INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

RETAIL

St. Louis Metro Area

2019

Mature Economic Cycle Encouraging Capital Migration to St. Louis Retail Assets

The local retail market slowly gaining ground. The metro outperformed traditional Rust Belt markets during the early stages of the recovery, but the underlying demographic fundamentals are not as strong as those in the high-growth South and West. Modest demographic tailwinds have been a net positive in terms of supply-side pressure. Builders that struggle to find construction workers are diligent when considering new developments within the city. Core mixed-use projects that have been the nationwide hallmark of this economic cycle are coming online, symbolic of the confidence that space demand in densely populated areas will persist. The City Foundry, for example, will add 330,000 square feet to inventory this year. The redevelopment of former industrial space represents the future of large retail projects, though the pace of construction will be measured. Low construction levels combined with modest demand drivers will keep retail fundamentals relatively stable this year.

Late-cycle economic trends elevate attractiveness of local retail assets. A jump in deals of both single- and multi-tenant properties last year was largely due to yield-seeking investors. Cap rate compression elsewhere and higher interest rates have left buyers searching for yields, making St. Louis a compelling target for capital. Multi-tenant cap rates average close to 8 percent marketwide, providing ample motivation for investors. Additionally, potential rent growth has been exhausted in many areas of the country, reducing revenue growth as an acquisition factor. Anchored shopping centers, preferably with grocers, receive competitive bidding when correctly priced. Single-tenant deals also capture local and out-of-state buyers. Fast-food restaurants with a large franchisee or corporate-owned chain will spend little time on the market. Average cap rates for these properties are in the low-6 percent range, approximately 80 basis points below the overall single-tenant average.

2019 Market Forecast

Employment up 0.6% — Employment growth will slow to 0.6 percent this year, or 8,500 jobs. Last year, 18,700 positions were created.

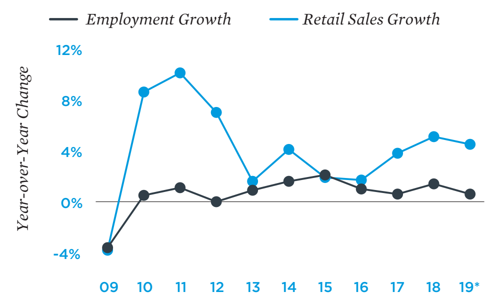
Construction 600,000 sq. ft. — After 240,000 square feet came online last year, the pace of development more than doubles.

Vacancy up 30 bps — The vacancy rate will rise to 5.5 percent this year as the metro's largest project enters lease-up and big-box space goes dark. In 2018, vacancy increased 20 basis points.

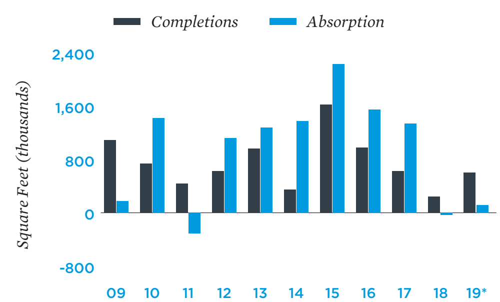
Rent up 3.0% — After several years of modest rent growth, the pace of gains jumped in 2017 and 2018. This year, asking rents will advance to $13.97 per square foot.

Investment — Outside of the core, investors will favor properties in the northern suburbs, where higher incomes support retail sales. Neighborhood centers in the area offer relatively attractive entry prices relative to yield.

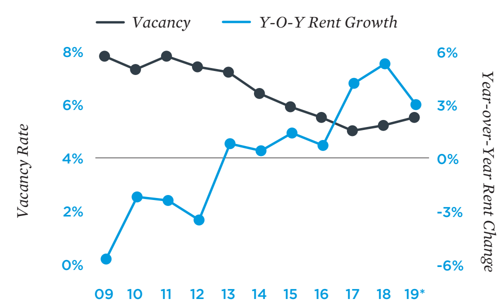
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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