

# MARKETBEAT

## Louisville

### Industrial Q3 2017



#### LOUISVILLE INDUSTRIAL

##### Economic Indicators

|                         | Q3 16 | Q3 17 | 12-Month Forecast |
|-------------------------|-------|-------|-------------------|
| Louisville Employment   | 664k  | 673k  | ▲                 |
| Louisville Unemployment | 4.2%  | 4.6%  | ▲                 |
| U.S. Unemployment       | 4.9%  | 4.4%  | ▲                 |

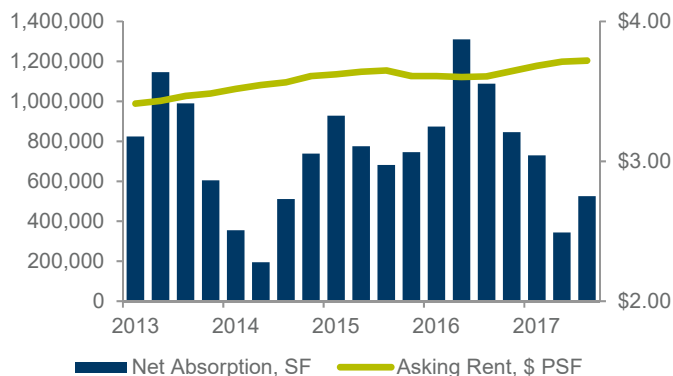
##### Market Indicators (Overall, All Product Types)

|                         | Q3 16  | Q3 17  | 12-Month Forecast |
|-------------------------|--------|--------|-------------------|
| Vacancy                 | 6.2%   | 8.1%   | ▼                 |
| YTD Net Absorption (sf) | 3.1M   | 1.8M   | ▲                 |
| Under Construction (sf) | 6.5M   | 6.3M   | ▼                 |
| Average Asking Rent*    | \$3.67 | \$3.70 | ▲                 |

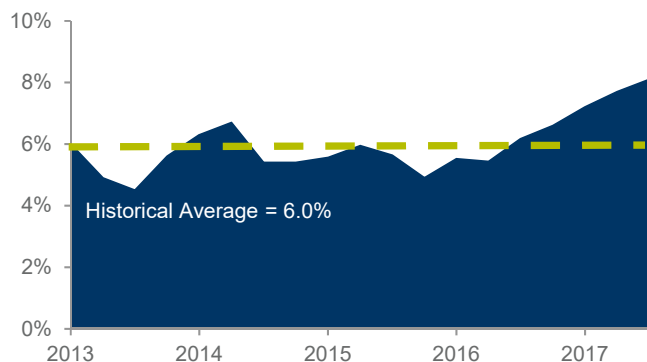
\*Rental rates reflect net asking \$psf/year

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

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economic Overview

The demand for industrial product remained robust as the national vacancy rate continued to fall, reaching 5.3% at mid-year. The forecast calls for strong occupancies and continued rent growth as eCommerce, distribution, fulfillment centers and third-party logistics continue to drive significant requirements for new industrial space across the country, accounting for as much as 25% of all leasing activity nationwide.

Solid activity in the warehouse/distribution sector has been complemented by solid growth in the manufacturing sector, prompting Forbes Magazine to name Louisville as the number one city in the U.S. where manufacturing is thriving. Since 2011, manufacturing employment in the Louisville Metro grew 30.2%, representing 12.4% of jobs in the local economy. Further underscoring this growth was Ford Motor Company's recent announcement of a \$900-million investment in its Kentucky Truck Plant to build the all-new Expeditions and Lincoln Navigators.

Given this solid job growth, positive manufacturing and eCommerce outlook, strong transportation indices, consumer confidence and rising wages, historic industrial growth is expected to continue.

## Overall Market Overview

Third quarter leasing activity of over 2.1 million square feet (msf) pushed the year-to-date (YTD) total to 4.2 msf, 12% less than reported third quarter 2017. Southern Indiana accounted for 37% of the total activity followed by the West/Southwest and South submarkets at 24% and 20%, respectively.

The overall vacancy rate increased 0.4 percentage point during the quarter from 7.7% reported last quarter to 8.1%, which is the highest the Louisville Metro area has recorded since the 8.4% in 2010. The quarterly increases in vacancy are largely the result of speculative construction delivering over the past seven quarters.

Speculative construction completions for the third quarter included Browning's new 721,050 square feet (sf) at Velocity65 in Bullitt County and Main Street Realty's new 452,745 sf in the West/Southwest, pushing the YTD construction deliveries to over 4.6 msf.

There was more than 6.0 msf under construction in the Louisville Metro area as of third quarter, including 2.5 msf of build-to-suit projects and 3.6 msf of speculative product. Along with anticipated fourth quarter deliveries, year-end construction completions are on target to surpass the all-time record set in 2016 of 6.0 msf, resulting in increased vacancy rates as supply catches up with demand.

The third quarter overall absorption of 1.2 msf brought the YTD total to 1.8 msf. Southern Indiana recorded over half of the quarter's total given Ingram Micro's 592,800 sf lease at River Ridge. With UPS's 895,375 sf Centennial expansion scheduled for completion in November, along with a handful of other transactions anticipated in the fourth quarter, absorption should closely mirror the 3.4 msf recorded in 2016, with a 2.7 msf annual average since 2011.

Significant industrial sales activity continued in the third quarter: UPS purchased six buildings from Dixie Real Properties totaling 916,109 sf and Exeter acquired two buildings from Louisville United, five buildings from Sparrowhawk, and one building from Gray Construction totaling over 1.5 msf.

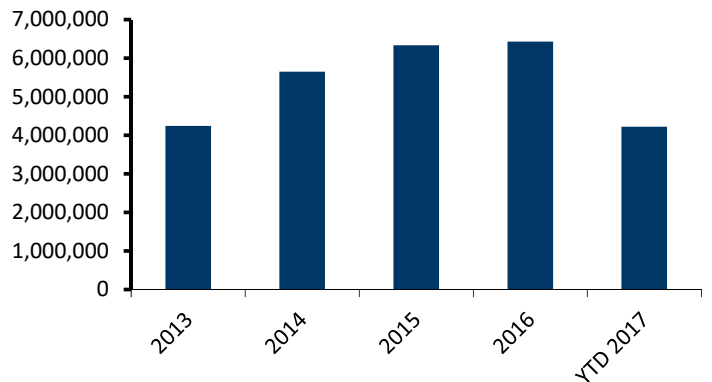
### Bulk Market Overview

YTD leasing activity for industrial bulk product is approaching 3.0 msf with YTD absorption at 1.9 msf. The third quarter bulk vacancy rate stood at 12.5% compared to 8.3% during third quarter 2016. End of the year record-setting industrial bulk construction completions including 1.5 msf of build-to-suit and over 4.0 msf of speculative space are expected. Given the anticipated acceleration of absorption, the overall bulk vacancy rate is expected to decline by year-end. Industrial sales on Class A bulk product continued to be strong with cap rates under 7.0% and prices exceeding \$60.00 per square foot.

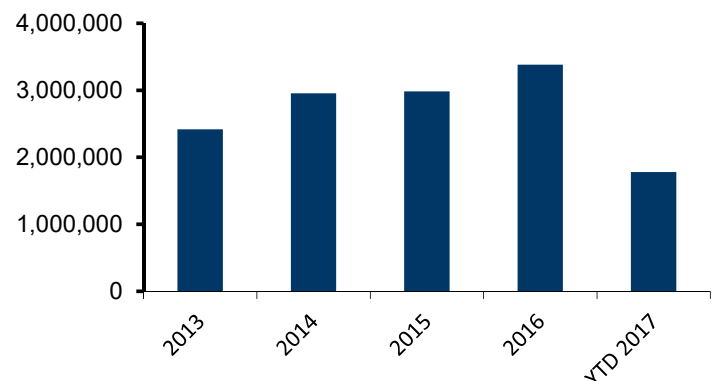
### Outlook

- Net industrial absorption should exceed 3.0 msf in 2017
- Expect downward pressure on rents as developers compete for active prospects currently in the market
- Look for continued developer interest in industrial portfolio sales and the construction of bulk warehouse space
- E-commerce growth will continue to increase the demand for industrial warehouse activity

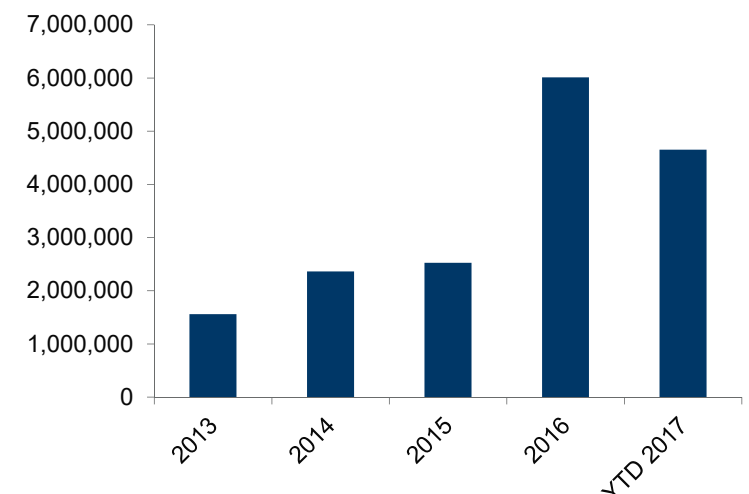
Leasing Activity (square feet)



Overall Absorption (square feet)



Construction Completions (square feet)



# MARKETBEAT

## Louisville

Industrial Q3 2017



### Industrial Market Statistics – Overall – Q3 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 (W/D) |
|--------------------------|--------------|--------------------|------------------------------|----------------------|---------------------------------|------------------|-----------------------|-------------------------------------|-------------------------------------|--------------------------------------|
| <b>Central</b>           | <b>438</b>   | <b>21,607,461</b>  | <b>143,235</b>               | <b>10.1%</b>         | <b>8,983</b>                    | <b>0</b>         | <b>0</b>              | <b>\$2.63</b>                       | <b>\$6.12</b>                       | <b>\$3.95</b>                        |
| Downtown                 | 225          | 10,354,153         | 97,962                       | 14.9%                | -4,090                          | 0                | 0                     | \$2.47                              | \$5.01                              | N/A                                  |
| I-64                     | 62           | 1,989,433          | 19,558                       | 10.3%                | -30,602                         | 0                | 0                     | \$4.87                              | \$8.37                              | N/A                                  |
| I-65                     | 151          | 9,263,875          | 25,715                       | 4.6%                 | 43,675                          | 0                | 0                     | \$2.69                              | \$5.68                              | \$3.95                               |
| <b>East</b>              | <b>385</b>   | <b>24,959,032</b>  | <b>265,359</b>               | <b>1.1%</b>          | <b>194,122</b>                  | <b>793,904</b>   | <b>149,626</b>        | <b>\$7.23</b>                       | <b>\$7.80</b>                       | <b>N/A</b>                           |
| Jeffersontown            | 270          | 11,929,421         | 155,001                      | 1.7%                 | 120,151                         | 323,964          | 143,399               | \$7.43                              | \$6.99                              | N/A                                  |
| Middletown / Eastpoint   | 78           | 3,544,538          | 110,358                      | 1.9%                 | 43,699                          | 145,000          | 6,227                 | \$5.65                              | \$10.03                             | N/A                                  |
| Westport Road            | 37           | 9,485,073          | 0                            | 0.1%                 | 30,272                          | 324,940          | 0                     | N/A                                 | \$6.09                              | N/A                                  |
| <b>South</b>             | <b>497</b>   | <b>49,308,901</b>  | <b>947,029</b>               | <b>4.5%</b>          | <b>298,381</b>                  | <b>4,137,581</b> | <b>480,560</b>        | <b>\$3.93</b>                       | <b>\$7.09</b>                       | <b>\$3.66</b>                        |
| Airport                  | 168          | 24,848,112         | 947,029                      | 3.0%                 | -24,237                         | 3,787,581        | 214,560               | \$3.75                              | \$6.73                              | \$3.62                               |
| Bishop Lane              | 210          | 8,877,322          | 0                            | 2.2%                 | -5,656                          | 0                | 56,000                | \$4.04                              | \$8.29                              | \$4.90                               |
| Fern Valley              | 119          | 15,583,467         | 0                            | 8.3%                 | 328,274                         | 350,000          | 210,000               | \$4.19                              | \$4.96                              | \$3.61                               |
| <b>West / Southwest</b>  | <b>179</b>   | <b>22,078,989</b>  | <b>0</b>                     | <b>9.5%</b>          | <b>535,725</b>                  | <b>330,000</b>   | <b>1,186,043</b>      | <b>N/A</b>                          | <b>\$4.19</b>                       | <b>\$3.36</b>                        |
| Iroquois                 | 12           | 1,280,881          | 0                            | 35.3%                | 0                               | 330,000          | 452,745               | N/A                                 | N/A                                 | \$3.75                               |
| Riverport                | 109          | 17,389,386         | 0                            | 8.7%                 | 473,225                         | 0                | 733,298               | N/A                                 | \$4.19                              | \$3.30                               |
| Westend                  | 58           | 3,408,722          | 0                            | 3.8%                 | 62,500                          | 0                | 0                     | N/A                                 | N/A                                 | \$2.12                               |
| <b>Bullitt County</b>    | <b>56</b>    | <b>15,112,930</b>  | <b>0</b>                     | <b>15.7%</b>         | <b>-221,947</b>                 | <b>456,053</b>   | <b>1,336,848</b>      | <b>N/A</b>                          | <b>N/A</b>                          | <b>\$3.82</b>                        |
| <b>Southern Indiana</b>  | <b>247</b>   | <b>21,983,355</b>  | <b>0</b>                     | <b>15.3%</b>         | <b>962,918</b>                  | <b>606,177</b>   | <b>1,475,884</b>      | <b>\$3.70</b>                       | <b>\$4.69</b>                       | <b>\$3.60</b>                        |
| Floyd County             | 88           | 4,874,885          | 0                            | 17.0%                | 105,682                         | 0                | 103,284               | \$4.01                              | N/A                                 | \$3.75                               |
| Clark County             | 159          | 17,108,470         | 0                            | 14.8%                | 857,236                         | 606,177          | 1,372,600             | \$3.67                              | \$4.69                              | \$3.60                               |
| <b>LOUISVILLE TOTALS</b> | <b>1,802</b> | <b>155,050,668</b> | <b>1,355,623</b>             | <b>8.1%</b>          | <b>1,778,182</b>                | <b>6,323,715</b> | <b>4,628,961</b>      | <b>\$3.43</b>                       | <b>\$6.85</b>                       | <b>\$3.59</b>                        |

\*Rental rates reflect asking \$psf/year

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

### Industrial Market Statistics – By Property Type – Q3 2017

| PROPERTY TYPE            | TOTAL BLDGS  | INVENTORY (SF)     | YTD USER SALES ACTIVITY (SF) | OVERALL VACANCY RATE | YTD OVERALL NET ABSORPTION (SF) | UNDER CNSTR (SF) | YTD CNSTR COMPLETIONS | YTD OVERALL LEASING ACTIVITY | OVERALL WEIGHTED AVG. NET RENT Q3 2016 | OVERALL WEIGHTED AVG. NET RENT Q3 2017 |
|--------------------------|--------------|--------------------|------------------------------|----------------------|---------------------------------|------------------|-----------------------|------------------------------|--|--|
| Warehouse/Distribution   | 588          | 77,493,626         | 1,000,829                    | 11.3%                | 1,417,200                       | 5,990,942        | 4,276,585             | 3,372,560                    | \$3.59                                 | \$3.59                                 |
| Manufacturing            | 996          | 70,195,189         | 287,563                      | 4.7%                 | 314,162                         | 282,809          | 253,096               | 494,085                      | \$3.03                                 | \$3.43                                 |
| Office Service/Flex      | 218          | 7,361,853          | 67,231                       | 6.1%                 | 46,820                          | 49,964           | 99,280                | 353,805                      | \$6.88                                 | \$6.85                                 |
| <b>LOUISVILLE TOTALS</b> | <b>1,802</b> | <b>155,050,668</b> | <b>1,355,623</b>             | <b>8.1%</b>          | <b>1,778,182</b>                | <b>6,323,715</b> | <b>4,628,961</b>      | <b>4,220,450</b>             | <b>\$3.67</b>                          | <b>\$3.69</b>                          |

### Industrial Market Statistics – Bulk – Q3 2017

| SUBMARKET                | TOTAL BLDGS | INVENTORY (SF)    | YTD INVESTMENT SALES ACTIVITY (SF) | OVERALL VACANCY RATE | YTD OVERALL NET ABSORPTION (SF) | UNDER CNSTR (SF) | YTD CNSTR COMPLETIONS | YTD OVERALL LEASING ACTIVITY | OVERALL WEIGHTED AVG. NET RENT Q3 2016 | OVERALL WEIGHTED AVG. NET RENT Q3 2017 |
|--------------------------|-------------|-------------------|------------------------------------|----------------------|---------------------------------|------------------|-----------------------|------------------------------|--|--|
| Central                  | 2           | 526,540           | 0                                  | 16.0%                | 0                               | 0                | 0                     | 0                            | \$3.95                                 | \$3.95                                 |
| East                     | 21          | 4,362,120         | 0                                  | 0%                   | 0                               | 693,940          | 0                     | 65,448                       | \$4.95                                 | N/A                                    |
| South                    | 44          | 14,139,410        | 1,417,737                          | 5.3%                 | 401,909                         | 4,126,865        | 210,000               | 448,059                      | \$3.84                                 | \$3.93                                 |
| West / Southwest         | 46          | 12,058,700        | 1,153,462                          | 15.4%                | 504,545                         | 330,000          | 1,186,043             | 1,108,214                    | \$3.41                                 | \$3.41                                 |
| Bullitt County           | 28          | 13,343,621        | 0                                  | 16.4%                | -31,362                         | 428,960          | 1,267,050             | 370,638                      | \$3.79                                 | \$3.82                                 |
| Southern Indiana         | 25          | 9,744,473         | 0                                  | 19.5%                | 992,800                         | 506,177          | 1,257,600             | 992,800                      | \$3.97                                 | \$3.86                                 |
| <b>LOUISVILLE TOTALS</b> | <b>166</b>  | <b>54,174,864</b> | <b>2,571,199</b>                   | <b>12.5%</b>         | <b>1,867,892</b>                | <b>6,085,942</b> | <b>3,920,693</b>      | <b>2,985,159</b>             | <b>\$3.79</b>                          | <b>\$3.73</b>                          |

\*Bulk is defined by 100,000 sf +, Class A, 28'+ clear, and ESFR.

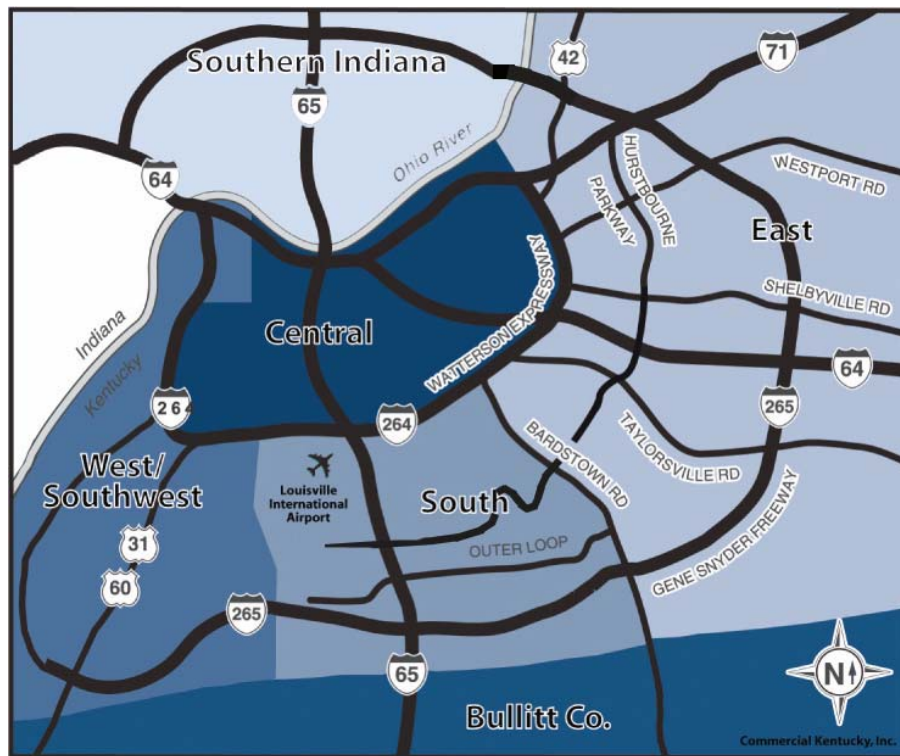
Key Lease Transactions Q3 2017

| PROPERTY                 | SF      | TENANT       | TRANSACTION TYPE | SUBMARKET        |
|--------------------------|---------|--------------|------------------|------------------|
| 250 Hilton Drive         | 592,800 | Ingram Micro | Lease            | Southern Indiana |
| 3212 East Blue Lick Road | 300,840 | Keen Shoes   | Lease            | Bullitt County   |
| 7200 Global Drive        | 225,000 | JB Hunt      | Sublease         | West / Southwest |
| 5808 Johnstontown Road   | 119,618 | Chep USA     | Lease            | West / Southwest |

Key Sales Transactions Q3 2017

| PROPERTY                                 | SF      | SELLER/BUYER                | PRICE / \$PSF       | SUBMARKET        |
|--|---------|-----------------------------|---------------------|------------------|
| Grade Lane (6 Buildings)                 | 916,109 | Dixie Real Properties / UPS | \$32,299,500 / \$35 | South            |
| Global Distribution Way (2 Buildings)    | 771,897 | Louisville United / Exeter  | \$46,500,000 / \$60 | South            |
| Ampere / Carrier / Produce (5 Buildings) | 584,856 | Sparrowhawk / Exeter        | \$31,900,000 / \$55 | South / East     |
| 1150 Patrol Road                         | 200,000 | Gray Construction / Exeter  | \$11,600,000 / \$58 | Southern Indiana |

Louisville Industrial Submarkets



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