

Office Snapshot 2Q 2016

Louisville



LOUISVILLE OFFICE

Economic Indicators

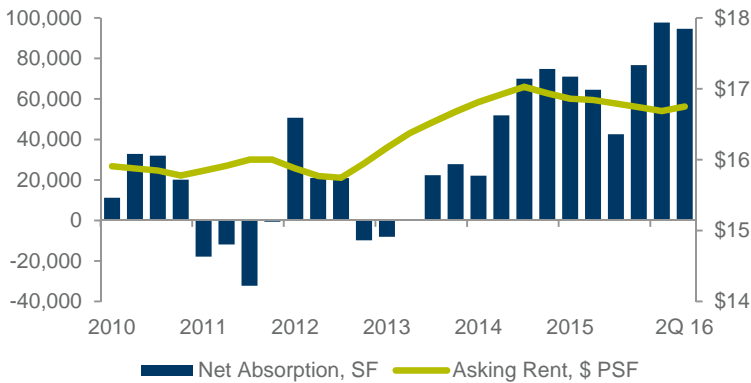
	2Q 15	2Q 16	12-Month Forecast
Louisville Employment	640k	657k	▲
Louisville Unemployment	4.7%	4.2%	▲
U.S. Unemployment	5.4%	4.9%	▲

Market Indicators (Overall, All Classes)

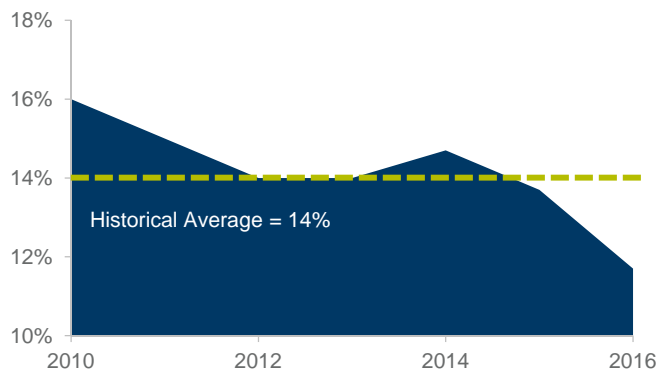
	2Q 15	2Q 16	12-Month Forecast
Overall Vacancy	13.0%	12.7%	▼
Net Absorption (sf)	70K	57k	▲
Under Construction (sf)	229k	101k	▲
Overall Average Asking Rent	\$16.85	\$17.10	▲

Net Absorption/Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

While the U.S. economy appeared to have recovered from the early-year financial market volatility and concerns of a global economic slowdown, particularly in China, a whole new set of headwinds were encountered during the second quarter. Great Britain's decision to exit the European Union sent shockwaves through the U.S. stock market and underscored the Federal Reserve's earlier decision not to raise interest rates at the June meeting. Add to this a recent rise in global terrorism and a disappointing May jobs report, the worst monthly job gain since 2010, and you may have a recipe for a weakening U.S. economy at mid-year.

Although second quarter GDP growth estimates will not be available until July 29th, first quarter GDP growth was revised downward to 1.1% which followed fourth quarter 2015 GDP growth of 1.4%. Accordingly, the Federal Reserve estimates of 2016 GDP growth was revised downward from 2.4% in December to 2.2% and will likely be revised downward yet again to 2.0% for the year.

Job growth during the second quarter was anemic at best, following significant gains averaging 209,000 jobs each month of the first quarter. April job gains of 123,000 were followed by only 38,000 job gains during the month of May, leaving U.S. unemployment levels at or slightly below 5%. The net result of slower job growth will likely be a corresponding decline in the upward pressure on wage rates anticipated for the second half of 2016 which could impact consumer spending for the balance of the year, a key driver of the U.S. economy.

Market Overview

Louisville CBD leasing activity reached 42,353 square feet (SF) for the second quarter bringing the year-to-date total to 116,246 SF, 73% of which is Class A and 27% Class B. The overall vacancy rate for the CBD continued its decline from 12.7% in the first quarter to 12.5%. Class A fell from 12.9% to 12.5%, and Class B dropped from 12.5% to 12.4%. The CBD reported 17,279 SF of positive absorption in the second quarter bringing the overall year-to-date absorption to 86,300 SF with Class A and B representing 55% and 45%, respectively. Notable CBD activity included MedSynergies' 13,980-SF expansion at Brown & Williamson Tower and El Toro's new 10,700-SF lease at 111 West Washington Street.

The suburban submarket reported 340,253 SF of leasing activity bringing the year-to-date total to 477,800 SF with Class A activity of 254,775 SF and Class B activity of 221,455 SF .

The overall suburban vacancy rate increased from 10.9% in the first quarter to 12.8% in the second quarter, with Class A increasing from 6.3% to 11.0% and Class B decreasing from 15.6% to 14.8%. The increase in the overall and Class A suburban vacancy rates is largely due to construction completions totaling 270,017 SF, 41% of which is currently occupied. Larger blocks of suburban space were also vacated this quarter including YUM! vacating 50,000 SF at 5200 Commerce Crossings Drive and United Healthcare leaving over 33,000 SF at Paragon Place. Although Paragon Place experienced negative absorption this quarter, it will balance out next quarter when Hogan Lovell moves into the former United Healthcare space.

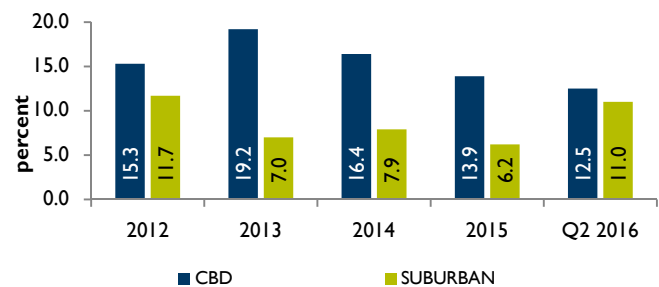
The suburban submarket reported 39,907 SF of absorption during the second quarter bringing the overall year-to-date absorption to 92,052 SF. Year-to-date Class A absorption stands at negative 38,604 SF with Class B at 134,660 SF .

Outlook

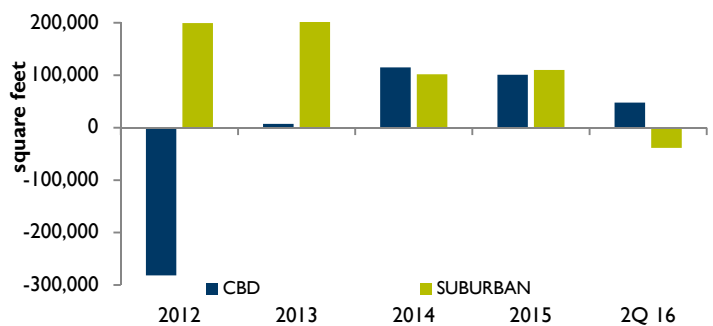
The disappointing growth trajectory of the U.S. economy has yet to be felt locally as evidenced by the continuing decline in the Louisville MSA unemployment rate which reached 4.2% in May, well below the national average. Strong employment growth, continuing low oil prices and stronger wage growth will likely be the key drivers of consumer spending at the local level. Add to this the prospects for elevated vehicle sales, including trucks and SUV's produced locally by Ford Motor Company which has encouraged Ford to invest \$2.4 billion to expand its Louisville operations and to add 2,000 jobs during 2016.

The Louisville housing market, both single family and multi-family, continues to improve as home prices are on the rise along with apartment rents. With the Ohio River Bridges Project entering the final phases of completion, some relief is expected in the construction industry towards year-end. However, any "slack" in the construction trades will likely be absorbed by the explosive growth of apartment construction and over 2,000 hotel rooms now underway in the Metro. Many of these hotel rooms are located in the CBD in anticipation of the complete renovation of the Kentucky International Convention Center expected to begin in August.

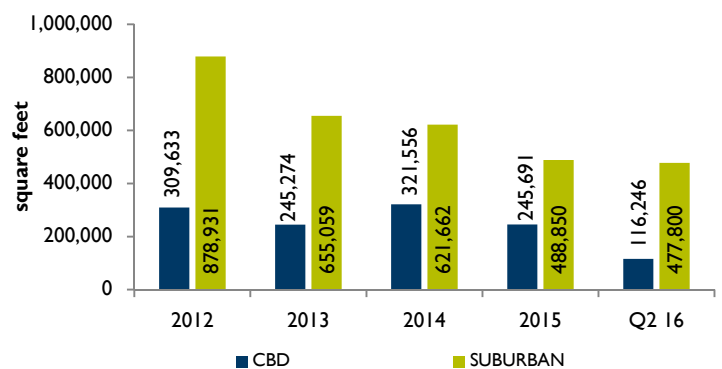
Class A Overall Vacancy Rates – CBD & Suburban



Class A YTD Overall Net Absorption CBD & Suburban



YTD Leasing Activity – CBD & Suburban



MARKETBEAT

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Louisville



SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	OVERALL VACANCY RATE	CURRENT NET ABSORPTION	YTD NET OVERALL ABSORPTION	UNDER CNSTR	DIRECT AVERAGE ASKING RENT (ALL CLASSES)*	DIRECT AVERAGE ASKING RENT (CLASS A)*
CBD	86	9,049,571	23,690	1,104,387	12.5%	17,279	86,300	0	\$16.89	\$20.76
Suburban	243	11,229,257	10,186	1,428,130	12.8%	39,907	92,052	101,000	\$17.31	\$21.00
Old Louisville	14	402,440	0	94,357	23.4%	0	30,000	0	\$11.00	N/A
Hurstbourne/Eastpoint	88	4,492,506	5,852	513,382	11.6%	(35,306)	(63,608)	92,500	\$20.88	\$21.70
Plainview/Middletown	32	1,519,133	4,334	288,977	19.3%	60,323	113,922	0	\$15.83	\$18.00
Southeast	26	1,338,260	0	86,834	6.5%	9,031	2,954	8,500	\$15.92	\$18.01
Northeast	19	735,207	0	43,201	5.9%	24,594	33,276	0	\$20.41	\$20.41
St. Matthews	42	1,414,542	0	159,612	11.3%	22,542	16,215	0	\$15.91	\$21.57
South Central	22	1,327,169	0	241,767	18.2%	(41,277)	(40,707)	0	\$14.82	\$16.85
LOUISVILLE TOTALS	329	20,278,828	33,876	2,532,517	12.7%	57,186	178,352	101,000	\$17.13	\$20.90

*Rental rates reflect gross asking \$psf/year

SUMMARY BY CLASS	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	101	9,498,814	5,433	1,098,387	11.6%	(3,942)	9,078	101,000	\$20.89	\$20.90
Class B	188	10,111,739	28,443	1,345,715	13.6%	59,558	173,278	0	\$14.52	\$14.52
Class C	40	668,275	0	88,415	13.2%	1,570	(4,004)	0	\$9.95	\$9.95

Key Lease Transactions 2Q 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2000 High Wickham	35,000	Schulte Hospitality Group	Lease	Hurstbourne/Eastpoint
12450 Lake Station Place	28,976	Donan Engineering	Lease	Southeast
9901 Linn Station Road	22,032	Kentucky Farm Bureau	Lease	Plainview/Middletown
4801 Olympia Park Plaza	21,000	Norton Healthcare	Lease	Northeast
297 Hubbards Lane	18,416	Wells Fargo Advisors	Lease	St. Matthews
10400 Linn Station	17,792	Medquest	Lease	Plainview/Middletown
10100 Linn Station	15,149	Compucom	Expansion	Plainview/Middletown

Key Sales Transactions 2Q 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$ PSF	SUBMARKET
207 West Market	14,400	Godsey Associates Architects / Passalino's	\$1,300,000 / \$90	CBD

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.

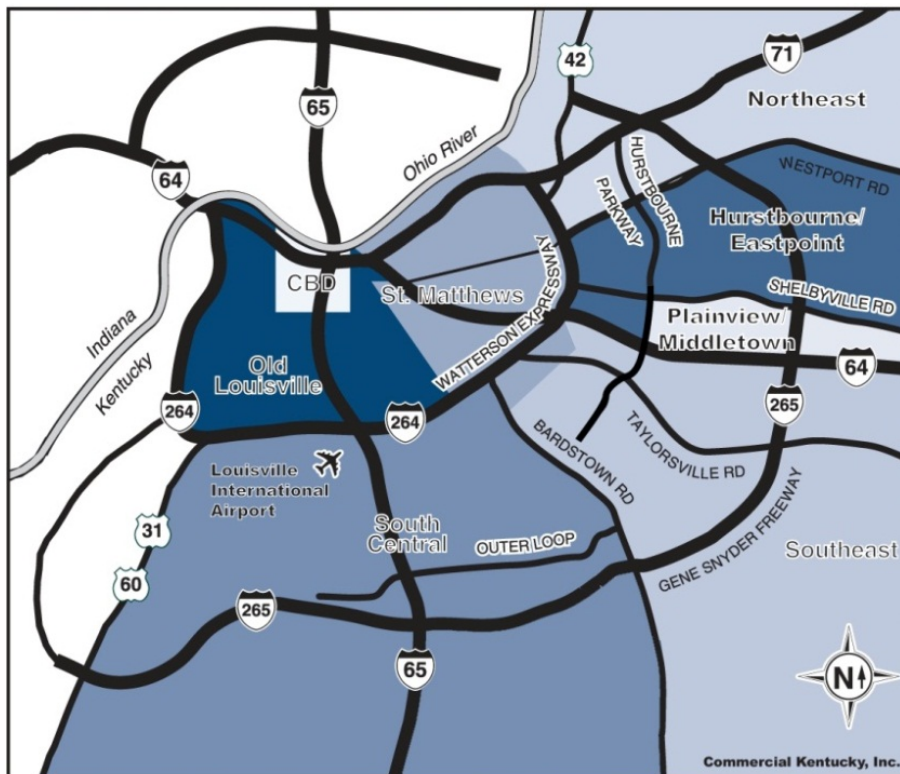
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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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