

MARKETBEAT

Louisville

Retail Q4 2018



ECONOMIC INDICATORS

National

	Q4 17	Q4 18*	12-Month Forecast**
GDP Growth	2.5%	3.3%	▲
CPI Growth	2.1%	2.3%	▲
Consumer Spending Growth	2.7%	2.7%	▲
Retail Sales Growth	5.9%	4.6%	▲

*Q4 18 Estimates. Values represent year-over-year % change.

**Forecast by Cushman & Wakefield..

Regional

	Q4 17	Q4 18*	12-Month Forecast
Household Income	\$58,130	\$59,917	▲
Population Growth	0.5%	0.5%	▼
Unemployment	3.8%	4.1%	▼

Source: Moody's Analytics

Market Overview

Louisville retail, at present is a *Tale of Two Cities*. In demand, Class A, high-traffic locations in eastern Louisville as well as the CBD can do no wrong, commanding historically high rents topping \$30 per square foot (psf) in some instances. On the other hand, lower traffic, older trade areas in the south and southwestern areas of the county face lingering vacancy and asking rents less than half of their higher-end counterparts. This continued stagnation in Class B and C properties is causing landlords to offer heavily incentivized deals to attract new tenants and retain existing ones.

The shakeout of big box closures continues in Louisville. Value City furniture has announced that they will backfill a vacant 38,000 square foot (sf) Babies R Us location along the prime Shelbyville Road corridor, and Hobby Lobby is taking a 42,000 sf space at Springhurst Towne Center in northeastern Louisville. Additionally, discount grocer Aldi opened two more stores, an 18,000 sf location on Hurstbourne Parkway and a 24,000 sf location on Outer Loop, bringing their total store count in the market to eight.

Challenges remain in this space however, as Wal-Mart recently shuttered three locations in the market – two neighborhood market stores as well as a 120,000-sf supercenter – and The Fresh Market closed a 28,000-sf center in east Louisville that had been in operation for nearly 20 years. Those large vacancies are forcing landlords to consider non-traditional alternatives such as indoor entertainment venues, religious facilities, indoor self-storage and call center office type uses.

Hospitality development in downtown Louisville continues at a brisk pace. Following the 2018 completion of the new Omni Hotel and the pending completion of the dual branded Moxy/Hotel Distil on Main Street in early 2019, two additional hotel projects are soon to come out of the ground downtown. Missouri based Cardinal Hotel Partners are developing 128-room luxury branded Cambria Hotel, a project estimated at \$27 million. Likewise, Tennessee-based Athena Hospitality Group has plans for a 120-room extended stay TownPlace Suites.

This continues a recent and welcome trend of out-of-state investors making big bets on Louisville's CBD, many of whom are attracted by the city's steady growth of tourism and convention and trade show related travelers. With sidewalks filling up with increasing amount of pedestrian traffic, new restaurant concepts and soft goods retail concepts are springing up downtown and in the surrounding trendy NuLu, Butchertown and Highlands neighborhoods.

Top Golf's entry into the market continues to be one of the most closely followed stories in the city. Top Golf received approval from the Louisville Metro Council to redevelop a vacant Sears box at Oxmoor Center in east Louisville, but several local neighborhood opponents have filed two lawsuits challenging the development. A protracted legal fight seems likely, with observers keen to know the outcome for the planned development and the impact it will have on the direction for one of Louisville's two Class A malls.

Outlook

- Low vacancy and modest rent escalation in Class A properties; continued stagnation and declining rents in Class B and C
- Steady absorption of new construction being delivered; lingering vacancy for infill big box locations that have gone dark
- Steady cap rate environment and continued healthy demand for high-credit net-leased investment properties

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