

MARKETBEAT

St. Louis

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%	4.9%	▲

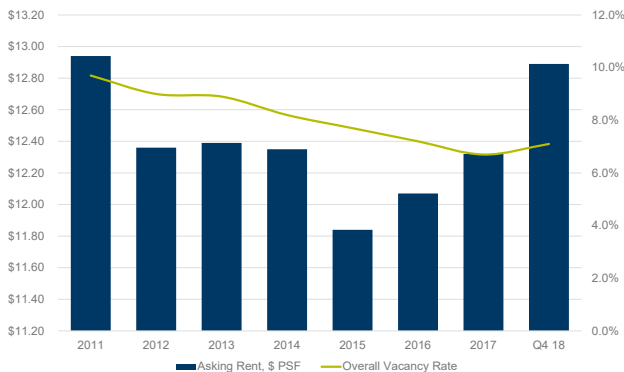
*Q4 18 Estimates. Values Represent year-over-year % change.
 **Forecast by Cushman & Wakefield.

Regional

	Q4 17	Q4 18*	12-Month Forecast
Household Income	\$62,417	\$65,003	▲
Population Growth	0.1%	0.1%	■
Unemployment*	3.6%	3.3%	▼

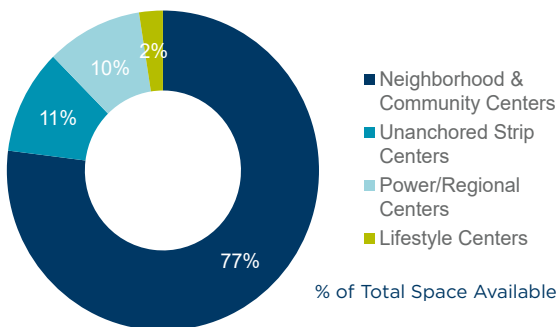
Source: Moody's Analytics
 *Q4 18 Estimates.

Rental Rate vs. Overall Vacancy



Availability Type

MOST OF THE MARKET'S AVAILABLE SPACE IS WITHIN NEIGHBORHOOD & COMMUNITY CENTERS



ECONOMY

St. Louis labor market fundamentals ended the year with continued growth and optimism as unemployment reached further historical lows during the fourth quarter of 2018. Seasonally adjusted unemployment reached 3.3% as of quarter-end, which is 40 basis points (bps) lower than the national average of 3.7%. In addition, total employment has added nearly 10,300 jobs to the St. Louis economy over the past year. As the U.S. economy grew at a steady clip, the Federal Open Market Committee (FOMC) committed to raising interest rates by 25 bps during their December meeting, the fourth time in 2018 the group had increased rates. This will adjust the new range to 2.25%-2.50%, the highest level since 2008. Heading into 2019, the FOMC has lowered its projection for next year's rate hikes from three to two.

MARKET OVERVIEW

In 2018, St. Louis retail market vacancy ticked upwards by 50 bps to 7.1%. The major driver of this shift was Shop n' Save and Kmart vacating their spaces and shutting down operations in St. Louis indefinitely. Prior to Shop n' Save's move-out, market vacancy reached a historic low of 6.6% during the third quarter as the market continued to experience stronger tenant demand on the heels of local economic growth. At year-end, the overall triple-net asking rate has grown by 2.1% quarter-over-quarter to \$12.89 per square foot (psf), an indication that the retail economy is strengthening in St. Louis.

RETAIL MARKET TRENDS

Feeling the Grocery Acquisitions

In November, Supervalu closed 16 Shop n' Save grocery stores as the company could not find a suitable buyer for its remaining retail locations. Earlier in the year, Supervalu sold-off 19 stores to Schnucks Markets in a move to focus on its core wholesale operations. With the remaining unsold stores closing, the impact can be observed in the fourth quarter's absorption figures, as overall net absorption recorded negative -331,000 square feet (sf). Neighborhood and community center product types were most impacted by this activity, as overall absorption for the quarter was negative -392,000 sf.

Another major merger and acquisition that has impacted local retail markets throughout 2018 was Amazon's purchase of Whole Foods for \$13.7 billion in the middle of 2017. To date, Whole Foods has three St. Louis locations: Central West End, Brentwood, and Town and Country. After acquiring the grocery chain, Amazon began expanding its grocery delivery service to include St. Louis in 2018 as well as integrating its popular Prime membership into

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the store's physical marketplace. Though the integration has been slow, expect more Amazon and Wholefoods synergies to evolve the retail grocery market even further.

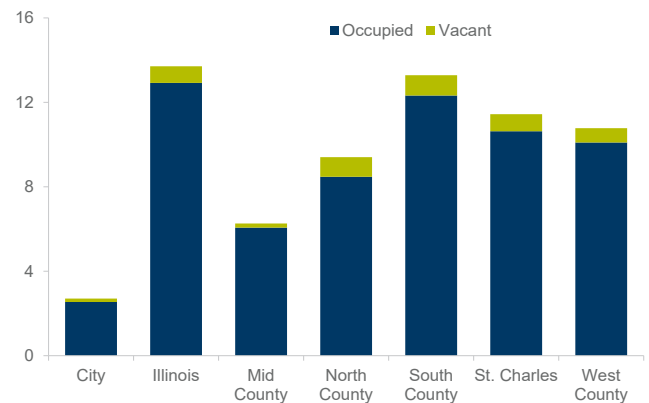
eGroceries: Part of the Grocery Pie

At the beginning of 2018, a number of St. Louis grocery stores announced that they would expand delivery service to St. Louis with chains such as Dierbergs, Schnucks, Costco, Total Wine & More, Fresh Thyme Farmers Market, Whole Foods, Sam's Club and more implementing the service by the end of the year. Most recently, in November 2018, Aldi joined this group.

Despite low profit margins for grocery firms, industry participants are actively seeking to capture a larger share of the online eGrocery market. Per a study by the Food Marketing Institute and Nielsen, online grocery sales are estimated to capture 20.0% of all grocery retail transactions by 2025, with an estimated \$100 billion in annual sales. These sales are especially prevalent during the holidays for consumers looking to save time on shopping – a time when grocery stores stand to profit significantly from delivery services. In fact, a survey conducted by SupplyChainDive in early 2018 estimated that as much as 44.0% of Americans will use some form of eGrocery service during the holiday season. Given the estimated scale of impact the eGrocery market is expected to have on traditional grocery sales, the market can expect further changes driven by new market entrants and eGrocery innovation.

Submarket Comparison

SOUTH COUNTY ACCOUNTS FOR 21.3% OF THE MARKET'S VACANCY



Outlook

- Merger and acquisition activity will increase in the eGrocery sector across the nation
- Big box retailers will continue to revamp their real estate strategies to favor greater investment in online fulfillment, distribution centers, and the technology necessary to facilitate same-day and next-day shipping

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	64	2,704,650	6.0%	591	-22,372	-	\$12.94
Illinois	423	13,613,205	6.9%	-171,453	19,578	-	\$11.86
Mid County	176	6,255,613	3.0%	-844	80,060	120,000	\$19.75
North County	288	9,388,858	10.0%	-8,121	50,256	-	\$10.24
South County	394	13,274,293	7.9%	-90,765	107,689	-	\$12.53
St. Charles	396	11,346,311	6.3%	50,064	25,269	-	\$14.19
West County	338	10,802,472	7.1%	-110,647	38,203	-	\$16.21
ST. LOUIS TOTALS	2079	67,385,402	7.1%	-331,175	298,683	120,000	\$12.89

	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)
Neighborhood & Community Centers	1,093	44,664,756	8.1%	-358,805	-341,466	120,000	\$12.40
Lifestyle Centers	29	1,276,462	7.9%	1,520	-2,661	-	\$22.64
Power/Regional Centers	267	13,010,991	3.6%	-20,395	-12,834	-	\$13.94
Unanchored Strip Centers	690	8,433,193	6.8%	46,505	112,442	-	\$14.40

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

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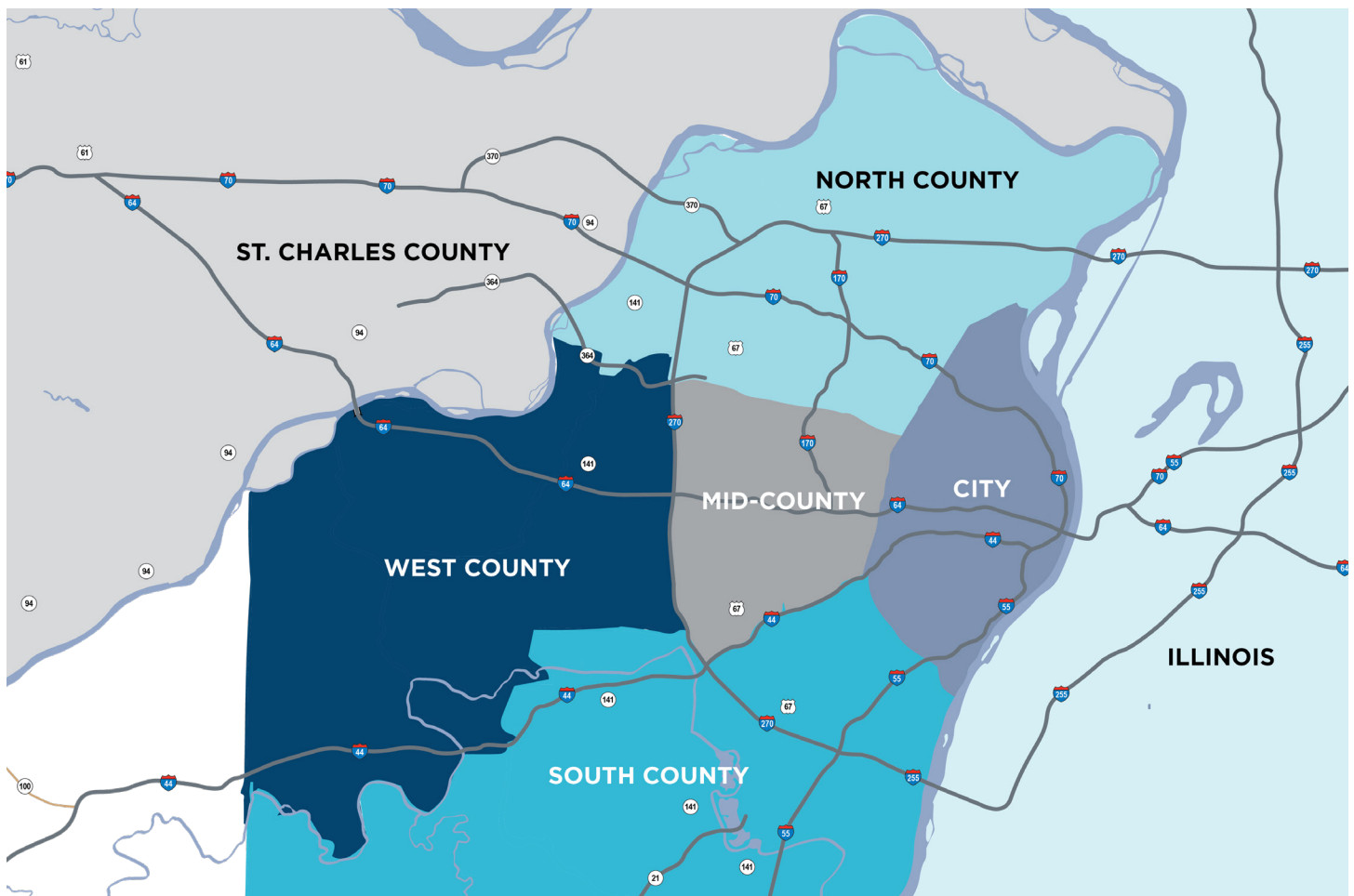
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RETAIL SUBMARKETS

ST. LOUIS CITY / ST. LOUIS COUNTY / ST. CHARLES COUNTY / METRO EAST



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