

# MARKETBEAT

## Louisville

### Industrial Q2 2017



#### LOUISVILLE INDUSTRIAL

##### Economic Indicators

	Q2 16	Q2 17	12-Month Forecast
Louisville Employment	657k	672k	▲
Louisville Unemployment	4.3%	4.2%	▲
U.S. Unemployment	4.9%	4.4%	▲

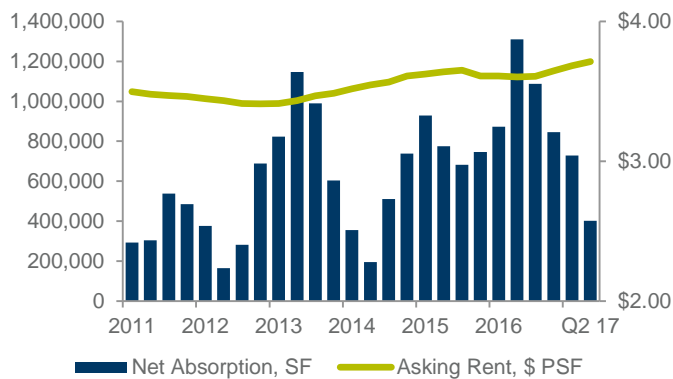
##### Market Indicators (Overall, All Product Types)

	Q2 16	Q2 17	12-Month Forecast
Vacancy	5.4%	7.7%	▲
YTD Net Absorption (sf)	2.6M	793k	▲
Under Construction (sf)	4.5M	4.9M	▼
Average Asking Rent*	\$3.63	\$3.76	▲

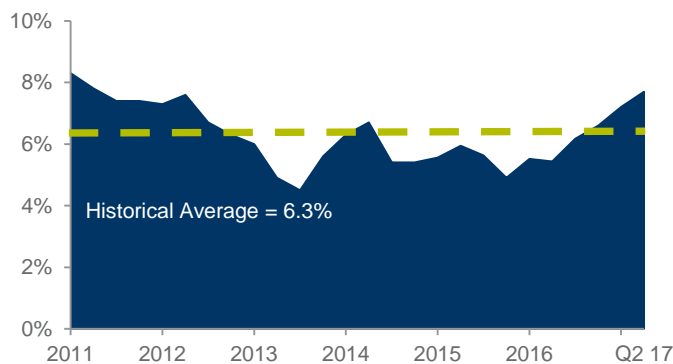
\*Rental rates reflect net asking \$psf/year

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

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economic Overview

The economy is behaving like “the little engine that could”... chugging along, chugging along, chugging along. With GDP growth coming in at a paltry 1.4% during the first quarter, concerns have emerged as to whether consumer and business confidence will remain high, healthy job growth is sustainable and if the Trump Administration can make real progress on reforming the tax code, government deregulation, accelerating infrastructure spending, renegotiating major trade agreements and repealing, replacing or restructuring the Affordable Care Act.

As a result, consumers curtailed spending as households grew less optimistic about the future as reflected in a 0.2% decline in retail sales in June from the prior month. With overall inflation softening to a 1.6% annual gain in June, and with core inflation steady at 1.7% annual growth, the Fed’s enthusiasm for higher interest rates may be dampened as the economy cooled somewhat during the first half of 2017.

Nonetheless, the industrial sector continued to flourish, largely due to the impact of e-commerce. With a greater shift to online shopping, has come the strongest boom that the warehouse sector has ever recorded. Since 2013, more than one billion square feet of industrial inventory has been absorbed nationally, with Louisville recording annual absorption of nearly 3.4 million square feet (msf) during calendar year 2016. As the shift towards online spending habits persists, so too will the growing demand for modern warehouse and distribution product in key distribution centers like Louisville.

## Market Overview

Second quarter leasing activity of over 1.2 msf pushed the year-to-date total to 2.3 msf, 28% less than reported mid-year 2016. The South submarket accounted for 38% of the total activity followed closely by Southern Indiana with 34%. Notable transactions included the Census Bureau and Buegrass Logistics leasing 300,000 square feet (sf) and 100,000 sf respectively at River Ridge.

The overall vacancy rate increased 0.5 percentage point during the quarter from 7.2% reported last quarter to 7.7%. Bullitt County experienced the greatest increase in vacancy due to Nasty Gal recently vacating 527,000 sf at 700 Omega Parkway, resulting in a 3.7 percentage point increase to 12.3%. The East submarket dropped another 0.2 percentage point and is now a record low 1.1% vacancy rate.

Second quarter overall absorption of 291,259 sf brought the year-to-date total to 793,444 sf, 69% less than the record setting mid-year high of 2.6 msf reported last year. The last four quarters have witnessed lower absorption than the previous four quarters, averaging approximately 400,000 sf per quarter.

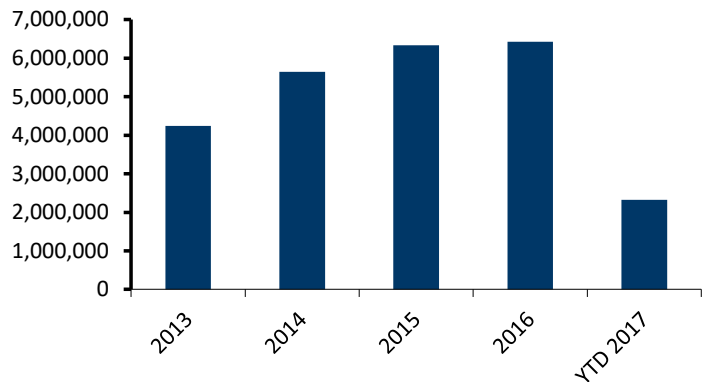
Construction completions for the second quarter included Crossdock's new 664,800-sf speculative building at River Ridge and International Airport Center's new 370,798-sf spec warehouse at Riverport, which pushed the mid-year total to over 3.0 msf. There is currently more than 4.8 msf under construction, including 1.6 msf of build-to-suit projects and 3.2 msf of speculative product. With the still anticipated third and fourth quarter deliveries, year-end construction completions are on target to surpass the 6.0 msf record set in 2016.

### Outlook

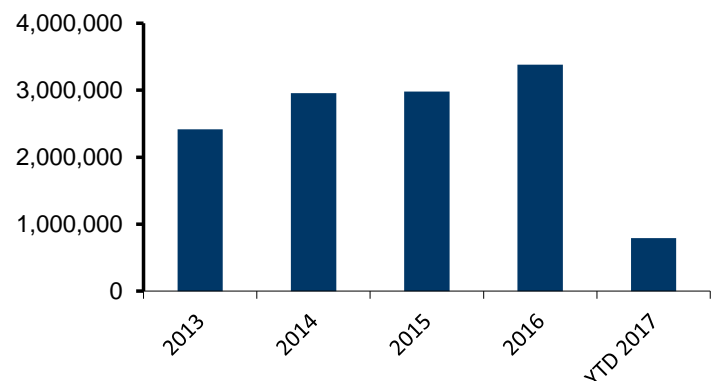
While both leasing activity and overall absorption were significantly down at mid-year, brokers and developers remain confident that conditions will improve during the second half of calendar year 2017. However, with mid-year construction completions of over 3.0 msf and an additional 4.8 msf currently in the construction pipeline, the vacancy rate is expected to increase until demand catches up with supply. In the interim, there may be some downward pressure on rents as developers compete for active prospects currently in the market.

The good news is that the supply side has new product ranging in size from 150,000 sf to over 600,000 sf. Given the active prospects currently in the market, we can expect absorption to reach at least 2.0 msf by year-end or perhaps more, but likely well shy of 2016 absorption of 3.4 msf. And the local economy remains vibrant with unemployment at 4.2%, full employment in the construction trades and \$1.8 billion dollars of new investment in downtown Louisville with a projected 2019 completion. Among those projects is the \$320 million, 612-room Omni Hotel, the \$180 million renovation of the Kentucky International Convention Center and over 1,200 new market rate apartments in the downtown or near-downtown neighborhoods.

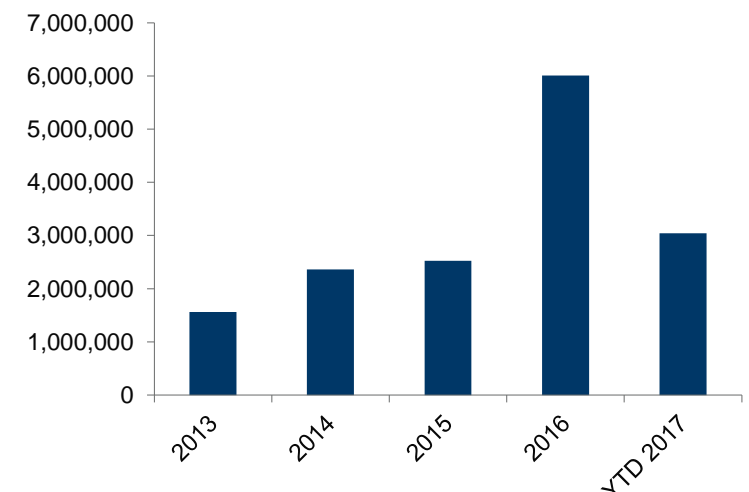
Leasing Activity (square feet)



Overall Absorption (square feet)



Construction Completions (square feet)



**MARKETBEAT**  
**Louisville**  
**Industrial Q2 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>92,396</b>	<b>10.0%</b>	<b>21,069</b>	<b>0</b>	<b>0</b>	<b>\$2.50</b>	<b>\$7.01</b>	<b>\$3.95</b>
Downtown	225	10,354,153	66,681	14.6%	25,898	0	0	\$2.35	\$5.01	N/A
I-64	62	1,989,433	0	9.8%	-22,102	0	0	\$4.55	\$10.27	N/A
I-65	151	9,263,875	25,715	4.8%	17,273	0	0	\$2.69	\$7.95	\$3.95
<b>East</b>	<b>383</b>	<b>24,853,525</b>	<b>229,679</b>	<b>1.1%</b>	<b>95,419</b>	<b>879,105</b>	<b>44,119</b>	<b>N/A</b>	<b>\$7.21</b>	<b>\$4.32</b>
Jeffersontown	268	11,830,141	119,321	1.6%	34,361	409,165	44,119	N/A	\$6.78	\$2.40
Middletown / Eastpoint	78	3,538,311	110,358	2.0%	35,286	145,000	0	N/A	\$8.94	\$6.25
Westport Road	37	9,485,073	0	0.1%	25,772	324,940	0	N/A	\$5.58	N/A
<b>South</b>	<b>497</b>	<b>49,216,906</b>	<b>11,000</b>	<b>4.2%</b>	<b>425,006</b>	<b>1,307,525</b>	<b>392,810</b>	<b>\$3.86</b>	<b>\$7.61</b>	<b>\$3.81</b>
Airport	168	24,756,117	11,000	2.6%	-12,468	1,307,525	126,810	\$3.88	\$6.73	\$4.63
Bishop Lane	210	8,877,322	0	1.5%	22,921	0	56,000	\$4.16	\$7.07	\$4.50
Fern Valley	119	15,583,467	0	8.5%	414,553	0	210,000	\$3.29	\$9.02	\$3.63
<b>West / Southwest</b>	<b>178</b>	<b>21,626,244</b>	<b>0</b>	<b>8.6%</b>	<b>306,107</b>	<b>452,745</b>	<b>733,298</b>	<b>N/A</b>	<b>\$4.19</b>	<b>\$3.29</b>
Iroquois	11	828,136	0	0.0%	0	452,745	0	N/A	N/A	N/A
Riverport	109	17,389,386	0	10.0%	243,607	0	733,298	N/A	\$4.19	\$3.35
Westend	58	3,408,722	0	3.8%	62,500	0	0	N/A	N/A	\$2.13
<b>Bullitt County</b>	<b>55</b>	<b>14,391,880</b>	<b>0</b>	<b>12.3%</b>	<b>-332,202</b>	<b>1,364,120</b>	<b>615,798</b>	<b>N/A</b>	<b>N/A</b>	<b>\$3.84</b>
<b>Southern Indiana</b>	<b>244</b>	<b>21,765,071</b>	<b>0</b>	<b>16.7%</b>	<b>278,045</b>	<b>879,400</b>	<b>1,257,600</b>	<b>\$3.86</b>	<b>\$4.50</b>	<b>\$3.69</b>
Floyd County	87	4,771,601	0	13.6%	-3,602	75,000	0	\$3.87	\$3.25	\$3.75
Clark County	157	16,993,470	0	17.6%	281,647	804,400	1,257,600	\$3.75	\$4.69	\$3.69
<b>LOUISVILLE TOTALS</b>	<b>1,795</b>	<b>153,461,087</b>	<b>333,075</b>	<b>7.7%</b>	<b>793,444</b>	<b>4,882,895</b>	<b>3,043,625</b>	<b>\$3.26</b>	<b>\$6.78</b>	<b>\$3.68</b>

\*Rental rates reflect asking \$psf/year

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

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Warehouse/Distribution	585	76,216,547	76,000	10.9%	657,051	4,190,980	2,999,506	1,890,046	\$3.50	\$3.68
Manufacturing	994	69,981,967	245,082	4.2%	243,240	606,750	44,119	188,394	\$3.09	\$3.26
Office Service/Flex	216	7,262,573	11,993	6.9%	-106,847	85,165	0	243,810	\$6.67	\$6.78

**Key Lease Transactions Q2 2017**

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1000 Patrol Road	300,000	Census Bureau	Lease	Southern Indiana
1150 Patrol Road	100,000	Bluegrass Logistics	Lease	Southern Indiana
6710 Grade Lane	66,300	Buske	Lease	South
7101 Intermodal	62,500	Waxman Sales	Lease	West / Southwest

**Key Sales Transactions Q2 2017**

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
7000 Riverport / 7201 Intermodal / 7050 Riverport Portfolio Sale	612,000	DCT / GLP	\$26,800,000 / \$44	West / Southwest
3400 Robards / 7201 Logistics Portfolio Sale	325,462	R.C. Tway / Cardinal Real Estate	\$27,000,000 / \$83	South & West / Southwest
2100 Future Drive	146,575	Manitowoc / Rexing Land LLC	\$4,800,000 / \$33	Southern Indiana

**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.

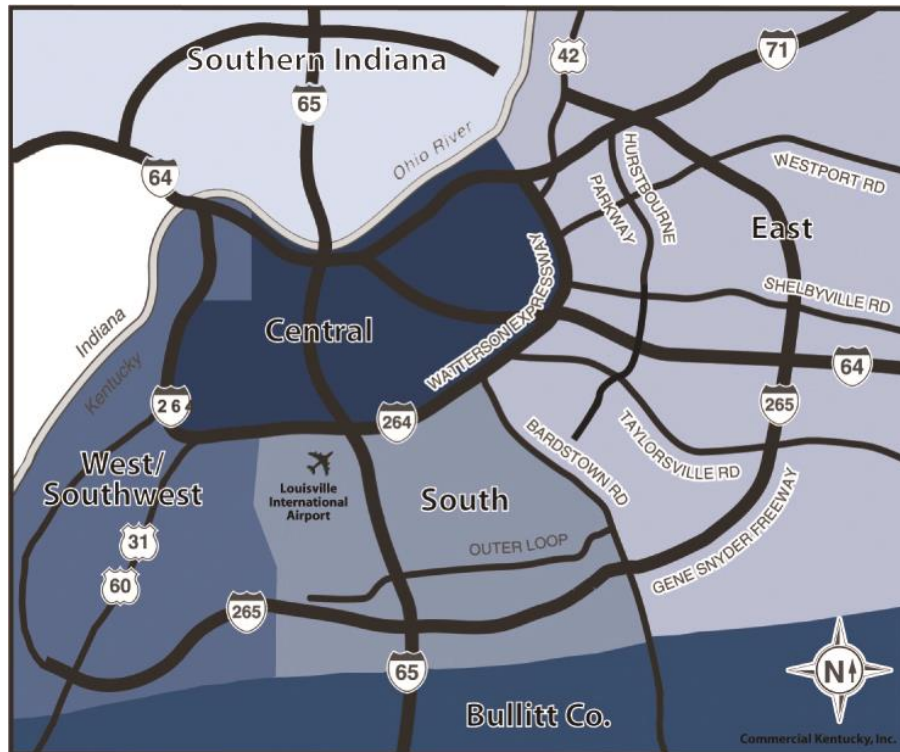
**East:** Runs along the eastern portion of I-264 down Bardstown Road and extends east. Exceptional highway accessibility makes the submarket ideal for distribution.

**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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