

# MARKETBEAT

## Louisville

### Industrial Q1 2017



#### LOUISVILLE INDUSTRIAL

##### Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
Louisville Employment	655k	668k	▲
Louisville Unemployment	4.8%	4.2%	▲
U.S. Unemployment	4.9%	4.8%	▲

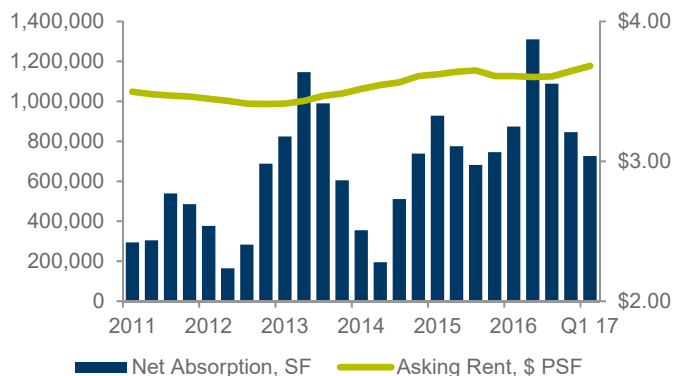
##### Market Indicators (Overall, All Product Types)

	Q1 16	Q1 17	12-Month Forecast
Vacancy	5.5%	7.2%	▲
YTD Net Absorption (sf)	968k	490k	■
Under Construction (sf)	3.5M	3.9M	▼
Average Asking Rent*	\$3.61	\$3.76	▲

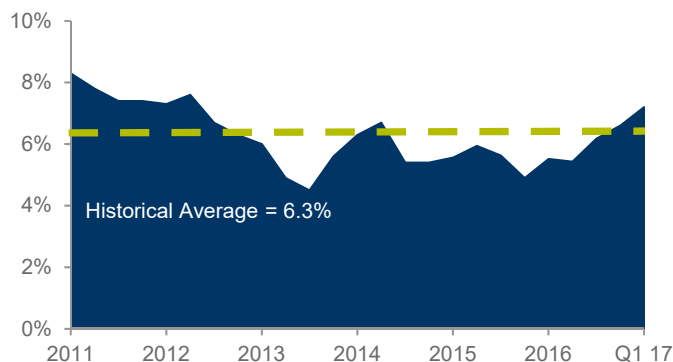
\*Rental rates reflect net asking \$psf/year

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economic Overview

Deceleration in real GDP in the fourth quarter to 2.1% from 3.5% in the third quarter, underscores the sluggish recovery despite the early efforts of the Trump administration to curb excessive government regulations on business, ramp up infrastructure spending, revise tax policy and repeal and replace Obamacare. The U.S. economy grew at a paltry 1.6% for all of 2016, its worst performance since 2011, after expanding 2.6% in 2015.

Despite the sputtering economic recovery, Cushman & Wakefield reported that U.S. industrial market absorption of 63.6 million square feet (MSF) in the final quarter of 2016, propelled net absorption for the year to a record-setting 282.9 MSF. As of January 2017, the industrial sector has now posted 27 consecutive quarters of net occupancy gains. Accordingly, the national industrial vacancy rate for all product types continued to decline during the fourth quarter to 5.5%, down 100 basis points from 2015.

Economists remain bullish relative to improved economic activity for 2017, forecasting continued strong absorption and upward pressure on rents. However, there is concern that the first quarter slowdown may delay any acceleration of growth in the economy until the second half of the calendar year in keeping with 2015 and 2016 results.

## Market Overview

Although there appears to be a softening of demand for new industrial product throughout the Louisville Metro area, developers remain confident as evidenced by the significant amount of ongoing construction activity, investment sales, and developers vying for land positions.

First quarter leasing activity mirrored last year's result for the same period with over 1.1 MSF leased with the bulk of the activity occurring in the South submarket. The largest transactions were Hydra's 362,500-square-foot (SF) lease in Riverport and RX Crossroads 210,000-SF lease in Fern Valley.

The overall vacancy rate increased 0.6 percentage point during the quarter from 6.6% reported at year-end to 7.2%. Four of the six industrial submarkets also reported increases in vacancy rates with the notable exception of the East submarket which reported a record-setting low vacancy rate of 1.3% followed by the South submarket at 4.6%.

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First quarter overall absorption of 489,567 SF was 51% less than the 967,870 SF reported in the first quarter of 2016. Over 80% occurred in the South, West/Southwest and Bullitt County submarkets. Absorption over the past three quarters has averaged just over 435,000 SF per quarter as compared to an average of over 1.3 MSF of absorption per quarter for the previous four quarters, underscoring the softening of demand over the past nine months.

Construction completions for the first quarter totaled over 1.9 MSF with more than 3.9 MSF currently under construction, including 1.3 MSF of build-to-suit projects and 2.6 MSF of speculative product. In addition, there is over 1.0 MSF of speculative and over 1.0 MSF of build-to-suit projects that are expected to begin construction in the next three to six months.

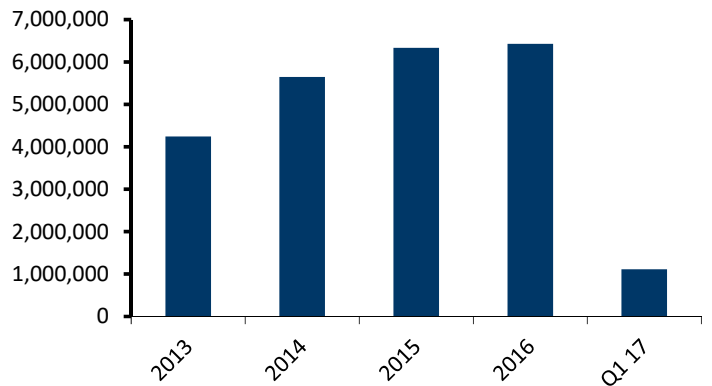
### Outlook

There is no question that the Louisville Metro industrial market is poised for growth and is well-positioned to capture requirements of almost any size given the quantity and quality of product completed during the first quarter and in the pipeline for delivery throughout 2017. With consumer confidence soaring and the business community optimistic about growth, the reduced level of industrial absorption experienced over the past three quarters may indeed be temporary.

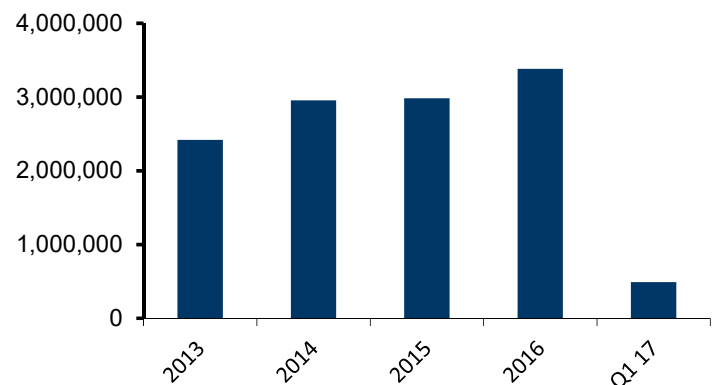
There remain, however, concerns about tensions in the Middle East, concerns over North Korea's nuclear ambitions and relations with both Russia and China. At the same time, the business community is awaiting more certainty on tax, trade and health care rules, and this uncertainty may have temporarily sidelined growth and expansion strategies impacting distribution and fulfillment needs.

Locally, continued job growth has unemployment at 4.2%, below the national average with some upward pressure on wages. While car and light truck sales have retreated from record levels in 2016, sedan sales have been impacted more than SUV and pickup trucks given low fuel prices boding well for Ford Motor Company's Louisville operations. Continued strength in the local housing market, particularly the multifamily market, has been kind to appliance manufacturers like Haier, who recently acquired General Electric's Appliances division.

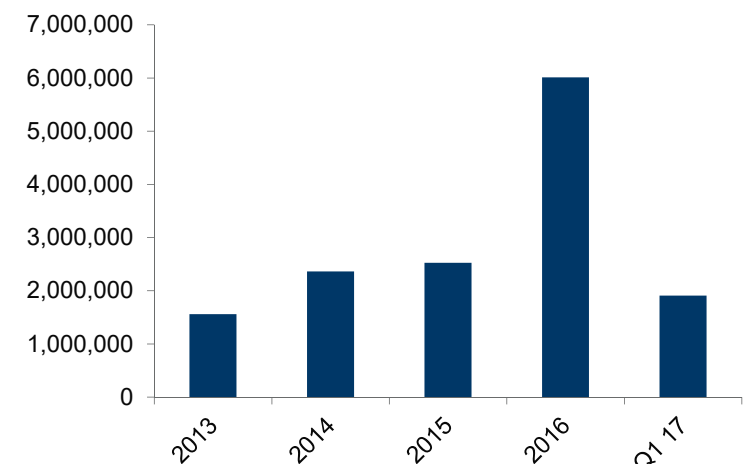
YTD Leasing Activity (square feet)



YTD Overall Absorption (square feet)



YTD Construction Completions (square feet)



**MARKETBEAT**  
**Louisville**  
**Industrial Q1 2017**



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (WD)
<b>Central</b>	<b>438</b>	<b>21,607,461</b>	<b>37,708</b>	<b>10.0%</b>	<b>20,442</b>	<b>0</b>	<b>0</b>	<b>\$2.42</b>	<b>\$6.75</b>	<b>\$3.95</b>
Downtown	225	10,354,153	11,993	14.7%	9,200	0	0	\$2.28	\$5.01	N/A
I-64	62	1,989,433	0	9.0%	-4,531	0	0	\$5.58	\$7.32	N/A
I-65	151	9,263,875	25,715	4.9%	15,773	0	0	\$2.81	\$8.80	\$3.95
<b>East</b>	<b>381</b>	<b>24,809,406</b>	<b>126,998</b>	<b>1.3%</b>	<b>10,945</b>	<b>226,138</b>	<b>0</b>	<b>\$4.25</b>	<b>\$7.91</b>	<b>\$5.24</b>
Jeffersontown	266	11,786,022	16,640	1.9%	-34,031	226,138	0	\$4.25	\$7.62	\$4.25
Middletown / Eastpoint	78	3,538,311	110,358	2.0%	33,576	0	0	N/A	\$9.21	\$6.25
Westport Road	37	9,485,073	0	0.3%	11,400	0	0	N/A	\$6.94	N/A
<b>South</b>	<b>496</b>	<b>49,160,906</b>	<b>11,000</b>	<b>4.6%</b>	<b>209,715</b>	<b>1,039,125</b>	<b>336,810</b>	<b>\$4.78</b>	<b>\$6.75</b>	<b>\$3.80</b>
Airport	168	24,756,117	11,000	2.5%	2,372	983,125	126,810	\$4.44	\$6.73	\$4.56
Bishop Lane	209	8,821,322	0	1.0%	9,251	56,000	0	\$5.42	\$6.91	N/A
Fern Valley	119	15,583,467	0	9.8%	198,092	0	210,000	\$5.16	\$4.25	\$3.64
<b>West / Southwest</b>	<b>177</b>	<b>21,255,446</b>	<b>0</b>	<b>7.6%</b>	<b>169,622</b>	<b>823,543</b>	<b>362,500</b>	<b>\$3.84</b>	<b>\$7.23</b>	<b>\$3.14</b>
Iroquois	11	828,136	0	0.0%	0	452,745	0	N/A	N/A	N/A
Riverport	108	17,018,588	0	8.3%	169,622	370,798	362,500	N/A	\$7.23	\$3.21
Westend	58	3,408,722	0	5.7%	0	0	0	\$3.84	N/A	\$2.13
<b>Bullitt County</b>	<b>55</b>	<b>14,391,880</b>	<b>0</b>	<b>8.6%</b>	<b>194,798</b>	<b>1,104,160</b>	<b>615,798</b>	<b>N/A</b>	<b>N/A</b>	<b>\$3.83</b>
<b>Southern Indiana</b>	<b>243</b>	<b>21,100,271</b>	<b>0</b>	<b>16.0%</b>	<b>-115,955</b>	<b>739,800</b>	<b>592,800</b>	<b>\$3.56</b>	<b>\$4.89</b>	<b>\$3.72</b>
Floyd County	87	4,771,601	0	13.7%	-9,602	75,000	0	\$3.47	\$3.25	\$3.75
Clark County	156	16,328,670	0	16.6%	-106,353	664,800	592,800	\$3.75	\$5.39	\$3.72
<b>LOUISVILLE TOTALS</b>	<b>1,790</b>	<b>152,325,370</b>	<b>175,706</b>	<b>7.2%</b>	<b>489,567</b>	<b>3,932,766</b>	<b>1,907,908</b>	<b>\$3.15</b>	<b>\$7.17</b>	<b>\$3.66</b>

\*Rental rates reflect asking \$psf/year

MF = Manufacturing OS = Office Service/Flex WD = Warehouse/Distribution

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Warehouse/Distribution	582	75,124,949	76,000	10.0%	400,831	3,618,878	1,907,908	964,038	\$3.50	\$3.65
Manufacturing	992	69,937,848	87,713	4.3%	167,512	228,723	0	24,835	\$3.03	\$3.04
Office Service/Flex	216	7,262,573	11,993	6.3%	-78,776	85,165	0	120,545	\$6.61	\$7.17

**Key Lease Transactions Q1 2017**

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7251 Logistics Drive	252,500	Hydra	Lease	West / Southwest
5101 Jeff Commerce	210,000	RX Crossroads	Lease	South
7040 Riverport Drive	104,896	HTI Logistics	Lease	West / Southwest
5100 Jeff Commerce	98,059	Monro Muffler Brake	Lease	South

**Key Sales Transactions Q1 2017**

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
2500 Export Drive	645,840	Verus Molto / Clarion	\$42,300,000 / \$65	Bullitt
Kingbrook Commerce Park	122,000	The Landmark Co's / Simpsonville LLC	\$17,700,000 / \$145	Shelby County
2415 Data Drive	121,705	FCI Properties / Narrow Gate LLC	\$3,500,000 / \$29	East
2500 Stanley Gault	76,000	Melbourne Plaza / Clarendon Flavors	\$3,306,000 / \$44	East

**INDUSTRIAL SUBMARKETS**

Louisville, KY

**Central:** Lies within I-264, and is bounded to the north by the Ohio River. Includes the CBD, and offers excellent access to interstates and the airport.

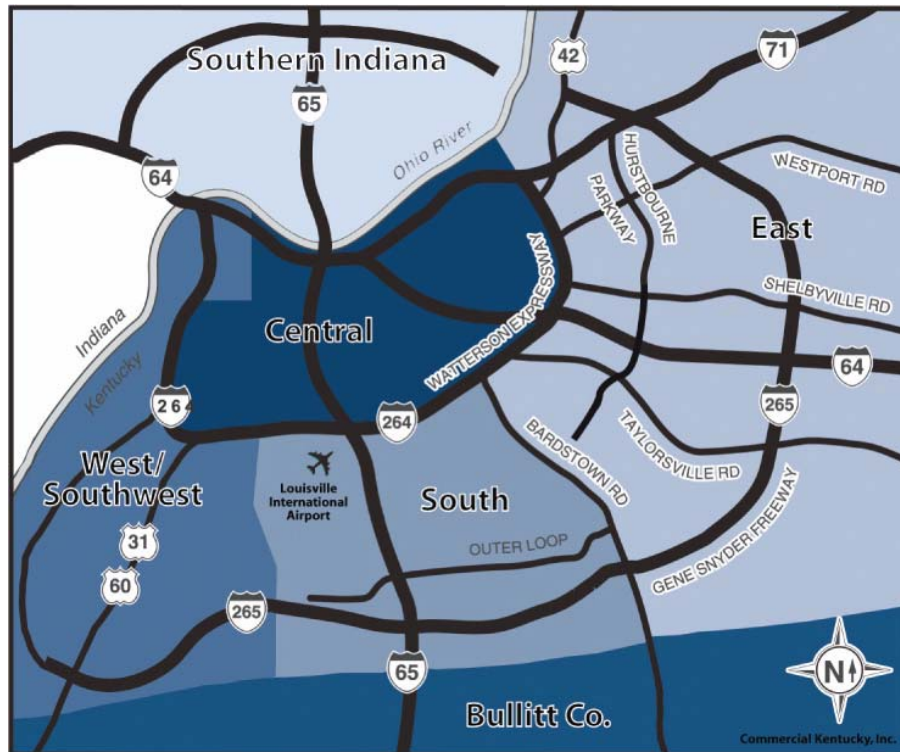
**East:** Runs along the eastern portion of I-264 down Bardstown Road and extends east. Exceptional highway accessibility makes the submarket ideal for distribution.

**South:** Located south of I-264 to the Jefferson County line, and extends east to Bardstown Road and west to National Turnpike.

**West/Southwest:** Area west of I-264 and National Turnpike and north to the Ohio River. Jefferson Riverport International is located here and maintains a Foreign Trade Zone designation.

**Bullitt County:** Is bounded by the Jefferson County line on the north and bisected by Interstate 65.

**Southern Indiana:** Comprises Clark and Floyd counties, including the cities of Jeffersonville, Clarksville and New Albany.



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