# INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

**RETAIL**

*Louisville Metro Area*

2019

## Investors Deploying Capital in Louisville to Achieve Higher Returns

**Retail market in Louisville moving toward long-term stability.** Employment growth in Louisville slowed over the past two years, but payrolls should expand closer to the national average this year. Some of the 10,000 new jobs added in the metro will be at the Jeffersonville Towne Center. The 1 million-square-foot super regional mall is expected to open before the holiday shopping season. The project also constitutes nearly all of the new supply scheduled for completion. Beyond this year, the pipeline dwindles, which should remove threats from construction. Nonetheless, vacancy will tick higher due to low pre-leasing. Nearly 90 percent of the space underway does not have commitments, though much of that includes the new super regional mall, which should fill up quickly as ribbon-cutting approaches. Rents, meanwhile, should have a strong year as new supply pulls up asking rates.

**Above-average cap rates keep investors active in the market.** The single-tenant market is approximately five times busier than multi-tenant as out-of-state and local buyers expand their portfolios. Furthermore, 1031-exchange deals remain popular in the market as commercial real estate owners take advantage of elevated cap rates in the metro. First-year returns for single-tenant assets average in the mid-6 percent range, 150 basis points higher than those in gateway markets, increasing the attractiveness of available properties. Buyers are targeting storefronts in core locations where population or employment density supports consumer spending. Restaurants and other tenants with less exposure to online retailing are also popular with single-tenant buyers. Multi-tenant assets trade infrequently in the market but still represent an opportunity for buyers seeking to expand their portfolios. Average cap rates in the multi-tenant sector are in the low-8 percent range, well above the national average.

## 2019 Market Forecast

**Employment** up 1.5% — Job growth accelerates this year as 10,000 positions are added, building on the 3,000 spots generated last year.

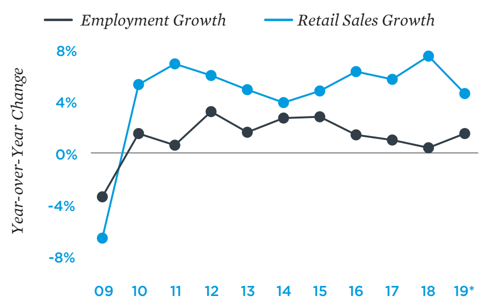
**Construction** 1.1 million sq. ft. — Retail inventory jumps 1.5 percent this year as new construction reaches a cyclical high. In 2018, nearly 790,000 square feet came online.

**Vacancy** up 40 bps — Two consecutive years of elevated construction are slowing absorption rates. As a result, vacancy will rise to 4.3 percent this year, matching last year's 40-basis-point rise.

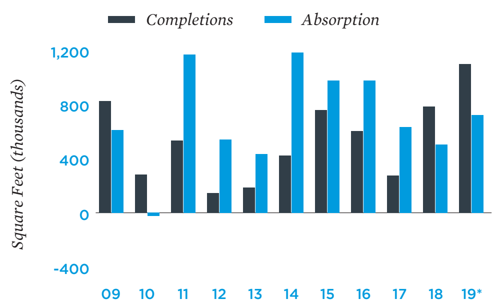
**Rent** up 2.6% — Asking rents will reach $14.28 per square foot by year end. Last year, rents jumped 4.2 percent.

**Investment** — Investors will consider available multi-tenant strip centers with a mix of local and national credit tenants to achieve higher returns than those in the single-tenant sector.

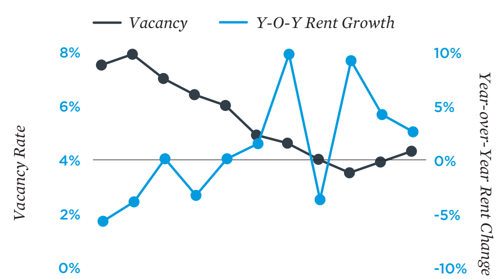
### Employment vs. Retail Sales Trends




### Retail Completions




### Asking Rent and Vacancy Trends




* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics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