

MARKETBEAT

Louisville

Office Q2 2017



LOUISVILLE OFFICE

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%	▲

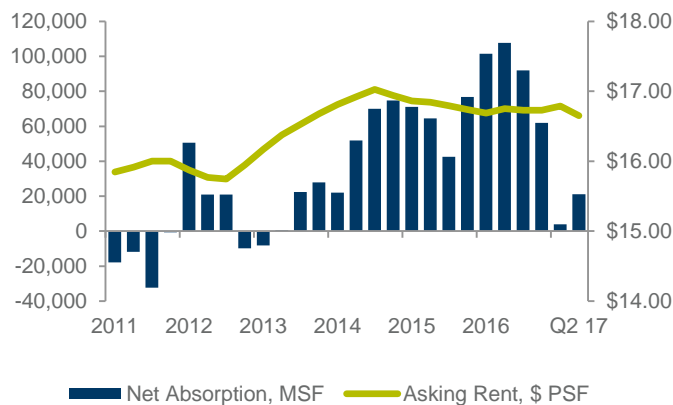
Market Indicators (Overall, All Classes)

	Q2 16	Q2 17	12-Month Forecast
Vacancy	12.7%	12.7%	▲
YTD Net Absorption (sf)	231k	68k	▲
Under Construction (sf)	101k	153k	▲
Average Asking Rent*	\$17.10	\$16.54	▲

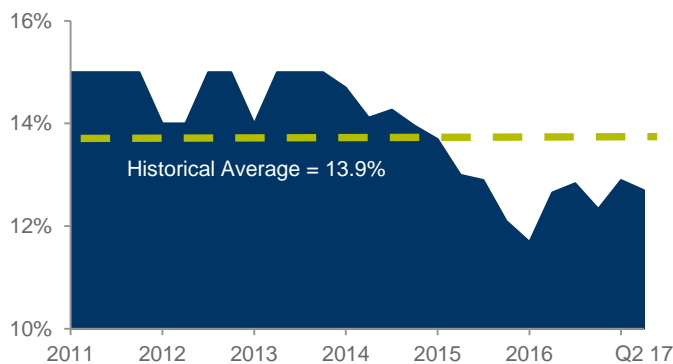
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic Overview

Despite anemic GDP growth of only 0.9% during the first quarter of 2017, the U.S. economy continues to perform well and GDP growth for the second quarter is expected to reach 2.5% to 3.5%. The improving outlook is due to solid consumer and business confidence, steadfast and healthy job growth, the acceleration of wage growth and improving global economic conditions.

The first 100 days of the Trump Administration were not without controversy as plans to repeal or replace the Affordable Care Act (ACA) were sidelined. However, tax reform and /or tax cuts for both corporations and individuals, increased infrastructure spending, renegotiation of major trade agreements and deregulation continue to reflect the priorities of the Trump Administration. The extent to which President Trump is able to execute this agenda will likely impact the ability to extend the 7.5 year-long expansion through 2017 and well into 2018.

The Louisville economy continued to outperform the state and nation with job growth reducing the Metro unemployment rate to 4.2%. Solid job growth, particularly in the manufacturing sector, has put pressure on the local labor market which should result in accelerated wage growth and an increase in the local labor force participation rate as many job openings remain unfilled.

Market Overview

The Louisville CBD leasing activity reached 48,978 square feet (sf) for the second quarter bringing the year-to-date (YTD) total to 105,906 sf, 9% less than the 116,246 sf recorded at mid-year 2016. YTD Class A reported 70,297 sf and Class B 35,609 sf. Notable Class A leasing activity included LG&E expanding by 10,720 sf at LG&E Center, Louisville Orchestra leasing 8,525 sf at the Doe Anderson building, and Care Innovations leasing 7,000 sf at Brown & Williamson Tower.

The overall CBD vacancy rate ended the quarter at 15.0%, a 0.6 percentage point decrease from last quarter. The CBD Class A vacancy rate reported 13.8% and Class B measured 15.9%, representing a 2.1 percentage point (pp) decrease and a 0.4 pp increase respectively since last quarter. The Class A decrease in vacancy is largely attributed to Scoppechio's relocation from Kentucky Home Life Building (Class B) to 400 West Market (Class A) and Computershare moving into their fifth floor space at Meidinger Tower. Scoppechio's 33,000-sf vacancy at Kentucky Home Life also contributed to the small uptick in the Class B vacancy rate.

The CBD reported 63,813 sf of positive absorption for the second quarter reducing the overall YTD negative absorption to 140,044 sf. Class A absorption of 77,921 sf brought the YTD absorption to negative 98,392 sf. The CBD average asking rents for Class A remained the same as last quarter at \$19.58 per square foot (psf) with Class B decreasing minimally to \$14.32 psf.

The suburban submarket reported 238,045 sf of leasing activity during the second quarter bringing the YTD total to 412,996 sf, a 13% decrease over mid-year 2016. Class A and B represented 75% and 24%, respectively, of this mid-year total. The overall suburban vacancy rate rose slightly to 11.0%, a 0.1 pp increase over last quarter. The Class A vacancy rate declined 0.4 pp from last quarter to 7.2% with Class B vacancy increasing 0.7 pp to its current rate of 14.9%.

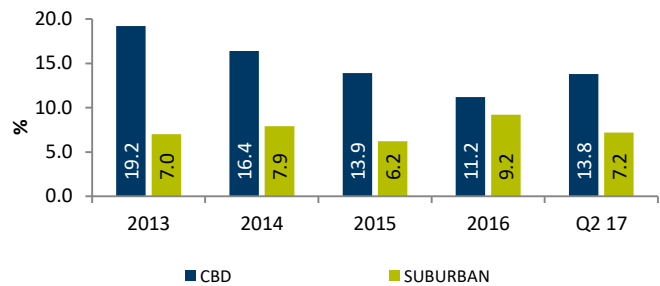
The suburban submarket reported 99,155 sf of absorption for the second quarter pushing the YTD total to 213,638 sf, a 59.4% increase over mid-year 2016. Class A YTD absorption totaled 233,639 sf with Class B at negative 16,492 sf. The Hurstbourne/Eastpoint submarket represented the majority of the YTD total reaching 161,299 sf. Suburban average asking rents decreased slightly for the quarter with Class A at \$21.38 psf and Class B \$14.88 psf.

Outlook

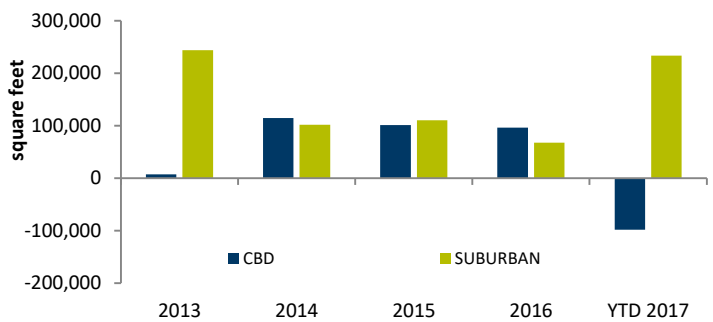
All eyes appear to be focused on the Trump Administration's efforts to stimulate the U.S. economy and prolong the economic recovery. GDP growth is expected to improve over the balance of calendar year 2017 although growth, while positive and more robust, will likely slow as the unemployment rate pushes lower. Many economists feel the U.S. may be entering the final state of economic expansion but every effort is being made to ensure that the final stage is extended for at least another 12 to 18 months.

The local economic outlook remains promising as work continues on the estimated \$1.2 billion in new private development currently underway in downtown Louisville. The increased energy and vitality brought about by this investment should serve to improve the downtown office market which is currently suffering from the negative absorption of Class A office product which occurred during the first quarter of the year. The current Class A vacancy rate in the CBD stands at 13.8% compared to a suburban class A vacancy rate of 7.2% at midyear.

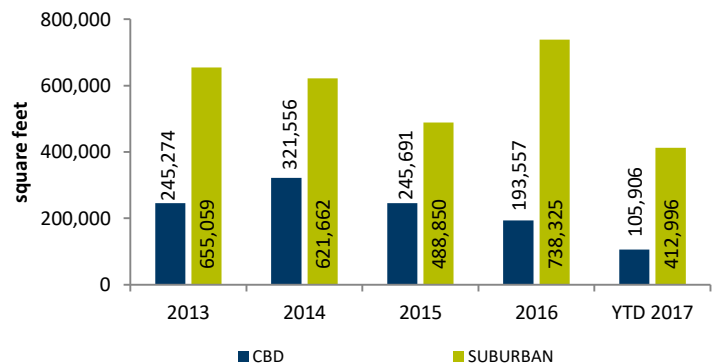
Class A Overall Vacancy Rates – CBD & Suburban



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	0	1,299,056	15.0%	63,813	-146,044	105,906	0	\$16.43	\$19.58
Suburban	11,458,789	65,101	1,194,302	11.0%	99,155	213,638	412,996	152,500	\$16.66	\$21.38
Old Louisville	402,440	0	67,157	16.7%	4,000	19,000	19,000	0	\$9.90	N/A
Hurstbourne/Eastpoint	4,656,738	0	388,915	8.4%	144,186	161,299	202,049	152,500	\$20.67	\$21.84
Plainview/Middletown	1,523,353	10,101	283,509	19.3%	-51,543	-6,069	21,847	0	\$15.87	\$20.00
Southeast	1,337,240	19,317	81,905	7.6%	-22,302	-20,661	6,759	0	\$15.48	\$16.51
Northeast	735,207	2,998	37,461	5.5%	0	3,867	19,813	0	\$23.31	\$23.31
St. Matthews	1,414,542	0	114,289	8.1%	21,433	35,481	66,986	0	\$13.72	\$19.87
South Central	1,389,269	32,685	221,066	18.3%	3,381	20,721	76,542	0	\$13.93	N/A
LOUISVILLE TOTALS	20,136,632	65,101	2,493,358	12.7%	162,968	67,594	518,902	152,500	\$16.54	\$20.38

*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	9,633,594	22,315	926,345	9.8%	218,877	135,247	381,713	152,500	\$20.51	\$20.38
Class B	9,838,261	42,786	1,467,954	15.4%	-53,236	-64,144	135,855	0	\$14.63	\$14.60
Class C	664,777	0	99,059	14.9%	-2,673	-3,509	1,334	0	\$9.41	\$9.41

Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2600 High Wickham	92,500	Thornton's	Lease	Hurstbourne/Eastpoint
2101 High Wickham	29,000	Payment Alliance	Lease	Hurstbourne/Eastpoint
6100 Dutchmans Lane	13,258	Pharmacord	Lease	St. Matthews
6060 Dutchmans Lane	12,463	Texas Roadhouse	Expansion	St. Matthews
220 West Main Street	10,720	LG&E	Expansion	CBD

Key Sales Transactions Q2 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Tier Riet Portfolio (8 Buildings)	678,000	Tier Riet / WMRBNA Fund III, LLC	\$71,500,000 / \$105	Hurstbourne/Eastpoint Southeast / St. Matthews
Meidinger Tower	331,054	In-Rel Properties / Torchlight	\$32,000,000 / \$97	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.

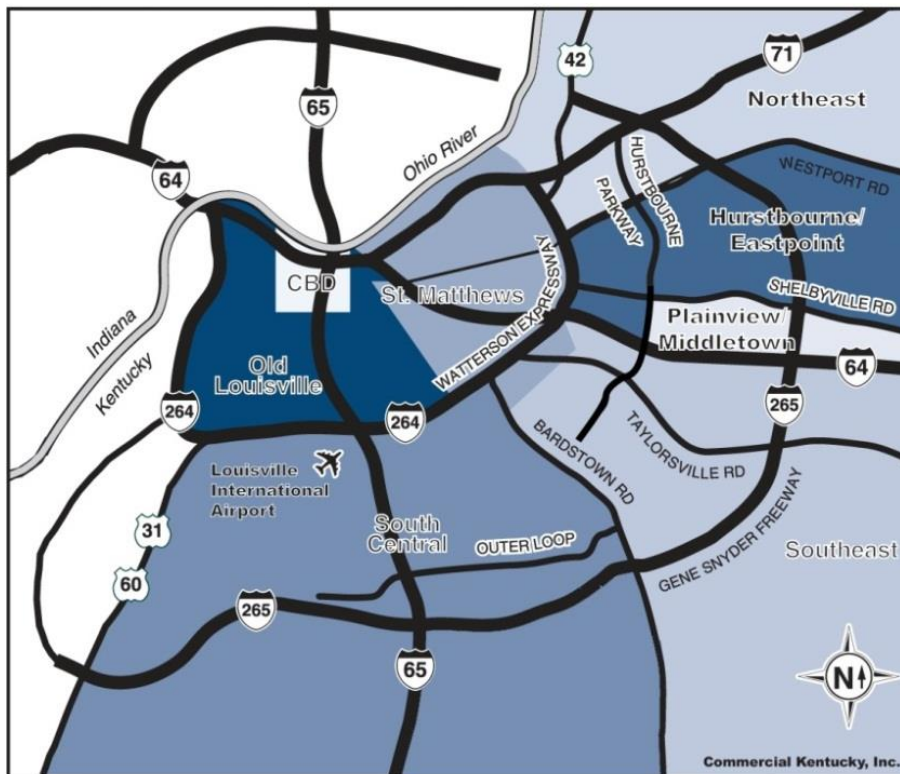
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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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