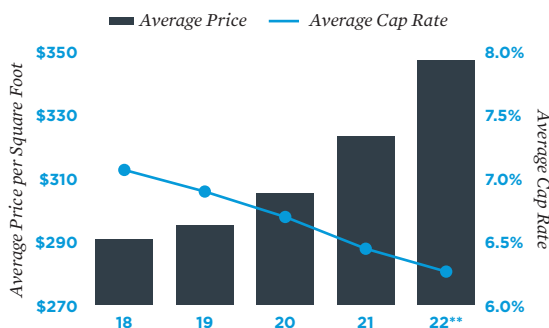
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

212,000 sq. ft. completed

- Builders expanded retail inventory by just 0.3 percent in the past 12 months, driven by 165,000 square feet in the first quarter of 2022.
- Developers have roughly 410,000 square feet in the pipeline, but one of the largest projects, the 360,000-square-foot Southpointe Commons along Bardstown Road, will not be completed until the first quarter of 2023.



VACANCY

50 basis point decrease in vacancy Y-O-Y

- Single-tenant vacancy retreated 80 basis points year-over-year to 2.8 percent in March. This rate is 180 basis points below multi-tenant availability, which reported a 20-basis-point contraction during the last 12 months.
- Despite sizable first quarter completions, the metro was able to trim vacancy to 3.2 percent in March.



RENT

4.5% increase in the average asking rent Y-O-Y

- Buoyed by an 8.3 percent lift in asking rents in South Central, the metro-wide average asking rate reached \$15.38 per square foot in March.
- Rental costs are growing rapidly in the metro's most expensive suburban submarkets. The average asking rent in St. Matthews is up more than 16 percent year-over-year at the end of the first quarter.

Investment Highlights

- More trades occurred during the last 12 months ended in March than in any annual period on record dating back to 2000. Both single-tenant and multi-tenant assets changed hands more frequently, but the largest increase was in the single-tenant segment. Cap rates above the national average led to increased out-of-state investment, aiding this sales climb.
- Single-tenant assets are trading with entry costs averaging \$450 per square foot and mean cap rates just below 6 percent during the last 12 months. South Central recorded the most such trades, with assets along the Dixie Highway responsible for much of the activity. Additional single-tenant transactions occur in St. Matthews and Old Louisville, usually involving national restaurant chains or auto parts services.
- Multi-tenant centers trade with significantly lower per-square-foot entry costs, at \$276, and cap rates roughly 80 basis points above single-tenant yields. Neighborhood and community centers trade frequently in South Central, particularly near Preston Highway. Per-square-foot pricing is well below the market average here, while multi-tenant assets in the most distant suburbs can have first-year yields as high as 8.5 percent. More modern neighborhood centers change hands often in Hurstbourne-Lyndon.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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