

MARKETBEAT

Louisville

Office Q1 2017



LOUISVILLE OFFICE

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%	▲

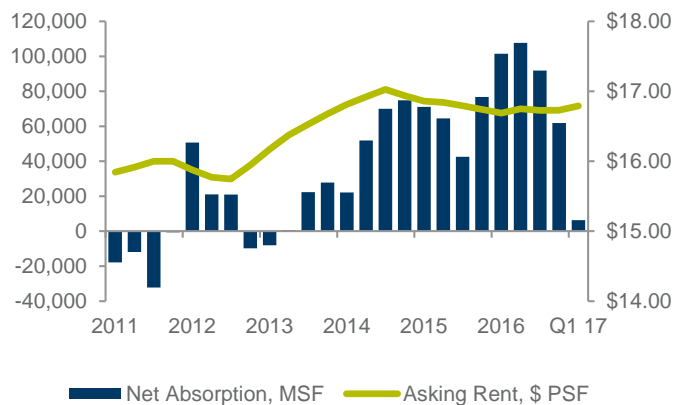
Market Indicators (Overall, All Classes)

	Q1 16	Q1 17	12-Month Forecast
Vacancy	11.7%	12.9%	▲
YTD Net Absorption (sf)	136k	-86k	■
Under Construction (sf)	368k	160k	■
Average Asking Rent*	\$16.57	\$16.81	■

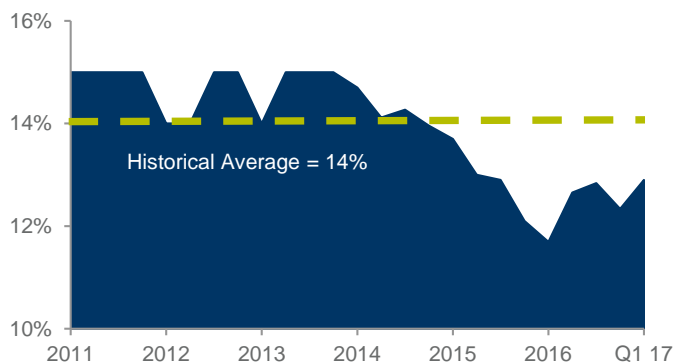
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic Overview

Although the U.S. economy is still creating a healthy number of jobs, the rate of business hiring is slowing. In the fourth quarter of 2016, total U.S. employment increased an average of 165,000 jobs per month, a deceleration from the 212,000 jobs per month added in the third quarter of last year. The slowdown was also evident in key office-using sectors: financial services, professional and business services and information. Office-using employment expanded by an average of 44,000 jobs per month in the fourth quarter, well below the 78,000 per month average of the third quarter.

The somewhat slower employment growth was reflected in the performance of office markets throughout the fourth quarter of 2016, as absorption of office space declined to 6.9 million square feet, the smallest amount of space absorbed since the second quarter of 2012. Louisville was no exception as the overall office market reported negative absorption during the first quarter of 2017.

This negative absorption, coupled with the lack of new construction and tepid demand for office space has positioned Louisville as the “outlet mall” for quality, low cost, CBD office space in the Midwest. Quality space, low cost!

Market Overview

The Louisville CBD leasing activity reached 56,928 square feet (SF) for the first quarter, 23% less than the 73,893 SF recorded in the first quarter of 2016. Class A reported 42,516 SF and Class B 14,412 SF. Notable leasing activity included Scoppechio leasing 40,305 SF at 400 West Market.

The overall CBD vacancy rate stood at 15.6%, a 2.8 percentage point increase from last quarter. The CBD Class A vacancy rate reached 15.9% and Class B measured 15.5%, representing increases of 4.7% and 1.6%, respectively, in both classes since last quarter. The Class A increase in vacancy is largely attributed to PNC vacating 149,765 SF at 500 West Jefferson and Humana vacating 50,987 SF at National City. The 1.6 percentage point uptick in Class B vacancy is partially due to company downsizing this quarter accompanied by a 353,088 SF reduction due to the removal of buildings from statistics that are either now owner occupied or are being redeveloped into boutique hotels or event venues.

The CBD reported 203,857 SF of negative absorption in the first quarter with Class A representing 82% of this total. Despite the increased vacancy rates and negative absorption, the CBD average asking rents increased across all classes with overall average rent at \$16.67 per square foot (PSF), Class A at \$19.58 PSF, and Class B at \$14.34 PSF.

The suburban submarket reported 174,818 SF of leasing transactions during the first quarter, a 27% increase over the first quarter of 2016 with Class A and B representing 75% and 25%, respectively, of this total activity.

The overall suburban vacancy rate fell to 10.9%, a 1.1 percentage point decrease from last quarter. Both Class A and B vacancy rates declined this quarter with Class A at 7.6% and Class B at 14.2%. The majority of the suburban submarkets are experiencing some of the lowest vacancy rates in years including Plainview/ Middletown at 15.9%, the lowest recorded since 2007; Northeast at 5.5%, lowest since 1997; St. Matthews at 9.4%, lowest since 2004; and Old Louisville at 18.8%, lowest since 2002.

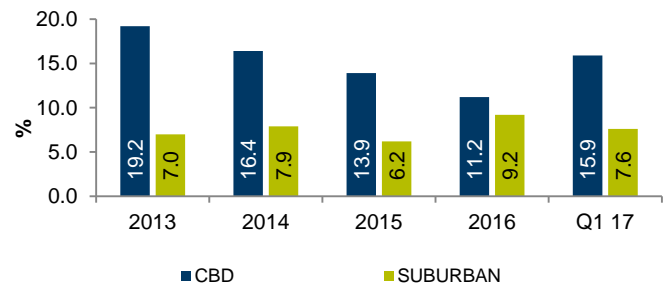
The suburban submarket reported 117,705 SF of absorption during first quarter with Class A representing 80% of the total. Notable activity included WageWorks's 50,000-SF lease at Commerce Crossings, Norton Healthcare's 18,214-SF lease at 9500 Ormsby Station Road, and Comprehensive Health Management's 11,500-SF expansion at 13551 Triton Park.

Outlook

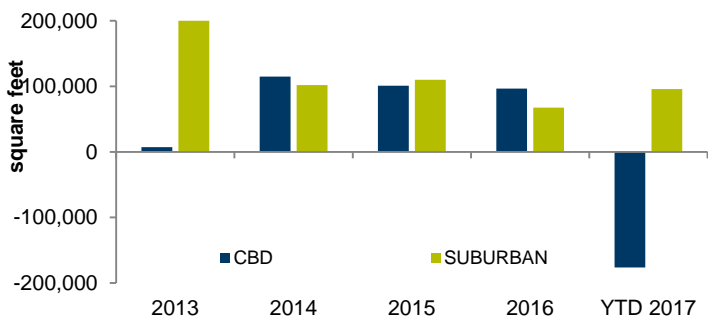
Deceleration in real GDP in the fourth quarter to 2.1% from 3.5% in the third quarter continues to underscore a sluggish recovery despite the Trump administration's efforts to stimulate the U.S. economy. The U.S. economy grew 1.6% for all of 2016, its worst performance since 2011 after expanding 2.6% in 2015. However, the U.S. economy may get a boost from President Trump's proposed stimulus package promising sweeping tax cuts for both businesses and individuals as well as infrastructure spending and less government regulation of businesses, both large and small.

With an estimated \$1.2 billion in new private development underway in downtown Louisville, the local economic outlook looks promising. Citywide private development is on track to break \$4 billion over the next two years including several significant multi-family and upscale apartment projects that will add measurably to the energy and vitality of Louisville.

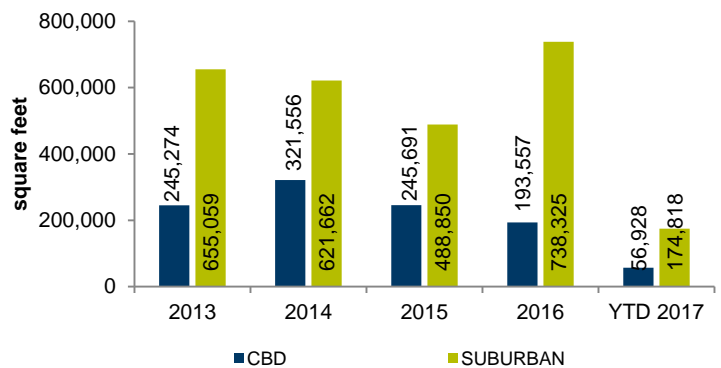
Class A Overall Vacancy Rates – CBD & Suburban



Class A YTD Overall Net Absorption CBD & Suburban



YTD Leasing Activity – CBD & Suburban



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	8,677,843	13,925	1,337,791	15.6%	-203,857	-203,857	56,928	0	\$16.67	\$19.58
Suburban	11,332,989	42,061	1,194,404	10.9%	117,705	117,705	174,818	160,000	\$16.95	\$21.82
Old Louisville	402,440	0	75,857	18.8%	15,000	15,000	15,000	0	\$10.29	N/A
Hurstbourne/Eastpoint	4,530,938	6,378	401,916	9.0%	17,113	17,113	51,465	160,000	\$20.80	\$22.01
Plainview/Middletown	1,523,353	0	242,178	15.9%	45,474	45,474	14,676	0	\$15.88	N/A
Southeast	1,337,240	0	78,920	5.9%	1,641	1,641	0	0	\$16.10	\$18.21
Northeast	735,207	2,998	37,461	5.5%	3,867	3,867	19,813	0	\$23.31	\$23.31
St. Matthews	1,414,542	0	133,600	9.4%	17,270	17,270	21,033	0	\$15.03	\$21.03
South Central	1,389,269	32,685	224,472	18.5%	17,340	17,340	52,831	0	\$14.09	N/A
LOUISVILLE TOTALS	20,010,832	55,986	2,532,195	12.9%	-86,152	-86,152	231,746	160,000	\$16.81	\$20.51

*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	9,507,794	8,381	1,029,243	10.9%	-80,408	-80,408	174,320	160,000	\$20.53	\$20.51
Class B	9,838,261	47,605	1,408,886	14.8%	-10,908	-10,908	57,426	0	\$14.64	\$14.64
Class C	664,777	0	94,066	14.2%	5,164	5,164	0	0	\$9.48	\$9.48

Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5200 Commerce Crossings	50,000	WageWorks	Lease	South Central
400 West Market	40,305	Scoppechio	Lease	CBD
9500 Ormsby Station Road	18,214	Norton Healthcare	Lease	Hurstbourne / Eastpoint
9600 Brownsboro	17,995	Republic Bank	Lease	Northeast
13551 Triton Park Blvd.	11,500	Comprehensive Health Management	Expansion	Hurstbourne / Eastpoint

Key Sales Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
First Trust Centre	137,704	First Trust Restoration Partners / Market Street Real Estate Partners	\$5,800,000 / \$42	CBD
10140 Linn Station Road	52,000	LPC Venture / Statewide Mortgage	\$4,200,000 / \$81	Plainview / Middletown
140 Whittington Parkway	22,000	Liberty Landmark Group / Global X Tax Asset Solutions	\$2,375,000 / \$108	Hurstbourne / Eastpoint

OFFICE SUBMARKETS

LOUISVILLE, KENTUCKY

Central Business District (CBD): Extends from River Rd. to York St. and from Hancock St. to Ninth St.

Old Louisville: Includes the downtown area immediately surrounding the CBD, as well as Old Louisville.

Hurstbourne/Eastpoint: Largest suburban market includes areas east of I-264, north of Shelbyville Rd. and south of Westport Rd.

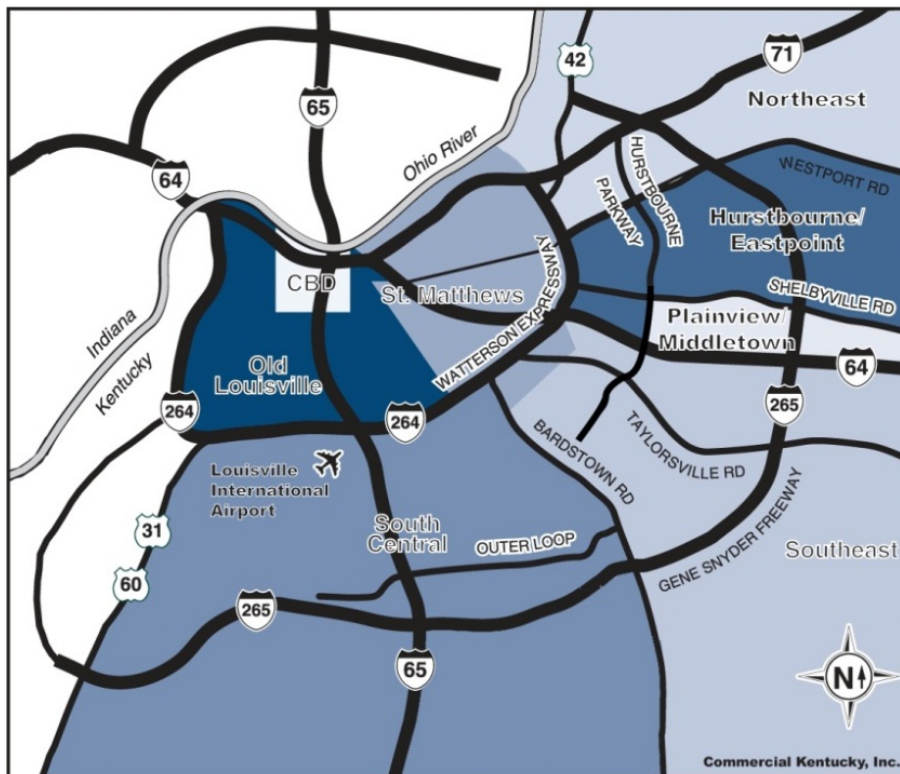
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

Southeast: Includes the area along S. Hurstbourne Parkway, extending south from I-64 to Bardstown Rd.

Northeast: Embodies an area south of the Ohio River, north of Westport Rd. and east of I-264.

St. Matthews: Largely within I-264 and east of Bardstown Rd.

South Central: Encompasses an area southwest of Bardstown Rd. to Shively, which includes Louisville International Airport.



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