

MARKETBEAT

St. Louis Retail Q1 2019



ECONOMIC INDICATORS

National	Q1 18	Q1 19*	12-Month Forecast**
GDP Growth	2.6%	2.9%	▲
CPI Growth	2.2%	1.6%	▲
Consumer Spending Growth	2.4%	3.2%	▲
Retail Sales Growth	4.9%	4.2%	▲

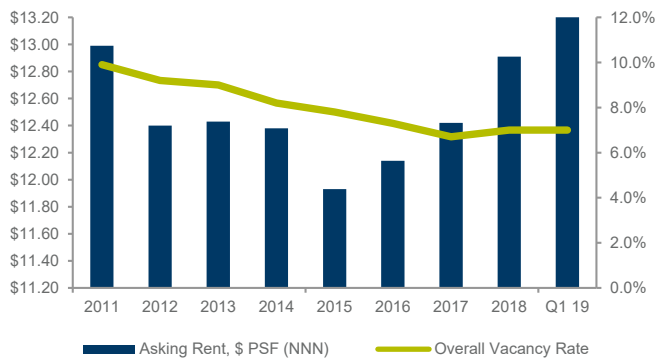
*Q1 19 Estimates. Values represent year-over-year % change

**Forecast by Cushman & Wakefield

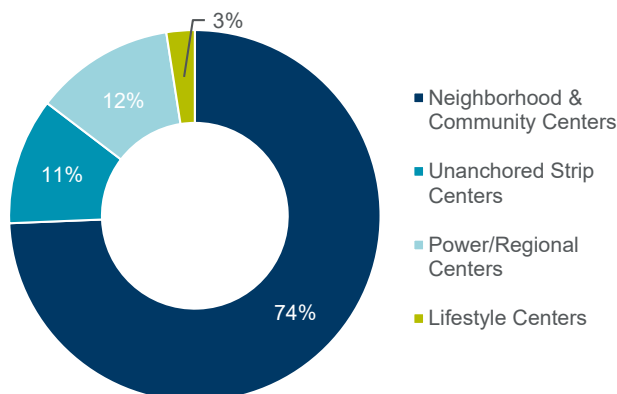
Regional	Q1 18	Q1 19*	12-Month Forecast
Household Income	\$63,019	\$65,469	▲
Population Growth	0.1%	0.1%	■
Unemployment	3.6%	3.6%	▼

Source: Moody's Analytics
*Q1 19 Estimates

Rental Rate vs. Overall Vacancy



Availability by Type



Economy

The St. Louis labor market continued its streak of healthy fundamentals as it ended the first quarter of 2019 with an unemployment rate of 3.6%, marking the eighth consecutive quarter below 4.0%. Seasonally adjusted employment added 14,000 jobs year-over-year, despite local headwinds created by major consolidations resulting from merger and acquisition activity. The Federal Open Market Committee (FOMC) signaled it would suspend further rate hikes for 2019, as data-driven committee members reexamine national economic indicators. The committee stated it would complete its balance sheet roll-off program by the end of the third quarter.

Market Overview

The St. Louis retail market recorded steady growth during the first quarter of 2019, with vacancy falling by 30 basis points (bps) year-over-year to reach 7.0% while average triple-net asking rates increasing by 5.1% over the same period to \$13.30 per square feet (psf). Increased average asking rates and tenant demand for top-tier retail assets has encouraged strategic construction. At the end of the quarter, there was a total of 132,000 square feet (sf) under construction, including the 120,000-sf development of Lifetime Athletic at Plaza Frontenac, the largest retail development in nearly two years. The space is expected to deliver in the second quarter of 2019. Looking forward, overall metro rental rates should continue their upward trajectory as market fundamentals strengthen and overall vacancy remains stable.

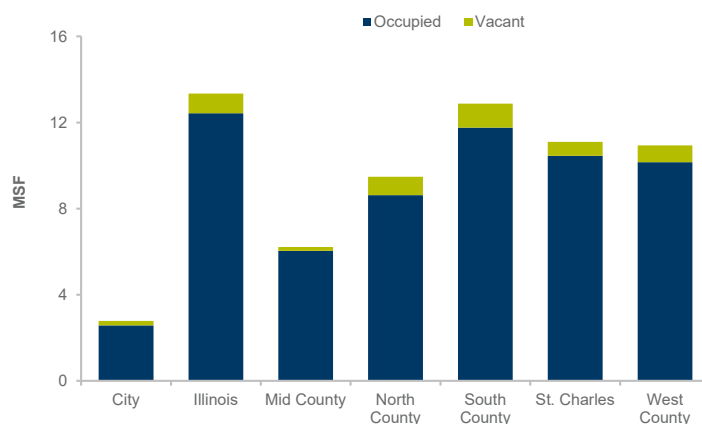
The Hemp Wave makes Landfall in St. Louis

Last year, the ratification of the Agriculture Improvement Act of 2018 legalized the production and distribution of Industrial Hemp across the United States. In St. Louis the bill spurred new retail activity centered around Cannabidiol (CBD), the non-psycho active component of the plant which has been lauded for its possible medicinal application. As a result, St. Louis has seen a flurry of pop-up shops and CBD-centric retail openings across the market. Leaf & Co., a brick-and-mortar store opened at The St. Louis Galleria this year representing the first mall location for the owners who also operate CBD Kratom, a retail outlet with a footprint that spans St. Louis, Chicago, and Dallas. From a restaurant-perspective, Bella's Frozen Yogurt located at 1021 Washington Avenue Downtown has announced plans to sell CBD-infused frozen yogurt flavors. The infused treats will be available by the pint and with a price tag of \$25.00 each. While Bella's tests frozen yogurt infusion, traditional restaurants across the city are also testing CBD oil infusion in both food and drink items. Down the street from Bella's is Fried, a cannabis-themed restaurant that opened in the first quarter and is offering patrons "fried food for fried people", said owner Derek Schulze. Crafted, an American Eatery in the Tower Grove East neighborhood, now offers infusions in a few of their signature cocktails such as the Vanilla Almond Manhattan with a splash of CBD. Given the state-wide legalization of medical marijuana in late-2018 and strengthened confidence in this nascent industry, landlords can expect to see more CBD-based retail investment and openings across the St. Louis metro.

New Year, newCommerce

For the past several years, major retail disruption has been driven by changes in eCommerce, omni-channel retailing, and experiential brick-and-mortar. This evolution is now being referred to as “newCommerce”. With this strategy, both the online and physical presence become essential for business strategy as retailers shift to a more holistic approach of reaching the end-consumer. Embracing this strategy, retailers orchestrate their cross-channel strategy to cooperate and deliver access to the point of sale for a product, whether the interaction is physical or digital. By letting the online location serve as a platform for convenience and the brick-and-mortar location be a place of experience, retailers are redefining what it means to do business. Amazon, for example, just recently entered this physical realm with its AmazonGo brick-and-mortar concept and then further with the acquisition of Whole Foods in 2017. Since then, the company has been the catalyst for a growing eGrocery demand which requires a calculated physical footprint in densely populated areas to provide strategic distribution to consumers through third-party delivery providers such as Instacart. In St. Louis, traditional online platforms for fashion such as Suitsupply and Bonobos have established physical locations over the past two years. Conversely, brick-and-mortar restaurant locations that once valued in-person experience over all else are now partnering with the likes of UberEats, Grubhub and DoorDash which aim to expand the reach of restaurant brands through an online delivery strategy. As the retail market adjusts to this new norm, the expectation is that increased demand for convenience, experience, and value from the consumer will continue to drive retailers to diversify their presence through different mediums.

Submarket Comparison



Outlook

- More retailers will to adapt to newCommerce and balance their online and physical presence.
- Expect more changes to local and federal legislation for Cannabidiols, and the potential increase of retail demand from the growing industry.

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
City	67	2,788,295	7.6%	-6,614	-6,614	0	\$13.32
Illinois	426	13,349,250	6.8%	-119,659	-119,659	0	\$12.56
Mid County	179	6,215,843	2.8%	4,607	4,607	120,000	\$19.82
North County	290	9,480,151	9.0%	93,214	93,214	0	\$10.26
South County	394	12,879,244	8.7%	-70,627	-70,627	0	\$12.96
St. Charles	396	11,100,919	5.8%	57,520	57,520	12,000	\$14.05
West County	343	10,937,480	7.1%	-10,233	-10,233	0	\$15.80
ST. LOUIS TOTALS	2095	66,751,182	7.0%	-51,792	-51,792	132,000	\$13.30

	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
Neighborhood & Community Centers	1100	43,953,067	8.1%	-75,500	-75,500	132,000	\$12.52
Lifestyle Centers	32	1,422,037	6.9%	12,888	12,888	0	\$22.09
Power/Regional Center	273	12,968,931	3.7%	2,183	2,183	0	\$19.41
Unanchored Strip Center	690	8,407,147	6.8%	8,637	8,637	0	\$15.32

Tables are not reflective of U.S. MarketBeat
 Rental rates reflect NNN asking \$psf/year
 Source: Costar

