

INVESTMENT FORECAST

Office
Louisville Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

Diverse Urban and Suburban Demand Factors Bolster Retail Leasing and Investment Across the Metro

Office usage downtown, residential needs in the suburbs keep retailers engaged. Louisville's retail sector is poised for an additional year of modest tightening in 2024. In line with national trends, this year's largest move-ins stem from experiential tenants, with Next Level Ranges and Ace Pickleball Club each taking 38,000 square feet off the market. The Hurstbourne-Lyndon submarket is the most popular locale for such leases, as potential tenants are attracted to the area's affluent population. Aside from Jefferson County's eastern suburbs, vendors are actively inking agreements in and around the urban core. Office vacancy was roughly 11.8 percent late last year, the seventh-lowest rate among major U.S. downtowns. This suggests a comparatively consistent flow of office workers in the CBD relative to other large cities, which is welcome news for retail spending in this area. The supply side offers another positive note. While this year's construction total is the largest in over half a decade, speculative additions are limited, with nearly all of the pipeline accounted for as of early 2024.

Signs point to increasing investment, with discount retail prominent. Although financing headwinds subdued trades throughout much of 2023, early indicators suggest the market may have turned the corner entering 2024. Transaction velocity dramatically increased during the second half of last year amid improved rate stability. During this increase, trades involving discount retail options have become more common in the first-ring suburbs to the east and south of Louisville, with investors targeting both freestanding single-tenant opportunities and strip centers anchored by these businesses. General macroeconomic uncertainty entering 2024 could heighten the appeal of these tenants moving forward.

2024 MARKET FORECAST

+0.6%



EMPLOYMENT: Louisville's job market will maintain its upward trajectory, albeit at a more modest pace than what was noted in 2023. Local firms add 4,000 jobs on net by the end of December.

500,000
sq. ft.



CONSTRUCTION: Developers expand stock by 0.7 percent this year, the fastest increase since 2018. Over 360,000 square feet of this year's additions stem from SouthPointe Commons.

-10 bps



VACANCY: The overall vacancy rate will decline at the same pace as 2023, falling to 3.5 percent at the end of the year. This ties for the third-lowest rate observed since at least 2006.

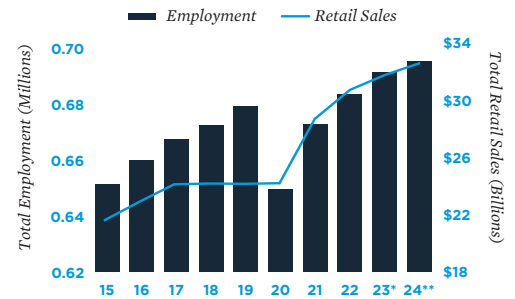
+1.7%



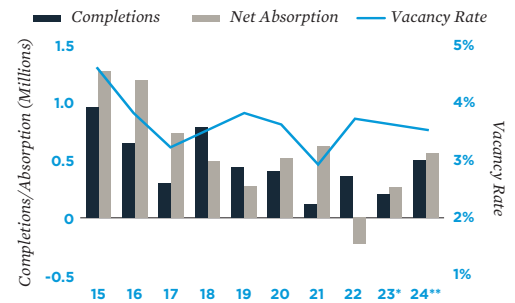
RENT: A stable vacancy rate and dearth of speculative additions will dictate increasing market rates, driving the average asking rent up to \$16.43 per square foot by year-end.

INVESTMENT: A record-breaking freshman class noted at the University of Louisville in the fall of 2023 should drive investors to retail options immediately south of the Old Louisville area.

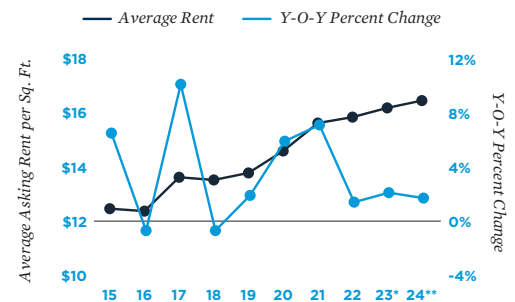
Economic Trends



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 January 3/2023. 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.