MARKET REPORT

Retail

Louisville Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

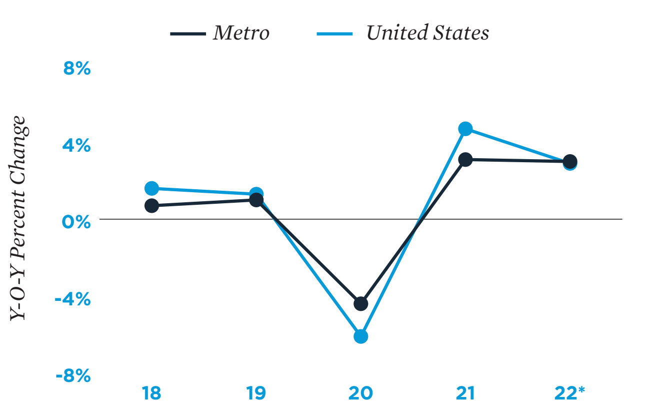
3Q/22

Metro Exhibits Bifurcated Availability Trends; Developers Bet on Suburban Spec Builds

Outlying conditions tightening as core vacancy backpedals. Many of this year's larger leases stem from value retailers, a promising sign for this sector as many consumers shift purchasing activity in response to inflationary headwinds. Leasing has been strongest in eastern Jefferson County, where Louisville's more affluent first-ring suburbs are located. Plainview-Middletown and Hurstbourne-Lyndon led in vacancy compression during the trailing year ended in June, with availability in these locales dropping by 340 and 140 basis points, respectively. Trends are less optimistic closer to the core. The CBD and Old Louisville reported three consecutive quarters of negative net absorption during the same period, driving availability to approach levels reported during pandemic peaks in both locales.

Speculative projects test retail performance. Developers are set to continue the tempered pace of inventory growth observed in the years leading up to the health crisis. The long-term construction schedule is under 470,000 square feet, with the overwhelming majority of this space pertaining to a neighborhood center underway in southeastern Jefferson County. Despite a narrowing pipeline, overall availability could see upward pressure from incoming supply. As of September, just over 10 percent of square footage underway is accounted for. Among nearby major markets, preleasing rates generally exceed 60 percent. On a brighter note, supply additions to the urban core and adjacent zones will be minimal for the foreseeable future, mitigating upward pressure on vacancy here.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

20,000 JOBS
will be created

EMPLOYMENT:

As of September, the metro's employment base is still on track to make a full recovery from pandemic losses before the close of the year. Firms are projected to expand staffing counts by 3.0 percent in 2022.

280,000 SQ. FT.
will be completed

CONSTRUCTION:

Development is set to increase after a record low of 100,000 square feet was finalized in 2021, but construction is trailing the historical pace. During the half decade preceding the pandemic, annual completions averaged more than half a million square feet.

10 BASIS POINT
decrease in vacancy

VACANCY:

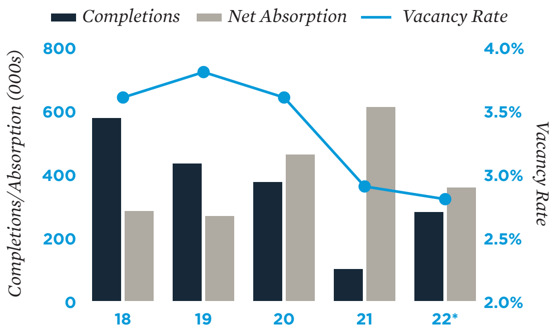
Big box retailers pursuing space in suburban zones should keep leasing activity strong until the end of 2022. A tempered construction pipeline will push vacancy down to 2.8 percent at the end of the fourth quarter.

2.6% INCREASE
in asking rent

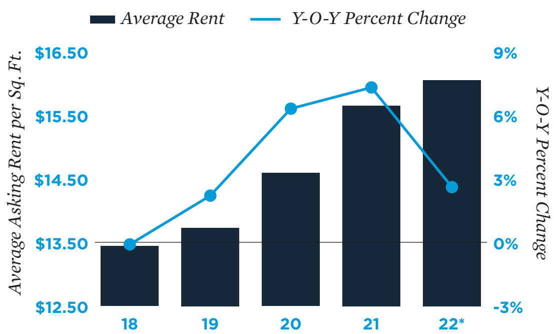
RENT:

After recording annual growth above 6 percent for two consecutive years, rent gains are predicted to slow down to a more sustainable rate. The average asking rent will end 2022 at $16.05 per square foot, nearly 17 percent above the year-end 2019 rate.

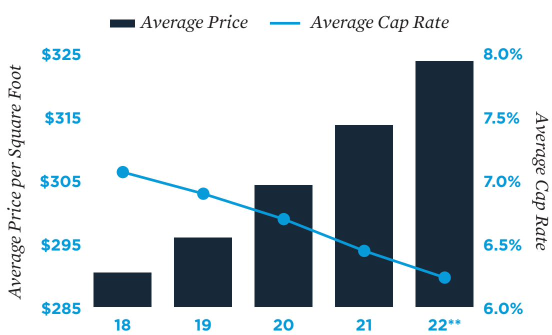
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

199,000 sq. ft. completed

- Builders focused almost entirely on single-tenant space during the trailing year ended in June, though multi-tenant builds are in the current pipeline.
- The majority of square footage completed in this span stems from a single built-to-suit project finalized in the first quarter of 2022. Completions did not exceed 13,000 square feet during the remaining three quarters.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Vacancy reached historically low figures during the 12-month period ended in June, before settling at 3.1 percent entering July.
- Availability is tightening in Indiana, where submarkets with at least 1 million square feet ended June under 3 percent. New Albany reported a 120-basis-point compression this span, driving vacancy to 2.7 percent.

RENT

8.1% increase in the average asking rent Y-O-Y

- Asking rents grew at the second-fastest rate observed in an annual period since at least 2007, closing June at an average of $15.81 per square foot.
- Minimal development in the multi-tenant segment drove a historical rent gain during the trailing year ended in June. The mean marketed rent for these properties advanced 13.7 percent to $18.10 per square foot.

Investment Highlights

- Buyer appetites continue to outpace the pre-pandemic norm, with trades during the trailing year ended in June outpacing the 2019 equivalent by more than 15 percent. Quarterly transaction activity has remained steady through midyear 2022 despite rising capital costs, though these headwinds could intensify in subsequent months as interest rates continue to climb.
- An increasing amount of capital is moving north of the Ohio River, with New Albany and Southern Clark County seeing rising deal flow beginning in 2021. Investors may be noting the area's tight conditions and dearth of development. Since the onset of the health crisis, supply additions to this region have been minimal.
- Slow inventory growth in the multi-tenant sector has also prompted investors to seek out opportunities here. The average sales price per square foot during the 12-month span ended in June was $248, an 8 percent gain over the previous period, and the greatest rate of advance in this segment in nearly a decade. Additionally, cap rates in this class have declined roughly 30 basis points, placing the average yield in the mid-6 percent zone.